

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
8 Company's Oregon Annual Revenues

STAFF'S CLOSING BRIEF

9 Staff of the Public Commission of Oregon ("Staff") submits its response to the other
10 parties' arguments regarding the effect and impact of Order No. 05-1261 on this proceeding.

11 ICNU argues that Order No. 05-1261 strengthens the conclusion that the PCAMs
12 proposed by PacifiCorp, Staff, and CUB should be rejected because it contends that none of the
13 proposed PCAMs meet the standards for hydro-related PCAMs, and the standards for
14 comprehensive PCAMs should be higher. ICNU Reply Brief at 9.

15 CUB urges the Commission not to apply its UE 165 Order to a comprehensive power
16 cost adjustment mechanism because such a mechanism was not before the Commission in
17 UE 165. CUB also argues the design criteria for a hydropower, as opposed to a comprehensive,
18 mechanism should be different. CUB Reply Brief at 2.

19 PacifiCorp does not believe that Order No. 05-1261 is applicable to this proceeding, but
20 indicates, that "for purposes of this case, the Company would accept the application of the
21 Commission's two-part test in lieu of being denied any relief." PacifiCorp Reply Brief at 2.¹

22 Staff believes that Order No. 05-1261 is applicable to this proceeding in several
23 important respects. The Commission's two-deadband design is directly transferable to the
24 evaluation of comprehensive PCA mechanisms. The second deadband on return on equity

25 _____
26 ¹ Staff believes that PacifiCorp has misinterpreted the Commission's two-part approach to PCA mechanisms. PacifiCorp incorrectly states that the first determination is whether the utility's overall return is outside the a reasonable range. Staff believes the first test is whether the utility's net power costs are outside a reasonable range.

1 (ROE) prevents unreasonable recovery or refund. *See* Staff Reply Brief at 10. The second
2 deadband on ROE does not necessarily mean that the size of the first deadband on net power
3 costs should be reduced. The two deadbands serve separate purposes. The ROE deadband
4 prevents unreasonable recovery or refund and the net power cost deadband excludes a reasonable
5 range of normal variation for triggering the PCA mechanism.²

6 Staff does not believe that the Commission’s distinction between extraordinary events
7 and unusual events is as wide as some parties would make it seem. The underlying purpose of
8 the deadband on net power costs is to exclude normal variation in net power costs from
9 triggering the PCA mechanism. Staff understands that long-term operation of PCA mechanisms
10 allows offsetting events to be reflected in customer rates and, therefore, provides an opportunity
11 to use a more-inclusive recovery threshold (i.e., a narrower deadband on net power costs). Staff
12 has supported the principle of long-term operation throughout this proceeding.³ However, in its
13 reply brief, Staff indicated that it does not believe that long-term operation, or the degree of
14 company control over net power costs, should be the primary determinates of the size of the
15 deadband on net power costs. Staff believes that these are secondary considerations that may be
16 used to adjust, or fine-tune, the deadband on net power costs and the sharing percentage on
17 amounts falling outside the deadband. Staff believes that the Commission’s distinction between
18 extraordinary events and unusual events should be seen as a reflection of this type of refinement
19 and should not be seen as establishing a different kind of standard. The primary consideration is
20 the *permanent* allocation of net power cost risk to customers and the implications of that
21 allocation for setting the utility's ROE.

22 Staff’s final recommendations to the Commission in this proceeding are:

- 23 • Adopt Staff’s reasonable risk reduction, neutral cost recovery, and equal
24 treatment criteria for comprehensive PCA mechanisms.

25 ² Normal variation means variation occurring in the normal course of business, not normally distributed variation or
symmetrically distributed variation.

26 ³ Staff also notes that the criterion of revenue neutrality has been thoroughly debated in this proceeding.

CERTIFICATE OF SERVICE

I hereby certify that on the 27th day of January 2006, I served the foregoing upon the parties, hereto by the method/s indicated below:

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