

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**
3 **UE 173**

4 In the Matter of

5 PACIFICORP

6 Application for Approval of Power Cost
7 Adjustment Mechanism

STAFF'S OPENING BRIEF

8 **INTRODUCTION**

9 Staff of the Public Commission of Oregon (“Staff”) submits its Opening Brief regarding
10 PacifiCorp’s proposed Power Cost Adjustment Mechanism (“PCAM”). Staff believes that the
11 higher prices in the wholesale electricity market have increased the volatility of Net Variable
12 Power Cost (“NVPC”) and associated risk. Accordingly, Staff supports the use of a reasonably
13 structured automatic adjustment clause that addresses a portion of PacifiCorp’s NVPC-related
14 risk.

15 Staff believes that certain design criteria should be used in constructing and evaluating
16 the automatic adjustment mechanism: (1) the mechanism should provide a reasonable amount of
17 risk reduction or earnings stability for the utility; (2) the mechanism should employ neutral cost
18 recovery that will not result in an expected economic windfall to the utility or its customers; and
19 (3) the mechanism should not incentivize direct-access eligible customers on their choice to go direct
20 access or remain with the company. For the reasons discussed below, Staff recommends that the
21 Commission reject PacifiCorp’s proposed PCAM because it fails the reasonable risk criterion,
22 the neutral cost recovery criterion, and partially fails the equal treatment criterion.

23 Staff will present its proposed long-term PCAM and explain why Staff believes it is
24 preferable to PacifiCorp’s mechanism. Finally, Staff will explain why its proposed interim
25 PCAM can be applied prior to implementation of Staff’s proposed long-term mechanism.

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1 Staff makes the following recommendations to the Commission:

- 2 • The Commission should consider reasonable risk reduction, neutral cost
3 recovery, and equal treatment criteria when evaluating automatic adjustment
4 clauses.
- 5 • The Commission should reject PacifiCorp's proposed PCAM. The proposed
6 sharing bands remove nearly all of PacifiCorp's earnings risk related to variation
7 in NVPC and therefore the proposed mechanism fails the reasonable risk
8 reduction criterion. Tracking potentially asymmetric financial impacts with a
9 symmetrically designed PCAM would result in an expected economic windfall
10 for PacifiCorp and therefore the proposed mechanism fails the neutral cost
11 recovery criterion.
- 12 • The Commission should indicate a preference for stochastic power cost
13 modeling. Modeling the uncertainty associated with retail loads, natural gas and
14 electricity market prices, hydroelectric generation, and thermal unit availability
15 provides a more realistic simulation of PacifiCorp's system operations and
16 produces a distribution of NVPC that can be used to design a fair PCAM.
- 17 • The Commission should indicate a preference for a PCAM with a deadband set:
18 (1) to exclude a reasonable range of normal variation from triggering the
19 mechanism, and (2) to be neutral on an expected recovery basis. For example, a
20 deadband set at the 10th and 90th percentiles of the 'All-in' NVPC distribution
21 would likely satisfy these criteria.
- 22 • The Commission should indicate a preference for updating the PCAM deadband
23 annually to account for changing economic relationships. When underlying
24 economic conditions change (for example a change in the hydroelectric
25 generation and electricity market price relationship) prior NVPC modeling and
26 any associated findings or conclusions become invalid.
- The Commission should adopt an interim PCAM for the period February 1, 2005
through December 31, 2006. The PCAM deadband should be set at an amount
equal to the revenue requirement effect of plus and minus 250 basis points of
ROE.
- The Commission should ensure any PCAM proposal does not incent direct-
access eligible customers on their choice to go direct access or remain with the
company.
- The Commission should recognize that PacifiCorp's hydro resources are not
assigned to the states that receive the Revised Protocol hydro endowment. All of
the company's power resources are used to serve all its retail and wholesale
loads. The Commission should instruct PacifiCorp to allocate PCAM costs and

benefits to each state based on the state's contribution to total system energy load.

I. PacifiCorp's proposed PCAM

PacifiCorp's has proposed its PCAM as an automatic adjustment clause under ORS 757.210. The PacifiCorp PCAM has the following attributes:

1. The PCAM would track the difference between adjusted actual NVPC and the normalized NVPC included in rates.
2. The PCAM would apply two symmetric sharing bands to any difference between actual and normalized NVPC. Seventy percent of any amount falling within plus or minus \$100 million would be eligible for deferred accounting. Ninety percent of any amount exceeding plus or minus \$100 million would be eligible for deferred accounting.
3. The PCAM would exempt cost increases or decreases associated with Qualifying Facility (QF) contracts from the sharing bands. In other words, 100 percent of any QF cost increase or decrease would be eligible for deferred accounting.
4. Amounts eligible for deferred accounting would be allocated to Oregon, based on the Revised Protocol treatment of normalized power costs, and placed in a balancing account for later offset or amortization. The balance would earn interest at PacifiCorp's authorized rate of return.
5. Amortization would occur whenever the cumulative Oregon allocated balance exceeded plus-or-minus \$15 million. Once this trigger amount is reached, the Company would be required to return the balance to, or request recovery from, customers. PacifiCorp proposes a minimum one-year amortization period.
6. Amortization of the Oregon allocated balance would be limited to prudently incurred costs. PacifiCorp proposes to exempt contracts and resources previously included in rates from this review.
7. Amortization of the Oregon allocated balance would be subject to an earnings test. If the company's actual rate of return is above its authorized rate of return, then deferred excess costs would not be recovered from customers. Conversely, if the company's actual rate of return is below its authorized rate of return, then deferred savings would not be returned to customers.
8. PacifiCorp would apply PCAM sur-charges and sur-credits to all customer classes, including customers on Direct Access schedules.

PacifiCorp contends that its proposed mechanism will return the Company to a reasonable level of earnings volatility and rebalance the overall interests of ratepayers and

1 shareholders. *See* PPL/100, Omohundro/2, Lines 3-5. PacifiCorp asserts that asymmetric power
2 cost risk is causing the company to bear a disproportionate share of NVPC and consequently
3 diminishing the company’s long-run opportunity to earn its authorized rate of return. *See*
4 PPL/200, Widmer/2, Lines 5-14. PacifiCorp contends that the significant increase in the
5 company’s net power cost exposure is primarily due to increased wholesale market electricity
6 price levels and volatility. PacifiCorp also believes that wholesale market electricity prices will
7 continue to trend upward. *See* PPL/200, Widmer/3-4. Accordingly, PacifiCorp contends that the
8 Commission should adopt the Company’s proposed PCAM to rebalance net power cost exposure
9 between customers and the Company so they are closer to historical levels. *See* PPL/200,
10 Widmer/5, Lines 16-18.

11 **II. Staff Analysis of PacifiCorp's PCAM**

12 Staff agrees with PacifiCorp that the wholesale electricity market prices are higher and
13 more volatile than in the past. The current and expected future price level for the Mid-Columbia
14 and California-Oregon Board market hubs are clearly higher than the price levels that prevailed
15 in the mid-1990s. Staff agrees that the increased earnings volatility associated with NVPC risks
16 warrants consideration in this docket. PacifiCorp's relative risk position in the capital market and
17 its resulting cost of capital are a fundamental regulatory issue. Staff believes the use of a
18 reasonably structured automatic adjustment clause is preferable to the periodic use of deferred
19 accounting.

20 While an automatic adjustment clause will reduce PacifiCorp’s risk, it does not reduce
21 overall risk. Rather, an automatic adjustment clause transfers risk previously borne by investors
22 to customers. Whenever the company, Staff, or any other party uses the phrase “risk reduction”
23 to describe the effect of an automatic adjustment clause, they are viewing the risk from the
24 company’s perspective. From the customers’ perspective, the NVPC risk is increased. Even if
25 the expected value of the mechanism is zero, customers face more risk because they are exposed
26 to significant swings in rates.

1 Staff believes that an automatic adjustment clause is an appropriate tool to use to address
2 PacifiCorp's NVPC related earnings risk. Such a mechanism would address a portion of the
3 NVPC-related earnings risk, while leaving a significant amount of that risk with the company, in
4 order to maintain the historic allocation of NVPC risk.

5 **A. Staff's proposed design criteria**

6 Staff has identified design criteria that should be used in constructing and evaluating
7 power cost automatic adjustment clauses. First, Staff believes a PCAM should be designed to
8 provide a reasonable amount of risk reduction or earnings stability for the utility. Second, Staff
9 believes the PCAM should provide risk reduction and earnings stability without biasing the
10 overall expected level of power cost recovery. Third, the Commission should ensure any
11 proposal does not incent direct-access eligible customers in their choice to go direct access or
12 remain with the company.

13 **1. PacifiCorp's mechanism does not satisfy the reasonable risk reduction criterion.**

14 The fundamental issue in this docket is the amount of NVPC risk reduction, or
15 conversely earnings stability, that is reasonable to achieve through implementation of a PCAM.
16 It is important to recognize that a PCAM is not the only tool available to the Commission. The
17 Commission has traditionally addressed earnings risk when setting ROE. In addition, in Docket
18 UE 170, the Commission considered PacifiCorp's request for annual NVPC updates and cost-of-
19 service rate changes to facilitate implementation of Direct Access. The Commission approved
20 these annual updates which will likely smooth PacifiCorp's earnings. These tools are not
21 mutually exclusive and their use should be coordinated. In other words, the level of risk
22 reduction to achieve through a PCAM depends on the level of risk mitigation provided by the
23 annual Direct Access process and the level of risk compensation to be provided through ROE.

24 Staff has consistently argued in recent cases that a PCAM should be used to protect the
25 company from extreme fluctuations in NVPC. Staff believes an extreme event PCAM is a
26 reasonable way to mitigate PacifiCorp's NVPC-related earnings risk. A large deadband serves

1 several purposes. First, it serves to keep PacifiCorp focused on managing NVPC risk. Second, a
2 large deadband serves to keep supplemental ratemaking, such as a PCAM, from becoming the
3 primary form of power cost ratemaking. Supplemental ratemaking should complement
4 normalized test year ratemaking, not supplant it. Staff posits that a deadband that leaves the
5 company with all of the NVPC risk except for plus and minus the projected outermost ten
6 percent of the NVPC distribution achieves these goals.

7 PacifiCorp has not included a deadband in the proposed PCAM. PacifiCorp proposes
8 two sharing bands. Seventy percent of any amount falling within plus or minus \$100 million of
9 the NVPC in rates, on a total company basis, would be eligible for deferred accounting. Beyond
10 plus or minus \$100 million, customers would cover ninety percent of any deviation from the
11 normalized NVPC included in rates. PacifiCorp's PCAM would shift nearly all of the NVPC
12 risk to customers. Eliminating nearly all NVPC risk is unreasonable and overshoots PacifiCorp's
13 stated goal of bringing NVPC-related earnings risk back in-line with its historic risk profile.
14 PacifiCorp has historically been the bearer of NVPC risk, except in extreme circumstances, and
15 should retain a significant portion of this risk.

16 **2. PacifiCorp's proposed PCAM does not satisfy the neutral cost recovery criterion.**

17 The goal of normalized test year ratemaking is to allow the company to recover its costs
18 on an expected basis, no more, no less. The regulatory goal remains unchanged when
19 normalized test year ratemaking is supplemented with an automatic adjustment clause. The use
20 of an automatic adjustment clause should not result in an expected economic windfall to the
21 utility or to its customers.

22 The symmetric sharing bands would likely create an expected value windfall for
23 PacifiCorp. PacifiCorp witness Widmer has testified that the company's net power cost
24 exposure is asymmetric. PPL/200, Widmer/2-4. A symmetrically designed PCAM that tracks
25 asymmetric financial impacts can be expected to produce a balancing account balance that favors
26 PacifiCorp.

1 **3. PacifiCorp’s proposed PCAM does not satisfy the equal treatment criterion**

2 The Commission shall ensure the provision of direct access to some retail electricity
3 consumers does not cause unwarranted shifting of costs to other retail electricity consumers of
4 the utility. ORS 757.607(1). The Commission may use transition charges or transition credits to
5 reasonably balance the interests of retail electricity consumers and utility investors.

6 ORS 757.607(2). Staff believes that the underlying intent of ORS 757.607 is to provide the
7 direct access option without providing preferential treatment for any particular class of
8 consumers or the utility’s investors. The goal of equal treatment should be extended to
9 supplemental ratemaking. The Commission should ensure any proposal does not incent direct-
10 access eligible customers in their choice to go direct access or remain with the company.

11 Staff does not believe that PacifiCorp’s proposed PCAM fully satisfies the equal
12 treatment criterion. PacifiCorp proposes to apply PCAM sur-charges and sur-credits to all
13 customer classes, including customers on Direct Access schedules. In a strict sense this satisfies
14 the equal treatment criterion. But it does so at the expense of the direct access program and
15 market based rate options. Direct access provides non-residential customers the potential to
16 obtain a fixed energy price from an Energy Service Supplier (ESS). Applying the PCAM sur-
17 charges and sur-credits to Direct Access customers eliminates the potential for a fixed rate.
18 Market-based rate options provide non-residential customers the ability to obtain market-indexed
19 rates from the utility. Applying the PCAM sur-charges and sur-credits eliminates this
20 possibility. In other words, applying PCAM sur-charges and sur-credits to these customers
21 would eliminate the potential benefits of the programs and create a disincentive for customers to
22 select those options.

23 Staff recommends that the Commission reject PacifiCorp’s PCAM proposal because it
24 fails to satisfy important automatic adjustment clause criteria.

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1 **III. Staff's Long-Term PCAM**

2 Staff has developed an approach for addressing PacifiCorp's increased NVPC-related
3 earnings risk. First, Staff recommends that PacifiCorp use stochastic power cost modeling in its
4 next general rate case. This modeling should be used to jointly determine the NVPC component
5 of PacifiCorp's revenue requirement and the deadband parameters of an extreme event PCAM.

6 Staff's recommended solution has the following attributes:

- 7 1. PacifiCorp should file a PCAM tariff that tracks, for extreme excursions
8 only, the annual difference between actual cost-of-service NVPC and the
9 normalized NVPC included in cost-of-service rates. Staff recommends the
10 following formula for calculating this difference: ((Adjusted Actual NVPC/
11 Actual System Load) – (Normalized NVPC in Rates/ Normalized Load in
12 Rates)) x (Normalized Load in Rates).
- 13 2. The definition of NVPC should be broadened to include natural gas sales for
14 resale.
- 15 3. The PCAM deadband should be set: (1) to exclude a reasonable range of
16 normal variation from triggering the PCAM, and (2) to be neutral on an
17 expected recovery basis. For example, a deadband set at the 10th and 90th
18 percentiles of the NVPC distribution would likely satisfy these criteria.
- 19 4. Annual amounts falling outside the deadband should be shared ten percent to
20 PacifiCorp and ninety percent to customers. Ninety percent of all prudently
21 incurred amounts exceeding the deadband would be allocated to Oregon
22 based on Oregon's contribution to the total system energy load and placed in
23 a balancing account for later amortization.
- 24 5. The PCAM sur-charges or sur-credits should be calculated using a one-year
25 amortization period and the balance collected from, or paid to, customers
26 over the subsequent year.
- 27 6. The PCAM sur-charges or sur-credits should be applied to all customers that
28 were charged cost-of-service rates during the PCAM year.
- 29 7. The forecast cost-of-service NVPC and the PCAM deadband should be reset
30 annually via the Transition Adjustment process.

31 **A. Staff's proposed use of stochastic power cost modeling**

32 Staff recommends stochastic power cost modeling for two reasons. First, stochastic
33 modeling can provide for a more realistic simulation of PacifiCorp's system operations. It can

1 provide a realistic representation of the variability, and any interactions, associated with retail
2 loads, natural gas and electricity market prices, hydroelectric generation, and thermal unit
3 availability. Second, stochastic power cost modeling provides a distribution of NVPC that can
4 be used to design a PCAM that satisfies the reasonable risk reduction and expected value
5 recovery criteria. This modeling can improve normalization of NVPC and assessment of NVPC
6 risk.

7 **B. Stochastic power cost modeling has already been used in a Commission**
8 **proceeding.**

9 PacifiCorp first used stochastic modeling of NVPC in its 2003 Integrated Resource Plan
10 (IRP, Docket LC 31). The Commission in Order No. 03-508 acknowledged PacifiCorp's 2003
11 IRP. PacifiCorp refined its stochastic modeling for its 2004 IRP (Docket LC 39). PacifiCorp
12 filed its Draft 2004 Integrated Resource Plan with the Commission on January 20, 2005.
13 PacifiCorp has modeled the uncertainty associated with retail loads, natural gas prices, electricity
14 prices, hydroelectric generation, and thermal unit availability. Stochastic model runs that vary
15 all of these parameters are referred to as 'All-in' analysis. Model runs that vary only natural gas
16 and electricity prices are referred to as 'Spark Spread' analysis. PacifiCorp's Draft 2004 IRP can
17 be located on PacifiCorp's web site (www.pacificorp.com). Relevant sections include: Chapter
18 4: Risks and Uncertainties (pp. 61-69); Chapter 8: Results (pp. 138-154); and Appendix G: Risk
19 Assessment Modeling Methodology.

20 **C. Stochastic modeling techniques are appropriate for ratemaking.**

21 The elements that PacifiCorp has modeled stochastically for purposes of IRP are the
22 same elements that have traditionally been, and currently are, normalized in the determination of
23 test year revenue requirements. Portfolio risk is an important consideration in both resource
24 planning and ratemaking. In each arena, sound decision-making requires the best possible
25 measurement and assessment of the relevant portfolio risks. In the IRP arena, the company and
26 Commission evaluate the risks associated with alternative portfolios comprised of existing

1 resources and resource additions. The goal is to select the least-cost and least-risk resource
2 portfolio. In the ratemaking arena, the company and Commission need to consider the risks of
3 the existing resource portfolio and evaluate alternative forms of regulation. The goal is to select
4 ratemaking methods that allocate risk fairly and provide the company with the opportunity to
5 earn the allowed rate-of-return. Staff recommends that the Commission employ a consistent
6 approach when considering portfolio risk. It is inconsistent to use sophisticated risk modeling
7 when making IRP decisions, only to revert to point-estimate modeling when making ratemaking
8 decisions.

9 **D. Stochastic power cost modeling does not obviate the need for an automatic**
10 **adjustment clause mechanism.**

11 Stochastic power cost modeling does not represent a ratemaking response for treating the
12 volatility of power costs around the baseline forecast. In other words, it does not address the
13 earnings risk associated with power cost variability. Staff believes a properly designed PCAM
14 can be a reasonable means to mitigate PacifiCorp's earnings risk posed by large NVPC
15 excursions.

16 **E. Staff recommends a PCAM formula that tracks the difference between the**
17 **average actual NVPC and average normalized NVPC and then multiplies the**
18 **difference (in \$/MWH) by the normalized loads used to set cost-of-service rates**

19 Staff's proposed tracking formula maintains the traditional allocation of load risk.
20 PacifiCorp's investors currently bear the risk that reduced loads can result in less than full fixed
21 cost coverage. Investors also benefit from greater than full fixed cost coverage when loads are
22 above those reflected in rates. This formula accounts for the offsetting impacts of load variation
23 on fixed cost coverage and NVPC. With increased load, greater than full recovery of fixed costs
24 mitigates or offsets the additional power costs incurred to meet the additional load. With
25 decreased load, the savings in power costs mitigates or offsets the less than full recovery of fixed
26 costs.

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1 **F. Staff recommends including natural gas sales for resale in the definition of**
2 **NVPC.**

3 Natural gas sales for resale are part of the complex interaction of system resources.
4 Natural gas purchased in advance to support expected thermal resource dispatch is often sold
5 when expectations change. For example, if hydro output is greater than expected, then natural
6 gas-fired resources may be backed down and the fuel resold in the wholesale market. In the past,
7 these resale revenues have been addressed in ratemaking as part of Other Revenue. Staff
8 recommends updating the revenues associated with natural gas sales for resale annually through
9 the Transition Adjustment process and capturing them in an authorized automatic adjustment
10 clause.

11 **G. Staff recommends an annual update of the PCAM deadband**

12 The annual deadband update is intended to address the single-snapshot, or next year-only,
13 problem. A power cost forecast represents a snapshot taken at a particular point in time. The
14 snapshot reflects the conditions and constraints known at that point in time. The validity of the
15 snapshot depends upon the stability of the conditions and constraints. In other words, a power
16 cost forecast is only valid for as long as the assumed conditions and constraints remain
17 unchanged. Designing an annual deadband update into the PCAM process allows parties to
18 debate the stability of these conditions and is superior to a static deadband that could produce
19 economic windfalls for the utility or its customers.

20 **H. Staff recommends setting the PCAM deadband: (1) to exclude most of the range**
21 **of normal variation from triggering the PCA mechanism, and (2) to be neutral**
22 **on an expected recovery basis.**

23 Staff believes that the purpose of a PCAM is to protect the utility from excessive
24 financial impacts associated with power cost variability. The PCAM deadband should serve to
25 exclude a reasonable range of normal variation from triggering the mechanism. For example, a
26 PCAM with a deadband set at the 10th and 90th percentiles of the NVPC distribution can be
27 expected, on average, to provide supplemental ratemaking in 1 out of every 5 years.

1 Supplemental ratemaking should complement normalized test year ratemaking, not supplant it.
2 A large deadband also serves to keep PacifiCorp focused on managing the financial impacts of
3 varying NVPC.

4 Second, staff believes a PCAM should allocate risk without creating economic windfalls
5 for the company or its customers. Setting base energy rates using stochastic power cost
6 modeling provides an equal risk of over-collecting or under-collecting NVPC in rates. Any
7 asymmetries in the distribution of NVPC outcomes should also be reflected in the PCAM
8 deadband. It may turn out to be the case that the lowest ten percent of NVPC outcomes fall
9 closer to the distribution average than the highest ten percent of NVPC outcomes. Stochastic
10 power cost modeling represents a “fair roll of the dice.” The PCAM deadband should be set to
11 preserve this neutrality.

12 Staff recommends amounts falling outside the deadband be shared ninety percent to
13 customers and ten percent to PacifiCorp. Keeping a reasonable share of NVPC risk with the
14 company aligns the company and customer interests to minimize NVPC.

15 **I. Staff recommends applying any PCAM adjustment only to cost-of-service**
16 **customers.**

17 Staff recommends applying the PCAM sur-charges and sur-credits to all cost-of-service
18 customers while excluding all direct access and market-based rate customers. As explained
19 earlier, this treatment is necessary to avoid creating a disincentive for non-residential customers
20 to consider obtaining a fixed energy price from an ESS under direct access, or alternatively,
21 obtaining market-indexed rates from the utility through market-based options.

22 **J. Staff recommends treating QFs in the same manner as other resources by**
23 **conducting a thorough prudence review of actual costs.**

24 Staff does not recommend that the Commission exempt cost variations associated with
25 qualifying facilities from the PCAM or sharing band. Staff believes QF cost variation should be
26 treated on par with the cost variation associated with other resources.

1 Nor does Staff recommend exempting contracts and resources previously included in
2 rates from the PCAM prudence review. Staff recommends a prudence review modeled on the
3 one conducted in Docket UM 1039 for Portland General Electric Company (PGE, see
4 Commission Order 03-543.) Staff supports the use of advisory issues lists to help focus the
5 company's direct testimony.

6 **K. Staff's Long-Term PCAM is properly designed.**

7 Staff believes that its PCAM proposal satisfies the three important design criteria. The
8 large deadband satisfies the rate stability, incentive for good management, and reasonable risk
9 reduction criteria. The potential for an asymmetric deadband, and the annual deadband update,
10 satisfy the neutral cost recovery criterion. Although Staff's PCAM proposal does not provide
11 equal treatment for cost-of-service and opt-out customers in all instances, the large deadband
12 should provide equality in most years. Only when there are extreme NVPC excursions would
13 these customer groups be treated differently.

14 **IV. Staff's Interim PCA Mechanism**

15 Staff recommends an interim PCAM for the period February 1, 2005 through
16 December 31, 2006 with the following attributes:

- 17 1. PacifiCorp should file a PCAM tariff that tracks the annual difference
18 between actual cost-of-service NVPC and the normalized NVPC included in
19 cost-of-service rates. Staff recommends the following formula for
20 calculating this difference: $((\text{Adjusted Actual NVPC} / \text{Actual System Load})$
 $- (\text{Normalized NVPC in Rates} / \text{Normalized Load in Rates})) \times (\text{Normalized}$
 $\text{Load in Rates})$.
- 21 2. The definition of NVPC should be broadened to include natural gas sales for
22 resale.
- 23 3. The PCA deadband should be set at plus and minus 250 basis points of ROE.
- 24 4. The amount falling outside the deadband should be shared ninety percent to
25 customers and ten percent to PacifiCorp. Ninety percent of all prudently
26 incurred amounts exceeding the deadband should be allocated to Oregon
based on Oregon's contribution to the total system energy load and placed in
a balancing account for later amortization.

- 1 5. The PCAM sur-charges or sur-credits should be calculated using a one-year
2 amortization period and the balance collected from, or paid to, customers
3 during the following calendar year.
- 4 6. The PCAM rate should be applied to all customers that were charged cost-
5 of-service rates during the PCAM year.

6 **A. Staff recommends a symmetric deadband equal to 250 basis points of ROE.**

7 The Commission has established a deadband of 250 basis points in a number of dockets.
8 In UM 995, the Commission established a deadband of 250 basis points of ROE around
9 PacifiCorp's baseline NVPC. The Commission also approved the same deadband around PGE's
10 baseline NVPC in Docket UM 1008/UM 1009 and Idaho Power Company's baseline NVPC in
11 Docket UM 1007. The Commission also used 250 basis points of ROE to benchmark the
12 financial impact of poor hydro in Docket UM 1071 (Order 04-108). Without an explicit
13 quantification of PacifiCorp's power cost variability, Staff does not have sufficient information to
14 recommend an asymmetric deadband.

15 **B. The Commission may apply Staff's Interim PCAM retroactive to February 1,
16 2005.**

17 PacifiCorp filed an application for deferral of costs related to declining hydro generation
18 on February 1, 2005 (Docket UM 1193). PacifiCorp indicated in its initial application that it
19 intended to track increased power costs for later incorporation in rates, either through an
20 amortization schedule or as a part of a PCAM. *See* UM 1193 Application at 1. The UM 1193
21 application provides the Commission options with respect to the date at which benefits and costs
22 associated with PacifiCorp's proposed PCAM are eligible for deferral. Staff believes the
23 Commission also has the discretion to modify the proposed balancing account formula.

24 Staff recommends the interim PCAM as part of a long-term commitment to the fair
25 allocation of NVPC risk. Staff's interim PCAM bridges the gap until a long-term PCAM can be
26 implemented. We believe it is important to maintain this long-term focus. Without further
27 examination of the facts underlying Docket UM 1193, Staff is unsure if the 2005 hydro variance

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1 warrants deferred accounting on a one-time stand-alone basis. However, we have already noted
2 the similarity between our interim PCAM and the Commission's use of 250 basis points of ROE
3 to benchmark the financial impact of poor hydro in Order 04-108.

4 DATED this 22nd day of December 2005.

5 Respectfully submitted,

6 HARDY MYERS
7 Attorney General

8
9 /s/David B. Hatton
10 David B. Hatton, #75151
11 Assistant Attorney General
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CERTIFICATE OF SERVICE

I hereby certify that on the 22nd day of December 2005, I served the foregoing upon the parties, hereto by the method/s indicated below:

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