BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 170

In the Matter of PACIFIC POWER & LIGHT COMPANY (dba PacifiCorp) Request for a General Rate Increase in the Company's Oregon Annual Revenues	STAFF'S POST-HEARING BRIEF

Staff of the Public Utility Commission of Oregon ("Staff") submits its Post-Hearing Brief regarding unresolved issues.

I. TRANSITION ADJUSTMENT MECHANISM

Staff recommends the use of PacifiCorp's GRID power cost model to calculate annual transition adjustment rates. PacifiCorp's proposed methodology provides an accurate accounting of the likely impacts of direct access on PacifiCorp's system operations and can be expected to result in transition adjustment rates that achieve the goal of preventing unwarranted cost shifts between direct access customers and utility investors. Staff supported an annual update provision in its direct and surrebuttal testimonies. *See* Staff/700, Galbraith/16-17.

Staff opposes ICNU's "market-plus" approach to calculating transition adjustment rates. ICNU's approach would not accurately account for the likely impacts of direct access on PacifiCorp's system operations.

Staff opposes CUB's recommendation to limit the annual NVPC update to direct access eligible customers. CUB's recommendation adds unnecessary complexity by creating different cost-of-service rates for direct access eligible customers and non-eligible customers.

II. THIRD PARTIAL STIPULATION

Staff and the company agreed that if the Commission approves a Transition Adjustment Mechanism (also called RVM) of the type proposed by the company, the final GRID power cost

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model run will include all the adjustments proposed by the company in PPL/604-606 and PPL/607-608 except the Deferred Maintenance, Thermal Ramping, Station Service, and Planned Outages adjustments.

1. Waiver of new resource rule.

The Company has requested a waiver from application of the New Resource rule for West Valley CTs, Gadsby CTs, and Current Creek Phase One. PacifiCorp has demonstrated including these plants in rates at cost provides benefits for customers. The acquisition process, cost and impact on customers of the West Valley CTs were analyzed in UI 196 and UE 134. The Commission concluded that the West Valley lease agreement is fair, reasonable, and not contrary to the public interest in Order 02-361 in UI 196. Staff's analysis in UE 134 concluded the company was prudent in entering into the West Valley lease agreement (UE 134, Staff/200). The Gadsby CTs were included in rates at the same time as West Valley, June 1, 2002, by UE 134 Order 02-343. The resource was acquired at the same time and at a similar cost as West Valley as part of a plan to meet a large summer resource need on the east side of PacifiCorp's system. Current Creek resulted from RFP 2003A and is coming online this summer. The Utah PSC issued a Certificate of Public Convenience and Necessity for Current Creek on March 5, 2004. Staff analyzed the economic evaluation conducted by the company supporting the acquisition of Current Creek in discovery and in a meeting with the company, and concludes that the plant was the least cost option and will provide benefits to customers. Staff supports the company's application for waiver and the inclusion of West Valley, Gadsby CTs, and Current Creek at cost in this docket.

2. Allocation of added qualifying facilities contracts.

The Revised Protocol, adopted by the Commission in UM 1050 Order 05-021, treats "new" and "existing" QF contracts differently. The costs of existing QF contracts are assigned situs to the state that approved the contract. The costs of new QF contracts are allocated system-wide. Existing QF contracts are defined by the Revised Protocol as contracts entered into prior

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to the effective date of the Revised Protocol. ICNU argues that the effective date is when the Commission signed the order approving the Revised Protocol in January 2005. ICNU contends that because the four contracts were all entered into between August and November 2004 they are "existing" contracts for allocation purposes.

ICNU's argument is misplaced. While the Commission approved the Revised Protocol in January 2004, *see* Order 05-021, the Revised Protocol contains a specific term regarding when it will be effective. Section II of the Revised Protocol provides that "The Protocol will be effective and apply to all PacifiCorp retail general rate proceedings initiated subsequent to June 1, 2004." Because the four QF contracts were entered into after the Revised Protocol became effective on June 1, 2004, the four QF contracts are "new" contracts. This result is consistent with Staff's understanding of the outcome of the multi-state process (MSP). In the past, utility commissions in states served by PacifiCorp priced QF resources developed in their respective states differently. Avoided costs were calculated and applied to QF contracts in a variety of ways. During the MSP this was discussed and it was decided that in the Revised Protocol each state would be directly assigned costs of the existing QF contracts approved by their commissions. For "new" QF contracts, the Revised Protocol says: "Costs associated with any New QF contract, which exceed the costs PacifiCorp would have otherwise incurred acquiring Comparable Resources[1], will be assigned on a situs basis to the State approving such contract." Subject to a cost comparison to comparable resources, new QF contract costs are allocated system-wide. Staff reviewed the contracts and the economic evaluations done in support of the four new QF contracts and concluded that the costs were similar to comparable resources. Staff recommends that the Commission reject ICNU's proposed adjustment to treat the four new QF contracts as "existing".

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[1] Comparable Resource means Resources with similar capacity factors, start-up costs, and other output and operating characteristics.

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3. Prudence of the West Valley CT resource.

The initial acquisition of the West Valley resource in 2002 was prudent. In addition, PacifiCorp's decision not to terminate the West Valley lease was prudent. Staff analyzed the initial acquisition of West Valley in UE 134 and concluded the company was prudent in entering into the West Valley lease agreement (UE 134, Staff/200). Staff reviewed the RFP 2004-X process conducted to solicit alternatives to West Valley from the market. Staff also reviewed the economic evaluation of alternatives and concluded that the company's decision to retain the West Valley lease was prudent. Staff recommends the Commission reject ICNU's proposed adjustment regarding West Valley.

4. Remove cost of terminated CT lease from rate base.

In late 2001, PacifiCorp signed a contract with General Electric (GE) to lease mobile CT peaking units for installation at Gadsby. Prior to the expiration of the lease, GE provided PacifiCorp a turn-key offer to install new, larger and more efficient CTs at Gadsby and waive the remaining $7.5 million lease obligation. GE's offer, even excluding waiving the remaining lease obligation which was included in the offer, was better than the competing Pratt & Whitney CT purchase and installation offer that PacifiCorp had been pursuing. Staff sees no evidence of a conflict of interest in the decision the company made to go with the GE CT deal at Gadsby, and recommends that the Commission reject ICNU's proposed adjustment to decrease the level of the Gadsby CT plant in rate base by $7.5 million.

5. Updated plant outage and heat rates.

Consistent with normal practice, PacifiCorp based the thermal outage and heat rates in its filed case on the average of the last four years of actual plant experience. The company updates these 48-month averages on a semi-annual basis with data ending in March and September of each year. ICNU objected when the company updated the net variable power costs (NVPC) in this docket[2] using an updated 48-month period of outage and heat rates. ICNU claims it had

[2] PacifiCorp submitted two sets of supplemental testimony – PPL/604-606 and PPL/607-608 - updating NVPC.

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insufficient discovery time to review the new data used. Staff's position is that the updated thermal plant outage and heat rates will not be used in the NVPC included in the base rate change, expected in September. However, the updated rates should be used to develop the NVPC underlying the Transition Adjustment mechanism (also referred to as the RVM), if the Commission decides in this docket that PacifiCorp will implement a RVM of the type proposed by the company, and now opposed by Staff (*see* Transition Adjustment mechanism). This position on updated plant outage and heat rates is consistent with the last several PGE RVM cases.

6. Plant outages during the UM 995 deferral period.

The four-year period used to determine thermal plant outage rates in this docket, includes the November 1, 2000 through September 9, 2001 UM 995 deferral period. ICNU has proposed an adjustment in this case based on excluding all outages that occurred during the UM 995 deferral period in calculating the four-year average outage rates. ICNU says removal of all the UM 995 period outages will remove a "double recovery" of these outage costs, because the company is already collecting these costs as a result of the Commission's UM 995 deferral order. Staff does not support this adjustment. The purpose for using a recent four-year average of outages in the determination of base rates is to reflect a normal level of outages that can be expected to occur during the period the rates are in effect. To exclude all outages for part of the historical four-year period used would distort the four-year average to something different than what would be expected to occur. The only outage excluded from the four years of historical outage data used in this case, was the five and one-half month Hunter 1 outage. An extensive outage such as that is not expected to occur during the period the rates are in effect, and consequently it is excluded from the historical outage data used.

The UM 995 order allows PacifiCorp to recover excess power costs, partly caused by the Hunter 1 outage. All other outages that occurred during the UM 995 deferral period are consistent with the normal four-year average outage level in the NVPC in base rates in effect

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during that period. Consequently, there is no double recovery by including all the normal outages that occurred during the UM 995 deferral period in outage data used in this case. Staff recommends that the Commission reject ICNU's proposed adjustment regarding UM 995 period plant outages.

III. CONSOLIDATED TAX ADJUSTMENTS

Staff's prehearing brief, Section IV, discusses Staff's proposed Oregon allocated downward tax adjustment of $4.6 million, which reflects the burden customers are bearing because of the debt at PacifiCorp Holdings Inc. ("PHI"). Staff incorporates Section IV of its prehearing brief by reference, but takes this opportunity to further comment and clarify its proposed tax adjustment.

Staff's proposed tax adjustment is based solely upon the burden customers are bearing because of the debt at PHI. *See* Staff/1000, Conway-Johnson/16, lines 5-9. Therefore, Staff's recommendation does not involve the more difficult evaluation and analysis of the "hold harmless" Acquisition conditions. *See* Id. at lines 9-11.

It seems that the Company does not agree that there is a burden because customers are not legally responsible to pay the debt payments. While it is accurate that customers do not bear the specific legal obligation to pay the debt, it is also equally true that the PHI's debt burdens customers.

The Commission has recognized that increased leverage, i.e. debt, is harmful and thus a burden to customers. *See* Docket UM 1121, Order No. 05-114 at 21. Furthermore, the parties do not dispute that the major rating agencies consider the impacts of the overall corporate family. *See* Tr. at 214, lines 9-12. As a result, and as confirmed during the hearings, the Company does not have a "perfect" ring fence. *See* Tr. at 197, lines 17-18 and Tr. at 214, lines 4-5. Because the ring fence is not perfect – it does not totally isolate the Company – the debt at PHI is a burden to customers. Staff's proposed adjustment is the best estimate of the burden that PHI debt is causing to the Company's Oregon customers and should be adopted.

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IV. RECOVERY OF RTO-RELATED COSTS

In joint testimony filed June 7, 2005, in this docket, the Company, Staff, the Citizens Utility Board and Kroger supported the stipulation regarding Grid West development costs. Staff recommends that the Commission accept PacifiCorp's Grid West treatment of those costs as ongoing costs. On a total Company basis, PacifiCorp has included $3.057 million in Grid West costs in its test year revenue requirement. That Stipulation did not include an adjustment to Non-Labor Administrative and General Costs for Grid West.

V. NET VARIABLE POWER COSTS AND FUEL HANDLING COSTS

Staff recommends that the Commission reduce net variable power costs in the amount of $7,324,891 on a system basis to reflect the effect of the Georgia Pacific Camas contract. Staff also concurs with PacifiCorp's request that the Commission include $8,884,703 in fuel handling costs. These adjustments were inadvertently omitted from PacifiCorp's initial filing, but Staff agrees the corrections should be made so that the test year reflects the company's costs.

DATED this 4th day of August 2005.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that on August 4, 2005, I served the foregoing upon the parties hereto by sending a true, exact and full copy by regular mail, postage prepaid and by electronic mail to:

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