



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

550 Capitol St NE, Suite 215

Mailing Address: PO Box 2148

Salem, OR 97308-2148

Consumer Services

1-800-522-2404

Local: (503) 378-6600

Administrative Services

(503) 373-7394

June 20, 2007

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: **Docket No. UE 188** - In the Matter of PORTLAND GENERAL ELECTRIC
Biglow Canyon Wind Project.

Enclosed for electronic filing in the above-captioned docket is the Public Utility
Commission Staff's Direct Testimony.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

(503) 378-5763

Email: kay.barnes@state.or.us

c: UE 188 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UE 188

STAFF DIRECT TESTIMONY OF

Carla Owings

**In the Matter of
PORTLAND GENERAL ELECTRIC COMPANY
Biglow Canyon Wind Project**

June 20, 2007

CASE: UE 188
WITNESS: Carla Owings

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Direct Testimony

June 20, 2007

1 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

2 A. My name is Carla Owings. I am a Senior Revenue Requirements analyst
3 employed by the Public Utility Commission. My Witness Qualification
4 Statement is found in Exhibit Staff/101.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. Staff, Portland General Electric (PGE), the Industrial Customers of Northwest
7 Utilities (ICNU) and the Citizens' Utility Board (CUB) ("Parties") have stipulated
8 to the majority of the issues raised in the review of Docket No. UE 188, PGE's
9 application to include costs associated with the Biglow Canyon Wind farm into
10 rates. Staff anticipates that the Stipulation will either have been filed at the
11 time of the testimony, or shortly thereafter. I will present Staff's
12 recommendation for the one remaining issue not stipulated to by the Parties.

13 **Q. WHAT IS STAFF'S RECOMMENDATION?**

14 A. Staff recommends that the Commission defer a decision on whether it is
15 appropriate to apply an Annual Update of Capital Costs to costs associated
16 with the Biglow Canyon Wind project in favor of opening an investigation to
17 review the merit of resetting the ratebase or revenue requirement associated
18 with Biglow Canyon and possibly all generation assets, on an annual basis.

19 **Q. PLEASE PRESENT THE ISSUE.**

1 **Annual Update Mechanism for Biglow Canyon's Capital Costs**
2

3 A. The issue is whether or not the Commission should allow an annual update of
4 capital costs associated with the Biglow Canyon Wind Farm (Biglow or Biglow
5 Canyon) project. Since this project is being reviewed as a single-issue rate
6 case, and rates are implemented through a single rate schedule, some of the
7 Parties recommend an annual update of costs, such as capital costs, which
8 may flow savings through to ratepayers. The savings would come in the form
9 of lower revenue requirement caused by updating accumulated depreciation
10 and accumulated deferred taxes that reduce ratebase.

11 **Q. YOU MENTION THAT BIGLOW CANYON IS BEING CONSIDERED AS A**
12 **SINGLE-ISSUE RATE CASE AND RATES ARE ON A SEPARATE RATE**
13 **SCHEDULE. WHY IS THAT IMPORTANT?**

14 A. It is only important in the sense that the rates on that schedule are solely based
15 on the impact of Biglow Canyon and the costs are easier to isolate.

16 **Q. PLEASE EXPLAIN WHAT IS MEANT BY AN ANNUAL UPDATE.**

17 A. When the Commission includes the costs of a generation resource in any rate
18 case, the value for ratebase is based on the average annual gross plant-in-
19 service less accumulated depreciation and accumulated deferred taxes in the
20 test period. There are other small adjustments to ratebase, but accumulated
21 depreciation and taxes are the largest of the adjustments to ratebase. Once the
22 value for ratebase has been determined in modeling and rates have been
23 issued in a final order from the Commission, ratebase remains unchanged in

1 rates until it is reset again in the next rate proceeding. So, although the
2 Company continues to book depreciation, the value of ratebase the Company
3 is allowed to earn its return on remains unchanged until the next rate
4 proceeding. In other words, the value attributed to ratebase is frozen in time
5 between rate cases.

6 **Q. SO, THE COMPANY IS EARNING ON RATEBASE THAT ACTUALLY**
7 **SHOULD BE DEPLETING BY APPLYING ACCUMULATED**
8 **DEPRECIATION?**

9 A. At first glance it may appear that the Company is earning a return on ratebase
10 that, if it were reset every year, should be depleting from the proper application
11 of accumulated depreciation. However, it also is true that the Company is
12 investing in other capital improvements between rate proceedings, which, until
13 the next rate proceeding, are also not considered and not added to ratebase.
14 The effects of accumulated depreciation on ratebase are offset to some extent
15 by the Company's investments in capital improvements between rate
16 proceedings. The argument for updating ratebase for Biglow, or other
17 generating plants already covered in rates, is undercut to the extent that these
18 "cost savings" are offset by the Company's additional investment in capital
19 improvements between rate cases.

20 **Q. WHY HAS AN ANNUAL UPDATE OF CAPITAL COSTS BEEN**
21 **PROPOSED IN THIS PROCEEDING?**

22 A. Some Parties have argued that an annual adjustment mechanism could create
23 some symmetry as an offset to other single-issue mechanisms the Commission

1 reviews and updates that often have increasing costs and increasing rate
2 impacts. In PGE's UE 180 rate case, the Commission approved an Annual
3 Power Cost Update Mechanism (APCU)¹ which tracks net variable power
4 costs. Recent history indicates that these variable costs tend to increase from
5 year to year. Allowing an annual mechanism that tracks declining costs, such
6 as an Annual Update to the capital costs associated with Biglow Canyon,
7 would act as an offset to mechanisms like the APCU.

8 Staff believes this adjustment is being proposed because Biglow Canyon
9 was considered as a single-issue without an update of all the Company's costs.
10 Parties believe that allowing the Company to recover the in-service costs of
11 Biglow between rate cases should be compensated for by allowing ratepayers
12 to reset ratebase to mitigate the Company's earnings on ratebase.

13 **Q. DOES STAFF SUPPORT AN ANNUAL UPDATE OF THE BIGLOW**
14 **CANYON CAPITAL COSTS?**

15 A. No, not at this time. If the Commission were to adopt an Annual Update, Staff
16 is uncertain whether the update being proposed should also include other costs
17 associated with the impact of Biglow Canyon, such as Operating and
18 Maintenance (O & M) costs and potentially increased capital costs. We believe
19 that other Parties will recommend that the Commission should adjust only
20 ratebase, without consideration of other costs associated with running the
21 facility.

¹ See UE 180/UE 181/UE 184, Commission Order No. 07-015.

1 **Q. IF THE COMMISSION WERE TO APPLY AN ADJUSTMENT TO**
2 **RATEBASE THAT RESETS THE VALUE OF RATEBASE BY THE**
3 **AMOUNT OF ACCUMULATED DEPRECIATION AND ACCUMULATED**
4 **DEFERRED TAXES, DOESN'T THAT GUARANTEE A SAVINGS TO**
5 **RATEPAYERS?**

6 A. Most definitely, if no other capital costs were considered and no fixed or
7 variable O&M is considered. However, without a thorough discussion of policy
8 arguments, Staff is not yet able to recommend whether such a mechanism
9 should adjust ratebase only. Staff believes the Commission should investigate
10 whether it should look more broadly at all costs associated with the facility that
11 would reset the Company's revenue requirement, should the Commission
12 consider an Annual Update to be appropriate.

13 The suggestion of an annual update also raises the question as to whether
14 the Commission should allow for resetting the rates solely attributable to Biglow
15 Canyon and not an annual adjustment to all the Company's generation
16 resources. How would the Commission justify isolating an annual adjustment
17 to only Biglow Canyon and not to all of the Company's ratebase?

18 **Q. WHAT OTHER CONCERNS DOES STAFF HAVE REGARDING THE**
19 **ISSUE OF AN ANNUAL UPDATE?**

20 A. Although Staff believes that the issue may have some merit, we believe the
21 issue needs more thorough consideration and potentially, an investigation as to
22 what a proper Annual Update would look like; what the implications of such a
23 mechanism would be; and the most appropriate manner in which to apply such

1 a mechanism. Staff believes that the proposal that the ratebase attributable to
2 a single resource should receive an annual adjustment in isolation from how the
3 rest of the Company's ratebase is treated needs to be carefully reviewed by the
4 Commission. The suggestion provokes many related questions, such as;

- 5 • Is the Company's allowed rate of return calculated in a manner that is
6 consistent with an annual adjustment mechanism that resets ratebase?
- 7 • Does such a mechanism create a disincentive for the Company to keep its
8 O&M costs, or attributable capital costs to a minimum?
- 9 • Do parties envision such a mechanism being applied until the next general
10 rate case or would this mechanism become a part of permanent
11 ratemaking?

12 **Q. WHAT DOES STAFF RECOMMEND?**

13 A. Staff believes that the Commission should review the merit of any proposal to
14 annually update ratebase in a separate investigation. Staff notes that the issue
15 of ratebase adjustments may become a much larger issue when the
16 Commission implements Senate Bill 838 which calls for Automatic Adjustment
17 Clauses associated with the acquisition of renewable generation. The
18 Commission may want to view this docket as an opportunity to review the merit
19 of implementing Annual Updates and how it would do so within the confines of
20 the current regulatory paradigm, or whether the Commission wants to depart
21 from historical regulatory paradigm and create a new look at how ratebase
22 should be calculated.

1 Any Annual Update proposed by the Parties in this docket would not be
2 implemented until January 1, 2009. If the Commission wants to consider such
3 a mechanism, Staff suggests that the period before January 1, 2009, allows for
4 the Commission to open an investigation to decide whether an Annual Update
5 like that proposed in this docket, should be allowed and if so, what the proper
6 construct for such an update would be.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.

CASE: UE 188
WITNESS: Carla Owings

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualification Statement

June 20, 2007

WITNESS QUALIFICATION STATEMENT

NAME: Carla M. Owings
EMPLOYER: Public Utility Commission of Oregon
TITLE: Senior Utility Analyst/Revenue Requirement/Rates and Regulation
ADDRESS: 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2115.
EDUCATION: Professional Accounting Degree
Trend College of Business 1983

EXPERIENCE: I have been employed by the Public Utility Commission of Oregon since April of 2001. I am the Senior Utility Analyst for revenue requirement for the Rates and Regulation Division of the Utility Program. Current responsibilities include leading research and providing technical support on a wide range of policy issues for electric, telecommunications, and gas utilities.

From September 1994 to April 2001, I worked for the Oregon Department of Revenue as a Senior Industrial/Utility Appraiser. I was responsible for the valuation of large industrial properties as well as utility companies throughout the State of Oregon.

I have testified in behalf of the Public Utility Commission in docket nos. UE 180, UM 1234, UE 167 and UM 1271.

OTHER EXPERIENCE: I received my certification from the National Association of State Boards of Accountancy in the Principles of Public Utilities Operations and Management in March of 1997. I have attended the Institute of Public Utilities sponsored by the National Association of Regulatory Utility Commissioners at Michigan State University in August of 2002 and the College of Business Administration and Economics at New Mexico State University's Center for Public Utilities in May of 2004.

In 2005, I attended the National Association of Regulatory Utility Commissioners Advanced Course at Michigan State University. I worked for seven years for the Oregon State Department of Revenue as a Senior Utility and Industrial Appraiser.

CERTIFICATE OF SERVICE

UE 188

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 20th day of June, 2007.



Stephanie S. Andrus
Assistant Attorney General
Of Attorneys for Public Utility Commission's Staff
1162 Court Street NE
Salem, Oregon 97301-4096
Telephone: (503) 378-6322

UE 188
Service List (Parties)

KEN LEWIS	2980 NW MONTE VISTA TERRACE PORTLAND OR 97210 kl05pdx@comcast.net
CITIZENS' UTILITY BOARD OF OREGON	
LOWREY R BROWN (C) UTILITY ANALYST	610 SW BROADWAY - STE 308 PORTLAND OR 97205 lowrey@oregoncub.org
JASON EISDORFER (C) ENERGY PROGRAM DIRECTOR	610 SW BROADWAY STE 308 PORTLAND OR 97205 jason@oregoncub.org
ROBERT JENKS (C)	610 SW BROADWAY STE 308 PORTLAND OR 97205 bob@oregoncub.org
DANIEL W MEEK ATTORNEY AT LAW	
DANIEL W MEEK ATTORNEY AT LAW	10949 SW 4TH AVE PORTLAND OR 97219 dan@meek.net
DAVISON VAN CLEVE PC	
MATTHEW W PERKINS (C)	333 SW TAYLOR - STE 400 PORTLAND OR 97204 mwp@dvclaw.com
DEPARTMENT OF JUSTICE	
STEPHANIE S ANDRUS (C) ASSISTANT ATTORNEY GENERAL	REGULATED UTILITY & BUSINESS SECTION 1162 COURT ST NE SALEM OR 97301-4096 stephanie.andrus@state.or.us

<p>PORTLAND GENERAL ELECTRIC</p> <p>RATES & REGULATORY AFFAIRS</p>	<p>RATES & REGULATORY AFFAIRS 121 SW SALMON ST 1WTC0702 PORTLAND OR 97204 pge.opuc.filings@pgn.com</p>
<p>DOUGLAS C TINGEY (C)</p>	<p>121 SW SALMON 1WTC13 PORTLAND OR 97204 doug.tingey@pgn.com</p>
<p>PUBLIC UTILITY COMMISSION</p> <p>JUDY JOHNSON (C)</p>	<p>PO BOX 2148 SALEM OR 97308-2148 judy.johnson@state.or.us</p>
<p>RFI CONSULTING INC</p> <p>RANDALL J FALKENBERG (C)</p>	<p>PMB 362 8343 ROSWELL RD SANDY SPRINGS GA 30350 consultrfi@aol.com</p>