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September 21, 2005

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol Street, NE
PO Box 2148
Salem, Oregon 97301

Re: UE 165/UM 1187

Dear Filing Center:

Enclosed for filing please find the original and five copies of the Staff Reply Brief in Docket Nos. UE 165 and UM 1187.

Thank you for your attention.

Very truly yours,

/s/Stephanie S. Andrus
Stephanie S. Andrus
Assistant Attorney General

Enc.
c. service lists

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UE 165 & UM 1187**

In the Matter of PORTLAND GENERAL
ELECTRIC Application for a Hydro
Generation Power Cost Adjustment
Mechanism (Docket No. UE 165)

In the Matter of PORTLAND GENERAL
ELECTRIC COMPANY Application for
Deferral of Costs and Benefits Due to Hydro
Generation Variance (Docket No. UM 1187).

STAFF REPLY BRIEF

Both the Industrial Customers of Northwest Utilities (“ICNU”) and the Citizens’ Utility Board (“CUB”) ask the Commission to disapprove the Stipulations filed in these dockets. ICNU argues that the agreed to power cost adjustment mechanism, the SD-PCAM, does not meet staff of the Public Utility Commission of Oregon’s (“staff”) criteria for an acceptable power cost adjustment mechanism and also that the deferral requested by Portland General Electric Company (“PGE”) conflicts with the Commission’s decision in UM 1071. CUB argues the Commission should reject the SD-PCAM because it has too small a deadband, is inconsistent with policy positions previously taken by staff and has technical flaws. Finally, both parties argue the Stipulations violate the prohibition against retroactive ratemaking. The arguments of both these parties should be rejected.

I. ICNU’s arguments are without merit.

As a preliminary matter, staff notes that the inherent weakness in ICNU’s arguments is seen in their organization. Rather than addressing the Stipulations as one vehicle intended to implement the SD-PCAM, ICNU addresses the Stipulations separately, one as a stipulation implementing a power cost adjustment mechanism and the other a stipulation implementing a request for deferred accounting. However, the Stipulations are intended to stand together. As explained more fully below, ICNU’s arguments that fail to recognize this fact are not persuasive.

A. The SD-PCAM satisfies staff’s criteria for an acceptable power cost adjustment mechanism.

ICNU argues that the SD-PCAM does not meet staff’s criteria for an acceptable power cost adjustment mechanism because it 1) is a temporary, one-time mechanism; 2) is not limited to extreme events; 3) has not been determined by staff to be revenue

neutral; and 4) may or may not apply to direct access customers. Opening Brief of ICNU at 2. First, staff must clarify its previously-stated criteria for an acceptable power cost mechanism. In its direct testimony, staff recommended that the Commission consider certain criteria when evaluating PGE's original proposal for a Hydro Generation Adjustment mechanism. Specifically, Mr. Galbraith testified that the Commission should consider "reasonable risk reduction, neutral cost recovery, and equal treatment criteria when evaluating automatic adjustment clauses," in addition to the criteria previously identified by PGE, which were rate stability, regulatory transparency and incentive for good management criteria. Staff/100, Galbraith/2 and 10.

The description of staff's "criteria" for an acceptable power cost mechanism that is found in ICNU's opening brief is a mix of what staff actually recommended the Commission use as its criteria in Docket No. UE 165, and the mechanisms by which the Commission could satisfy the criteria. In fact, the Commission would not have to adopt all the design recommendations originally proposed by staff in order to meet the overall criteria recommended by staff.

In any event, ICNU's assertions that the SD-PCAM is deficient because it is temporary and one-time; is not limited to extreme events; has not been determined to be revenue neutral; and because PGE and staff have not agreed whether it applies to direct access customers, are meritless.

1. The fact the SD-PCAM is temporary is not reason to reject the Stipulations.

As discussed by staff in its direct and cross-examination testimony, the SD-PCAM is an interim step to achieving the goal of fair allocation of risk associated with hydro variability. Both PGE and staff are committed to the implementation of an

ongoing power cost adjustment mechanism in 2007, and will explore the characteristics and terms of such a mechanism in PGE's next general rate case. *See* UE 165-UM 1187/Staff-PGE/102; UE 165 Stipulation ¶ 11 (“The characteristics and terms of an ongoing power cost adjustment mechanism for calendar year 2007 and thereafter will be addressed in PGE's next general rate case.”)

In its opening brief, staff reiterated that it was appropriate for the Commission to act now to address PGE's increased risk associated with hydro variability. However, due to certain circumstances, immediate action requires interim measures, rather than measures intended to be more “permanent.” In part, staff supports an interim measure because staff believes it is important to investigate the use of Expected Value Power Cost modeling in a more permanent mechanism. This investigation will take some time.

Second, the SD-PCAM is not a “one-time” mechanism and ICNU's reliance on staff's position in UM 1071 is misplaced. In UM 1071, staff recommended against a one-time deferral of power costs that would benefit the company. Here, the deferral of power costs is not necessarily one-time, but could occur in both 2005 and 2006. Further, as explained in staff testimony and again in its opening brief, it is possible that the 2006 deferral of power costs will benefit customers. In these circumstances, the concern staff raised at the prospect of a one-time deferral of costs in Docket No. UM 1071 is not applicable.

Further, it was staff's position in Docket No. UM 1071 that hydro variability risk is best addressed in a general rate proceeding or through a permanent power cost adjustment mechanism, rather than a one-time power cost deferral. Staff witness Galbraith explained at the hearing in this matter that staff entered into the Stipulations for

the purpose of addressing hydro variability risk through a power cost adjustment mechanism:

Again, it's my recommendation in this docket that an interim PCA mechanism, the SD-PCAM, which is a two-year mechanism, an interim PCA mechanism be approved as part of a long-term commitment to a fair allocation of power cost risk.

* * * * *

And so although the SD-PCAM is a two-year mechanism, I think you need to take a long-term perspective and realize that the progression here is towards a permanent PCA mechanism.

So the intent is to establish a permanent PCA mechanism. And that sentence that [ICNU counsel] originally referred me to, ends with, "or through a permanent PCA mechanism." I think that's where we're headed here. (Tr 38.)

To the extent that ICNU argues that PGE could "game" the system, or the mechanism, by not filing for a deferral in 2006 if such deferral would benefit customers is specious. Even if PGE could choose to not request a deferral of the balance obtained by application of the SD-PCAM (the System Dispatch Cost Variance ("SDCV")), the Commission may authorize deferral of the balance on its own motion.

Finally, ICNU's assertion that the SD-PCAM does not meet staff's criteria for an acceptable power cost adjustment mechanism because it is temporary is belied by staff's testimony in Docket No. UE 165. One of staff's original recommendations in Docket No. UE 165 was that the Commission adopt an interim PCA for calendar years 2005 and 2006. Staff/100, Galbraith/3.¹

¹ Staff originally recommended that the PCA apply to all PGE's net variable power costs ("NVPC"), as opposed to the more limited PCA now recommended, and recommended that the temporary PCA have a deadband equal to the revenue requirement effect of plus and minus 250 basis points of ROE. Staff's recommendation regarding the size of the deadband was based on a PCA that encompassed all NVPC, not the more limited SD-PCAM that staff now recommends. As explained in the opening brief, staff recommends a smaller deadband for the more limited power cost adjustment mechanism that is now under consideration in these dockets.

2. Expected Value Power Cost modeling is needed to determine whether a mechanism is “extreme event.”

ICNU’s complaint that the SD-PCAM *may* not be an “extreme event mechanism” is also not reason to reject the Stipulations. Mr. Galbraith testified that staff believes that Expected Value Power Cost modeling is needed to ascertain what an extreme event NVPC would be. (Tr 40.) In fact, staff believes an optimum power cost adjustment mechanism will be based on such modeling. However, as explained on multiple occasions in this docket, staff does not believe it is fair to require PGE to wait until such modeling is possible before the Commission authorizes a power cost adjustment mechanism that allocates the rapidly escalating risk associated with hydro variability.

It appears that ICNU is using staff’s interest in Expected Value Power Cost modeling to create a Catch-22 scenario for PGE. Staff is unwilling to support a permanent power cost adjustment mechanism to address hydro variability until the use of Expected Value Power Cost modeling is investigated. Currently, staff believes that the optimum power cost adjustment mechanism, one that satisfies the design elements discussed by staff in this and other dockets, will be obtained with such modeling. Such modeling is not available. However, staff does not believe it is fair to PGE to require it to wait for the development of such modeling before the Commission addresses PGE’s increasing risk associated with hydro variability. In light of this, staff has agreed to a interim power cost adjustment mechanism that is intended to appropriately allocate hydro variability risk.

Essentially, ICNU’s attacks on staff’s support for the interim SD-PCAM ignore the impetus for staff’s support of the mechanism -- the increasing risk associated with hydro variability PGE faces. ICNU does not acknowledge the risk, or that Commission

action to address this increasing risk may be appropriate. Instead, ICNU merely argues that the risks of the untested results under the SD-PCAM outweigh the benefit of a study of the distribution of PGE's NVPC.

First, staff does not support the SD-PCAM simply to obtain PGE's agreement to fund a study into Expected Power Cost modeling and argument that relies on such an assertion should be dismissed. Second, with respect to the risk that is posed by approving the SD-PCAM, staff cannot see into the future to determine whether in fact the SD-PCAM will act perfectly. Staff does not agree, however, that the risk of untested results outweigh the benefits obtained under the Stipulations.

Staff is confident that the SD-PCAM is designed properly. While the deadband included in the mechanism is smaller than that recommended by staff for a PCA that would encompass all of PGE's NVPC, it is sufficiently large to fairly allocate risk between shareholders and customers for costs related to hydro variability and also, is designed to be revenue neutral. Moreover, the Stipulations offer ratepayers protection from PGE's over recovery. The Stipulations require that before PGE may recover any costs deferred under the SD-PCAM, the Commission will conduct an earnings review, and the amount of costs that PGE may recover under the Stipulations is capped. At most, the SD-PCAM will authorize PGE to earn its authorized rate of return.

3. The SD-PCAM is designed to be revenue neutral.

Staff has explained that revenue neutrality may be obtained by a deadband that is not symmetrical. Staff/100, Galbraith 12. The deadband in the SD-PCAM is in fact asymmetric, and thus, the SD-PCAM is designed to be revenue neutral.

Staff believes that whether the SD-PCAM is in fact revenue neutral could only be determined by Expected Value Power Cost modeling. (Tr 42.) Again, such modeling is not available. However, given the integrity of the design of the SD-PCAM and the protections offered ratepayers by the Stipulations, staff does not believe it is appropriate for the Commission to delay implementation of SD-PCAM, which in fact is designed to be revenue neutral, because it is not possible to ascertain whether it is in fact revenue neutral.

4. The fact that PGE and staff have not agreed whether the SD-PCAM applies to direct access customers is not reason to reject the Stipulations.

ICNU's argument that the Commission should reject the SD-PCAM because staff and PGE have not agreed whether it applies to direct access customers is simply not persuasive and also, puzzling. Whether the SD-PCAM should apply to direct access customers is ultimately up to the Commission. If application of the SD-PCAM to direct access customers would provide inappropriate incentives, the Commission may address this problem by choosing not to apply it to them.

B. ICNU's reliance on the Commission's decision in UM 1071 is misplaced.

Staff agrees with ICNU that staff and PGE's Stipulation regarding PGE's request for deferred accounting must satisfy the criteria for deferred accounting. However, staff disagrees with ICNU that the circumstances presented by PGE's current deferred accounting application and the UM 1187 Stipulation are so similar to PGE's UM 1071 application for deferral that the current application must be rejected for the reasons relied on by the Commission UM 1071.

In Order No. 04-108, the Commission explained that ORS 757.259 provides for a two-stage decision process. One stage entails an exercise of Commission discretion and the other requires that the Commission determine that the proposed deferral is authorized by law. OPUC Order No. 04-108 at 8. PGE's request for a deferral and the UM 1187 Stipulation satisfy the discretionary requirement of ORS 757.259.

As noted by staff repeatedly, the UM 1187 Stipulation is part of the mechanism to implement the agreed-upon SD-PCAM. The SD-PCAM is a power cost adjustment mechanism intended to appropriately allocate risk associated with hydro variability. At the same time the Commission rejected PGE's request for a one-time deferral of hydro-related costs in UM 1071, the Commission noted that it would entertain recommendations for a mechanism such as that contemplated by the UE 165/UM 1187 Stipulations. *See* Order No. 04-108 at 11 ("For the reasons that Staff provides, and that CUB has cited as well, we believe a PCA may be an appropriate way of permanently allocating risks and benefits of hydro variability between shareholders and ratepayers.") PGE's request for deferral and the UM 1187 Stipulation provide the Commission a mechanism to implement a PCA that allocates risks and benefits of hydro variability. As such, the application and Stipulation satisfy the discretionary requirement of ORS 757.259.

The second requirement reiterated by the Commission in UM 1071 – that the application fall within one of the categories for deferral enumerated in ORS 757.259 – is also satisfied. ORS 757.259(2) provides, in pertinent part:

Upon application of a utility or ratepayer or upon the commission's own motion and after public notice, opportunity for comment and hearing if any party requests a hearing, the commission by order may authorize deferral of the following amounts for later incorporation in rates:

* * * * *

(e) Identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.

As discussed at length in staff and PGE testimony and briefs, the SD-PCAM is intended to match appropriately the costs and benefits of hydro variability. Although it is only a temporary mechanism, it is the first step to achieving the objective that staff emphasized in Docket No. UM 1071 of obtaining a “long-run inter-temporal matching of the benefits of costs of hydro production.” ICNU/402 at 7.

Notwithstanding ICNU’s best efforts to convince the Commission otherwise, the SD-PCAM is distinguishable from PGE’s application for deferred accounting in UM 1071, which staff believed would not achieve a long-term matching of benefits and costs. It is distinguishable because both PGE and staff have stipulated that a second deferral may be required in 2006 and also, because staff and PGE have stipulated that the SD-PCAM is an interim mechanism until a permanent power cost adjustment mechanism. Rather than acknowledge that the SD-PCAM is intended to be the first step toward implementation of a more permanent mechanism, ICNU simply argues that because PGE’s UM 1187 application contemplates a one-time deferral, it simply cannot achieve a long-term matching of costs and benefits. ICNU’s failure to recognize all the circumstances surrounding the UM 1187 Stipulation robs it of any persuasiveness.

To the extent ICNU argues in its brief that the criteria or ORS 757.259(2)(e) is not satisfied because “the cost of reduced hydro will be recovered after it is incurred,” and thus will not allow for the matching of costs and benefits, the argument is frivolous.

Opening Brief of ICNU at 24. If this is the standard by which all deferred accounting applications should be judged, no application for deferred accounting would ever be granted.

C. The Stipulations do not violate the rule against retroactive ratemaking.

The assertions of CUB and ICNU that the Stipulations violate the prohibition against retroactive ratemaking are adequately rebutted by staff and PGE in previous filings. Staff will address them here only to point out that the Commission's order in UT 135 is inapposite. In that docket, Qwest filed an application for an Interconnection Cost Adjustment Mechanism ("ICAM") that would allow Qwest to recover in rates (1) costs to reconfigure its network incurred prior to the time Qwest filed the application for an ICAM; (2) costs incurred after filing of the ICAM; and (3) costs incurred after the time the ICAM is approved that were not anticipated at the time of approval. The Commission concluded that the rule against retroactive ratemaking precluded it from approving Qwest's request to recover costs incurred prior to the time the application for ICAM was filed or for categories of costs discovered after the ICAM was approved. Order No. 97-180 at 3-4. The costs at issue here are distinguishable from those at issue in UT 135. They are neither costs incurred prior to the time the PGE filed its request for deferral nor will they be costs in categories to be named at a later date.

II. CUB's arguments are without merit.

A. The SD-PCAM deadband is appropriate.

CUB argues that the SD-PCAM deadband is inappropriately sized, diverges from past Commission decisions, and deviates from Staff's deadband recommendations in this and other dockets. CUB is mistaken.

1. CUB's arguments in its opening brief are inconsistent with its testimony.

As a preliminary matter, staff notes that the arguments in CUB's opening brief are inconsistent with the policy positions it has taken in the past; and with its own testimony in this case. Prior to CUB's opening brief in this case, staff and CUB have consistently agreed that the purpose of a PCA deadband is to exclude a normal range of power cost variation from triggering recovery or refund. As it has in previous dockets, staff argues that the Commission should set PCA deadbands to: (1) exclude most of the range of normal cost variation from triggering the PCA mechanism and (2) be neutral on an expected recovery basis. *See* UE 165 Staff/100 Galbraith/18-19 and UE 173 Staff/100 Galbraith/18-19. CUB's previous agreement with staff's policy position is seen in CUB's reiteration of five principles for a Hydro PCA that it originally announced in 2002 that included in CUB's opening brief in this docket. *See* UE 165 CUB/100 Jenks-Brown/19. The first of those five principles is:

A PCA should only add to PGE's costs in extreme circumstances. It should not be triggered except in rare circumstances where power costs are well beyond the normal range. CUB/100 Jenks-Brown/19.

CUB also affirms its support of this principle in its opening brief with the following statement:

Deferrals and PCAs are mechanisms that allow recovery for the shareholder when certain costs reach a level not anticipated in normal ratemaking. CUB Opening Brief at 4-5. *See also* CUB Opening Brief at 14.

However, CUB inexplicably deviates from its first principle in the same opening brief in its attack of size of the SD-PCAM. CUB argues:

The deadband is not determined by how many cost components are included in a deferral or PCA. The deadband represents the financial risk that shareholders absorb before customers are expected to shoulder an increased burden. CUB Opening Brief p. 6.

Notably this argument is not only inconsistent with CUB's previously-announced principle, but is not the argument that CUB made in its rebuttal testimony. CUB's deadband argument at CUB/200 Jenks-Brown/18-19 is two-fold. First, CUB argues that the number of cost components matters. CUB asserts that the SD-PCAM tracks a major subset of power costs, or in their words "has 'em covered." Second, CUB argues that the utility's ability to control or influence key power cost drivers is not a material difference in setting a PCA deadband. In other words, in testimony, CUB argues the \$15 million deadband included in the SD-PCAM is too small because the departure from deadbands set in previous deferral cases is not justified by the exclusion of certain NVPC components. It did not argue, as it does in its opening brief, that the reasoning underlying the design of the deadband is flawed.

Furthermore, notwithstanding its argument that the deadband should be a measurement of "the risk that shareholders must absorb before customers are expected to shoulder an increased burden[,]" CUB recommends that the Commission establish a PCA mechanism for 2006 that recognizes the asymmetrical nature of power cost variations.

See CUB Opening Brief at 2-3 and 6. CUB fails to explain how an asymmetrical deadband can be justified irrespective of the cost components a PCA is designed to track. Does CUB suggest that irrespective of the shape of normal power cost variation the utility must absorb the equivalent of 250 basis points of power cost increase, yet retain only the equivalent of 150 basis points of power cost decreases? Unfortunately, we cannot ask CUB these questions because CUB chose to first propose its new deadband theory and 2006 PCA mechanism in its opening brief.²

2. Excluding the normal range of cost variation is consistent with the Commissions order in UM 1071.

CUB argues that staff, by recommending that the size of SD-PCAM be based on the normal variation of the cost components that it tracks, has departed from staff's own previous policy positions and the Commission's precedent and Order No. 04-108 in Docket No. UM 1071. *See* CUB Opening Brief at 5-6. CUB is mistaken.

First, staff's previous policy positions regarding the factors underlying the deadband are discussed above. Staff's recommendation that the deadband in this case be based on the scope of the NVPC components tracked by the SD-PCAM is consistent with positions it has taken in previous dockets. Second, staff's recommendation regarding the size of the deadband is also consistent with its previous positions in other deferral dockets and also, with Commission precedent.

In Order No. 04-108 the Commission indicated that it would look at two interrelated considerations in determining whether to grant deferred accounting applications. The Commission looks at the type of event that caused the deferral request.

² In its opening testimony, CUB stated that it did not intend to propose an alternative mechanism because such a proposal would not be vetted by staff or any other party. CUB/100, Jenks-Brown/18.

In order to justify deferred accounting, the event must be extraordinary and outside those normally considered in ratemaking. Second, the Commission looks at the magnitude of the event's effect. The financial impact must be substantial. Order 04-108 pp. 8-9.

In Order No. 04-108 the Commission used basis point of return on equity (ROE) to give negative and positive examples of substantial financial impact. Basis points of ROE was not used as a metric for extraordinary cost variation. The Commission stressed an interaction between the consideration of the type of event and the consideration of financial impact. The Commission stated:

These considerations interact with each other such that neither one is dispositive without the other. Order 04-108 pp. 8-9.

When considering a deferral that tracks all of the components of net variable power costs (NVPC), it is reasonable to assume that an extraordinary cost variation will coincide with a substantial financial impact.

In this proceeding staff believes a narrower deadband is justified because the SD-PCAM tracks a subset of the components of NVPC. Staff/300 Galbraith/9-10. Staff has consistently argued that PCA deadbands should be set to exclude a normal range of cost variation from triggering recovery or refund. Staff/100 Galbraith/18-19. The normal range of cost variation for these components of NVPC is not the same as the range of cost variation when all components of NVPC are considered, instead, it is smaller.

Accordingly, staff supports a correspondingly smaller deadband.

To the extent any party opposes a deadband that is less than +/- 250 basis points on the ground it is inconsistent with staff's position, and the Commission's ruling in UM 1071 that only extraordinary events should precipitate deferred accounting, the party's

opposition is not persuasive. First, as noted above, the Commission did not specifically use the +/- 250 basis point metric to measure whether the event precipitating the deferral was sufficiently extraordinary to warrant special ratemaking treatment. Second, Docket No. UM 1071 concerned all components of NVPC, not the subset at issue in this docket.

Furthermore, the argument that CUB in this docket prior to the new arguments made in its opening brief – that the deadband is too small even in light of the fact the SD-PCAM covers only a subset of NVPC – is not persuasive. As discussed above, CUB argued in testimony as follows,

Though the proposed mechanism was not designed as an all-encompassing power cost adjustment, it is, nevertheless, a pretty major cost adjustment. Hydro variability, market electricity prices, and market gas prices are three extremely significant variables in power costs. Yes, actual load is excluded, as are post-RVM contracts, but – putting aside that these omissions do more harm than good – in terms of wild-cards in forward-looking ratemaking, the proposed mechanism has ‘em covered. Reducing the cost side of the deadband from \$40 million to \$15 million is not justified by the exclusion of load variability and updated contracts, as Staff witness, Galbraith, contends. CUB/200 Jenks-Brown/18.³

Implicit in CUB’s argument is the conclusion that generating plant availability, loads, and advanced power and fuel purchases are not significant components of NVPC. Staff disagrees. Staff-PGE/100 Galbraith-Tinker/4-5. These components do have significant impact on PGE’s costs, but are not included in the SD-PCAM because the SD-PCAM is intended to address risk associated with hydro variability. In light of the NVPC

³ CUB’s complaint with the exclusion of some components of NVPC is surprising, given that it has been the primary proponent of narrow PCA mechanism. In its opening testimony, CUB testified:

PGE’s RVM offers the Company the ability to update fuel prices, loads, and contract prices annually, so the Company has less risk in these areas, and has not convinced us that there is a need for an ongoing PCA to cover these factors. The more narrow the scope of a PCA, the less likely the PCA to have unintended consequences.” CUB/100 Jenks-Brown/21. *See also* PGE Post-Hearing Brief at 7 (describing inconsistent positions taken by CUB regarding the appropriate scope of a PCA).

components that are actually tracked by the SD-PCAM, the SD-PCAM deadband is appropriately sized.⁴

Finally, CUB's concern that basing the deadband on the cost components covered by the SD-PCAM, rather than a determination of "the financial risk that shareholders should absorb before customers are expected to shoulder an increased burden," will lead to a PCA that will allow PGE to achieve an ROE that is higher than authorized is unfounded. The Stipulations protect against the recovery of any such windfall to PGE. In recommending the SD-PCAM, staff stressed the importance of the earnings test. Staff testified that:

An earnings test ensures that any surcharge does not allow PGE to earn more than its authorized return. Staff/300 Galbraith/10.

In fact, CUB itself recognizes the important role of an earnings test in a PCA. Its fifth principle of PCA design also stresses the importance of an earnings review. CUB/100 Jenks-Brown/19.

⁴ Staff believes the deadband dispute in this docket highlights the importance of staff's recommendation that the Commission indicate a preference for Expected Value Power Cost modeling. Mr. Galbraith testified that:

Staff recommends Expected Value Power Cost modeling for two reasons. First, Expected Value Power Cost modeling can provide for a more realistic simulation of PGE's system operations. It can provide a realistic representation of the variability, and any interactions, associated with retail loads, natural gas and electricity market prices, hydroelectric generation, and thermal unit availability. Second, Expected Value Power Cost modeling provides a distribution of NVPC that can be used to design a PCA mechanism that satisfies the reasonable risk reduction and expected value recovery criteria. Staff/100 Galbraith/15.

Staff believes that Expected Value Power Cost modeling can provide a consistent set of results that may help focus the parties' judgments of what constitutes a normal range of power cost variation.

B. The SD-PCAM does not assume imprudent market behavior.

CUB argues that the SD-PCAM assumes imprudent market behavior and updates costs with no rational basis. CUB Opening Brief at 8-10. CUB's arguments are one-sided. *See* UE 165/PGE 1100-UM 1187/PGE 200, Lesh-Tinker/12-14. CUB posits that forward market prices will be less than spot market prices and that actual load will be less than forecasted load and concludes that the SD-PCAM, a narrow PCA mechanism that does not track changes in advance purchasing and load, will charge customers more than PGE's actual excess power costs. CUB fails to acknowledge the other side of the coin. Forward prices may be higher than spot market prices and actual load may be greater than forecasted load. Given the outcomes on the opposite side of the coin, the SD-PCAM would likely charge customers less than PGE's actual excess power costs. Far from assuming imprudent behavior or being irrational, the decisions to not update advanced power purchases and loads reflect an acknowledgement that these risks are two-sided and can reasonably be excluded from the mechanism in the interest of tracking a narrow subset of NVPC.

To say that CUB's thinking on the scope of a PGE PCA mechanism has evolved during the unfolding of this docket is an understatement. CUB seems to have forgotten that for nearly two years, it argued that any PGE PCA mechanism had to be narrow in scope due to the risk mitigation provided by PGE's annual RVM process. *See* CUB/100 Jenks-Brown/21. By first proposing a comprehensive all-NVPC PCA mechanism in its Opening Brief, CUB has only obscured its position on the appropriate scope of a PCA mechanism.

C. The SD-PCAM does not destroy conservation incentive.

CUB argues that because SD-PCAM does not update for loads, a PGE customer no longer has the same economic incentive to conserve energy. CUB Opening Brief at 10. For the reasons discussed in the rebuttal testimony of PGE witnesses Lesh and Tinker, staff disagrees. *See* UE 165/PGE 1100 UM-1187/PGE 200, Lesh-Tinker/10-11.

CONCLUSION

The Commission should approve the Stipulations entered into by PGE and staff.

DATED this 21st day of September 2005.

Respectfully submitted,

HARDY MYERS
Attorney General

/s/Stephanie S. Andrus
Stephanie S. Andrus, #92512
Assistant Attorney General
Of Attorneys for Staff of the Public
Utility Commission of Oregon

CERTIFICATE OF SERVICE

I hereby certify that on the 21st day of September 2005, I served the foregoing document upon all parties of record in this proceeding by delivering a copy by U.S. Mail postage prepaid, or by hand delivery and by electronic mail pursuant to OAR 860-13-0070.

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