McDowell & Rackner PC

AMIE JAMIESON
Direct (503) 595-3927
amie@mcd-law.com

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VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket No. UM 1276

Enclosed for filing in the above-referenced proceeding is PacifiCorp's Revised CIM/pp Proposal. PacifiCorp's Proposal should have been filed on December 21, 2007, with the Joint Utilities' Version of Staff's Proposal, but was inadvertently omitted from that filing. A copy of this filing has been served on all parties to this proceeding as indicated on the attached service list.

Very truly yours,

Amie Jamieson

Enclosure
cc: Service List

Incentives for New PPAs Based Upon Oregon Conservation Incentive Model
CIM/pp (Conservation Incentive Model for purchased power)
December 21, 2007

Concept: Incent Oregon utility acquisition of new PPAs by applying Oregon's model for conservation incentives, treating PPA expenditures similarly to DSM expenditures.

Background: The Commission issued a series of orders in the late 1980's and early 1990's designed to encourage utility DSM expenditures by allowing demand-side expenditures to be treated as comparable to supply-side expenditures applicable toward rate base. The goal of PPA incentives is similar, in that they are designed to allow comparable regulatory treatment of two types of resources.

To remove the disincentive to invest in new DSM, the Commission allowed capitalization of all DSM expenditures (both capital and expense). The Commission also allowed amortization of these expenditures, with a return, over the life of the DSM program. *See In re PacifiCorp and PGE Conservation Program Expenses*, Order No. 89-1700 (1989). In this manner, the Commission established comparability between utility expenditures in DSM and utility investment in new generation plant.

The Commission recognized, however, that eliminating the disincentive to invest in DSM was insufficient to incent utility behavior because this, at best, left utilities indifferent. Thus, the Commission also allowed utilities to seek additional incentives to make DSM expenditures more attractive than traditional supply-side investment. The Commission decided that these incentive mechanisms should be, at least to some degree, utility specific because a mechanism can only function as an incentive if the entity sought to be encouraged views it as such.

The Commission gave five specific policy goals for these additional incentive mechanisms: (1) symmetrical rewards and penalties; (2) specific benchmarks; (3) proportionate rewards/penalties; (4) significant but not excessive incentives; and (5) savings should be based on best estimates and not subject to after-the-fact true-up adjustments. *In re Electric Utility Incentives for Acquisition of Conservation Resources*, UM 409, Order No. 92-1673 (1992).

In UM 1056, the Commission adopted Guideline 13(a), which requires utilities to assess in their integrated resource plans (IRPs) the advantages and disadvantages of owning a resource instead of purchasing power. *In re Investigation into Integrated Resource Planning Requirements*, Order No. 07-022 (2007).

In UM 1182, the Commission adopted a requirement that resources with a duration of 5 years or longer, and 100 MW or greater, referred to as "major resources," be acquired through an RFP. *In re Investigation Regarding Competitive Bidding*, Order No. 06-446 (2006). In determining the short-list in an RFP, the order precludes consideration of imputed debt costs for PPAs. *Id.* at 12.

Proposal:

- Provide utilities an incentive for PPAs calculated by capitalizing expenditures associated with PPAs executed after January 1, 2008 (including PPA renewals or option exercises) that are 25 MW or greater and have a delivery term of three-years or longer. To be eligible for this incentive, the PPA must be prudent, its acquisition must be consistent with the utility's general analysis of PPAs in its IRP under UM 1056, Guideline 13(a), and the PPA counter-party must bear the risks of the PPA such that the PPA is not subject to consolidation on the utility's balance sheet under FIN 46(R). If a specific asset is contractually defined in the PPA, the seller or another third party is the owner of the asset associated with the PPA.

- The delivery term of a PPA is the time period between the date that capacity and/or energy is first made available, delivered, or received to the date that capacity and/or energy is last made available, delivered, or received.

- The term of a PPA is the time period between the first date that the PPA is contractually effective until the date that the PPA is terminated.

- Utilities will derive the capitalized amount from which the incentive is calculated by determining the net present value (NPV) of Pre-determined Expenditures (defined broadly as the capacity payments or fixed payments in the PPA) during the PPA term using the utility's average cost of debt. Utilities should use the same NPV calculation that S&P now uses in imputing debt related to PPAs, which applies a discount rate based on the utility's average cost of debt.

- Where a PPA does not have Pre-determined Expenditures, the capitalized amount will be determined by using the S&P method for determining a proxy capacity component. Except for PPAs associated with wind resources, the capitalized amount of a PPA shall be capped at 50% of the total of PPA expenditures.

- Capitalization capped at 50% of PPA expenditures is poorly suited to PPAs associated with wind resources since such resources have costs that are largely fixed. Therefore, for a PPA associated with wind resources, the CIM/pp will capitalize 95% of the NPV of the PPA's expenditures.

- The incentive calculation should recognize AFPPA (Allowance for Funds used for PPAs), from the beginning of the term of the PPA, using the utility's AFUDC rate as of the execution date and calculated on a post-tax basis, for capitalized portion of new PPAs before costs are reflected in rates.

- In rate case or annual net variable power cost update, allow utilities to recover the incentive, calculated by: (1) amortizing the capitalized portion of PPA expenditures, plus AFPPA, over the term of the PPA; and (2) allowing utilities to earn a return on the unamortized balance of the capitalized portion of PPA expenditures at the utility's allowed ROR, calculated on a pre-tax basis. *See* Attachments: Standard PPA, Columns 1-8; Tolling Example, Columns 1-9.

- Once the total incentive amount is calculated, to reduce risk and complexity, utilities shall recover the incentive amortized on a straight line, nominal basis for the term of the PPA, along with the actual energy and capacity payments made under the PPA. *See* Attachments: Standard PPA, Column 9; Tolling Example, Column 10.

- Unless otherwise allowed by law or Commission order, PPAs are subject to a prudence review before PPA expenditures and incentives can be reflected in rates.

- For PPAs that are major resources: (1) preclude consideration of the costs of the CIM/pp incentives in determining the short-list in an RFP; but (2) include consideration of the costs of CIM/pp incentives in Commission acknowledgement of the RFP short-list.

- Allow utilities to propose additional utility-specific PBR mechanisms for PPAs using policy goals for incentive mechanisms from UM 409. This could incorporate other proposals developed in this docket.

- The Commission will review the CIM/pp mechanism after three years. Utilities with PPAs covered by the mechanism shall report annually on their financial metrics and provide documentation demonstrating discernable effects on imputed debt calculations and credit ratings.

Benefits: The CIM/pp benefits customers by incenting utilities to acquire prudent PPAs. Utility acquisition of new PPAs can contribute to the development and maintenance of a robust competitive wholesale market, which ultimately may provide customers greater resource choices.

The CIM/pp is limited in scope in that it only applies to: (1) new PPAs; (2) PPAs for 25 MW or more and with a delivery term of three years or more; and (3) the capitalization of the portion of PPA expenditures associated with fixed costs of the PPA, capped at 50% of the total except for wind PPAs. These limitations moderate the rate impact of the CIM/pp. At the same time, CIM/pp can reasonably be expected to be effective in reducing future imputed debt and associated costs because S&P imputes debt on the portion of PPA expenditures that S&P associates with debt (*i.e.,* the Pre-determined Expenditures). From a qualitative standpoint, the CIM/pp should allow for the maintenance of the credit quality of Oregon utilities and lower the potential costs of capital for new utility investment.

Under the CIM/pp, PPA expenditures and incentives will not be reflected in rates until a prudence review is conducted or otherwise allowed per law or Commission order. Thus, the CIM/pp maintains the regulatory discipline of the risk of a prudence disallowance.

This approach uses a tried and tested framework to incent Oregon utilities to invest in supply-side alternatives to rate based generation resources. The CIM/pp is straightforward, easily implemented for all utilities, and allows for utility-specific tailoring of incentives beyond those designed to treat PPAs and rate base generation comparably for regulatory purposes.

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1276 on the following named person(s) on the date indicated below by email and first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

Susan K. Ackerman susan.k.ackerman@comcast.net	Lowrey R. Brown Citizens' Utility Board of Oregon lowrey@oregoncub.org
Randall J. Falkenberg RFI Consulting Inc. consultrfi@aol.com	Melinda J. Davison Davison Van Cleve PC mail@dvclaw.com
John Demoss turbineone@earthlink.net	Jason Eisdorfer Citizens' Utility Board of Oregon jason@oregoncub.org
Judy Johnson Public Utility Commission of Oregon PO Box 2148 Salem OR 97308-2148 judy.johnson@state.or.us	Ann L. Fisher AF Legal & Consulting Services PO Box 25302 Portland OR 97298-0302 energlaw@aol.com
Douglas Tingey Portland General Electric 121 SW Salmon St 1WTC1301 Portland, OR 97204 richard.george@pgn.com	Ann English Gravatt Renewable Northwest Project ann@rnp.org
Natalie Hocken PacifiCorp natalie.hocken@pacificorp.com	Robert Jenks Citizens' Utility Board of Oregon bob@oregoncub.org

McDowell & Rackner PC
520 SW Sixth Avenue, Suite 830
Portland, OR 97204

Idaho Power Company
John R. Gale
rgale@idahopower.com

Sandra D. Holmes
sholmes@idahopower.com

Barton L. Kline
bkline@idahopower.com

Karl Bokenkamp
kbokenkamp@idahopower.com

Lisa D. Nordstrom
lnordstrom@idahopower.com

Patrick Hager
Rates & Regulatory Affairs
Portland General Electric
121 SW Salmon St 1WTC1301
Portland, OR 97204
pge.opuc.filings@pgn.com

John W. Stephens
Esler Stephens & Buckley
stephens@eslerstephens.com

Lisa Schwartz
Oregon Public Utility Commission
PO Box 2148
Salem OR 97308-2148
lisa.c.schwartz@state.or.us

Robert D. Kahn
NW Independent Power Producers
rkahn@nippc.org

Michelle R. Mishoe
Pacific Power & Light
michelle.mishoe@pacificorp.com

Oregon Dockets
PacifiCorp
oregondockets@pacificorp.com

Gregory W. Said
gsaid@idahopower.com

Michael T. Weirich
Department of Justice
Regulated Utility & Business Section
1162 Court St NE
Salem, OR 97301-4096
michael.weirich@doj.state.or.us

Steven Weiss
Northwest Energy Coalition
steve@nwenergy.org

DATED: December 24, 2007.

Amie Jamieson

McDowell & Rackner PC

Of Attorneys for PacifiCorp