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December 12, 2007

Via Electronic and U.S. Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of PORTLAND GENERAL ELECTRIC COMPANY
Request for a General Rate Revision
Docket No. UE 188

Dear Filing Center:

Enclosed please find the original and five (5) copies of the Stipulation Testimony and Exhibits of Randall J. Falkenberg on behalf of the Industrial Customers of Northwest Utilities in the above-captioned docket.

Please let me know if you have any questions. Thank you for your assistance.

Sincerely yours,

/s/ Ruth A. Miller
Ruth A. Miller

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Stipulation Testimony and Exhibits of Randall J. Falkenberg on behalf of the Industrial Customers of Northwest Utilities, upon the parties on the official service list by causing the same to be served via Electronic and US mail to those parties which have not waived paper service.

Dated at Portland, Oregon, this 12th day of December, 2007.

/s/ Ruth A. Miller
Ruth A. Miller

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 188

In the Matter of	)
	)
PORTLAND GENERAL ELECTRIC COMPANY	)
	)
Request for a General Rate Revision.	)
	)

SCHEDULE 120 - BIGLOW CANYON 1 ADJUSTMENT

STIPULATION TESTIMONY OF

RANDALL J. FALKENBERG

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

December 12, 2007

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Randall J. Falkenberg, PMB 362, 8343 Roswell Road, Sandy Springs, Georgia 30350. I previously filed testimony and a complete description of my qualifications on behalf of the Industrial Customers of Northwest Utilities ("ICNU") in this docket. My qualifications are shown at Exhibit ICNU/101.

Q. WHAT IS THE PUPROSE OF THIS TESTIMONY?

A. I address the stipulation between Portland General Electric Co. ("PGE"), the Citizens' Utility Board ("CUB") and Staff (the "Stipulating Parties") related to Biglow Canyon issues, or Schedule 120.

Q. BRIEFLY SUMMARIZE THE STIPULATION SIGNED BY THE STIPULATING PARTIES.

A. The Stipulating Parties have agreed that the revenue requirements provisions and methodology adopted in the stipulation in Docket No. UM 1330, governing PGE's proposed schedule 122, should also apply to Schedule 120, the Biglow Canyon tariff. The Stipulating Parties submitted a Joint Explanatory Brief describing the stipulation in the record, so I will not dwell on the details of the agreement here.

Q. IS ICNU A PARTY TO THE STIPULATION IN UM 1330?

A. Yes.

Q. DOES ICNU AGREE WITH THE STIPULATION IN THIS CASE?

A. So far as it goes, yes. ICNU has no objection to the stipulation in regards to the issues it addresses, revenue requirements. However, there was also an important element of the stipulation in UM 1330, rate spread, which is not addressed by the stipulation in the instant proceeding. This is a defect ICNU urges the Oregon Public Utility Commission ("OPUC" or "Commission") to rectify.

Q. PLEASE ELABORATE.

A. The stipulation in UM 1330 defines a tariff for PGE (Schedule 122) that all parties agree equitably addresses the issues surrounding the recovery of costs of new renewable resources. Were it not for a quirk of timing (i.e., that UE 188 was filed prior to UM 1330 and prior to final passage of SB 838), there would be no reason that Schedule 122 would not apply to Biglow Canyon as well. If Schedule 122 is a fair, just and reasonable tariff for renewable resources to be installed in future years, it should also be a fair, just and reasonable tariff for Biglow Canyon as well. There is no reason why Schedule 122 would not also provide an appropriate template for recovery of Biglow Canyon costs.

The main substantive difference between the proposed Schedule 120 and Schedule122 stipulated to in UM 1330 is in the area of rate design. In UM 1330 it was agreed by the parties that the rate spread would be based on the overall class allocation of generation revenues:

> Costs recovered through the RAC Schedule will be allocated across customer classes using the applicable RAC Schedule forecasted energy on the basis of an equal percent of generation revenue applied on a cents per kWh basis to each applicable rate schedule as determined in the then-most recent general rate case.

Re Investigation of Automatic Adjustment Clause Pursuant to SB 838, Docket No. UM 1330, Stipulation at § 6(g) (Nov. 29, 2007).

Q. IS THERE COST JUSTIFICATION FOR THE APPROACH DESCRIBED ABOVE AS CONTAINED IN THE UM 1330 STIPULATION?

A. Yes. This method will preserve cost and rate relationships already built into rates. The Commission has a longstanding policy of allocating class revenue requirements on the basis of marginal costs. The rate spread methodology contained in the stipulation in this case will not follow that method. Instead the stipulation ignores this Commission precedent and allocates the class revenue requirements on a pure energy basis. As a result, the proposal of the Stipulating Parties would unfairly collect a disproportionate amount of Biglow Canyon costs from larger customers. This proposal fails to follow the OPUC's longstanding cost allocation procedures. In my thirty years of experience in utility ratemaking matters, I don't recall ever seeing a case where a utility proposed to allocate and collect the costs for new generating units on an equal cents per kWh basis. This is far outside of standard industry practice, and follows no recognized concept of cost causation. There is no basis in any recognized ratemaking theory, whether embedded or marginal cost, that would support such an approach.

Q. THAT'S A PROVOCATIVE STATEMENT. PLEASE EXPLAIN.

A. Since the time of the first NARUC Cost Allocation Manual in 1973 (and, I believe, long before) it has been recognized that utility generation costs are comprised of two types of costs: fixed and variable costs. Often these are called demand or capacity related, and energy related costs.[1/] Each type of cost is

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1/ National Association of Regulatory Utility Commissioner, *Electric Utility Cost Allocation Manual*, 1973, page 31.

allocated to customer classes on a different measure of consumption by customer classes.

Q. PLEASE DISTINGUISH BETWEEN "CAPACITY" AND "ENERGY" COSTS IN THIS CONTEXT.

A. Energy costs are incurred in the conversion of fuel inputs into the performance of useful work over time. Capacity costs are related to the infrastructure needed to obtain that energy at any time desired. This is much like the difference between the miles driven by a car (which requires fuel costs) and the availability of the car (which requires an investment or lease payment). Energy costs are analogous to fuel costs for a car, while capacity costs are analogous to the cost of owning a car.

Q. HOW ARE CAPACITY AND ENERGY RELATED COSTS NORMALLY TREATED IN CLASS COST ALLOCATION PROCEDURES?

A. Ordinarily, energy related costs are allocated to classes on the basis of energy consumption, while capacity related costs are allocated on the basis of some measure of peak demand (or sometimes peak and average demands). The OPUC has a longstanding practice of using *marginal* cost studies for allocation of costs within classes of service. However, the OPUC approved methodology still recognizes the difference between demand and energy related costs.

Q. IS THERE ANY REASON WHY WIND OR OTHER RENEWABLE RESOURCES SHOULD NOT FOLLOW THE TRADITIONAL MARGINAL COST ALLOCATION METHOD USED IN OREGON?

A. No.[2/] The one way in which wind resources like Biglow Canyon are unique is the fact that they are comprised of virtually 100% fixed costs. Once the initial capital

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2/ In this discussion, I am putting aside my view that marginal cost is a flawed allocation methodology. Though use of marginal cost as an embedded cost allocation method enjoys little currency in other states where I have practiced, given its longstanding acceptance in Oregon, I will not challenge it.

investment is made, there are no variable fuel or operating costs that one would typically assume to be energy related. Thus, the argument could be made that such costs should be allocated to customer classes on a 100% capacity basis. Because the proposed tariff will collect nothing but the incremental costs of a new resource, application of a pure capacity (rather than energy) allocation factor across customer classes would be consistent with Oregon's marginal cost-based ratemaking paradigm. (In this case, the costs to be recovered are essentially marginal costs.) However, I am not advocating such an approach. Rather, I would simply use the same rate spread as developed for production revenues from PGE's most recent general rate case, which would implicitly reflect both an energy and capacity allocation element. This was the essence of the agreement in UM 1330, and there is no reason it should not be applied in this case.

Q. IS THERE AN ANALAGOUS RESOURCE ALREADY INCLUDED IN RATEBASE THAT IS SIMILAR TO WIND?

A. Yes. Wind generation might be considered to be quite comparable to run of river hydro, another resource dependent on the vagaries of weather. PGE already has this type of resource in its generation portfolio. Though PGE objected to answering this question in UM 1330, it appears the Company treated run of river hydro the same as any other kind of resource in their cost allocation procedures. ICNU/202, Falkenberg/1. Further, it appears the Company already has some wind generation resources reflected in base rates, and uses the same marginal cost pricing methodology for allocation of these costs to customer classes. ICNU/203, Falkenberg/1-2. Thus, there is no suggestion on the part of the Company that the

Commission-approved cost allocation technique is not valid or applicable to wind generation resources such as Biglow Canyon.

Q. UNDER THE THEORY OF MARGINAL COST PRICING, DOES IT EVEN MATTER WHAT KIND OF RESOURCE IS BEING USED TO PRODUCE THE ENERGY AS FAR AS CLASS COST ALLOCATION PROCEDURES ARE CONCERNED?

A. Not really. The underlying premise of marginal cost pricing is that ratepayers will make more intelligent (and presumably more efficient) consumption choices if they are provided price signals that convey information about the incremental costs of their consumption decisions.[3/] The current Long Run Marginal Cost of new resources is based on the cost of new combined cycle generation. Consequently, the price signals provided to customers should reflect the cost of new combined cycle generation, not the specific resource that is used to generate the power being consumed at the moment. Again, this is the process used for *all* of the resources used by PGE customers. There is simply no basis for departing from this standard in the case of one new wind generator, like Biglow Canyon.

Q. WOULD IT COMPLICATE THE PROSPECTIVE PROCEEDINGS IF A PROPER RATE SPREAD METHODOLOGY WERE EMPLOYED?

A. No. In fact, it will complicate the proceedings if Schedule 120 and 122 use different methods. I admit, it is not a substantive complication in either case, but there is no justification for treating Biglow Canyon differently from every other renewable resource on the system.

[3/] This is a simplification that ignores decades of debate over such issues as whether conforming a marginal cost based price to embedded revenue requirements accomplishes anything at all, or whether use of long run marginal costs instead of short-run marginal negates efficiency gains. Again, this is the process Oregon uses, presumably for its assumed economic efficiency benefits, as there is no other basis for adoption of marginal cost based pricing.

Q. THE TESTIMONY FILED EARLIER IN THIS PROCEEDING DID NOT ADDRESS THE RATE SPREAD ISSUE. WOULD IT BE A WISE POLICY FOR THE COMMISSION TO ADOPT YOUR PROPOSED RATE SPREAD, GIVEN THIS CIRCUMSTANCE?

A. Naturally, it is preferable for a stipulation to resolve issues within the confines of the record established in a proceeding. Certainly, a stipulation that proposes a novel outcome for a contested case that has no bearing on the established record should be viewed with concern by the Commission. However, in this case, there are some rather unique circumstances. First, there is the fact that the same set of issues regarding rate treatment of identical types of resources was litigated in a parallel proceeding and a satisfactory settlement was reached. There is no reason to deny the Commission the opportunity to adopt a fair, just and reasonable rate (such as the agreed upon Schedule 122) simply because some aspects of that rate were not litigated in this proceeding.

Second, Schedule 122 was never presented in the previous UE 188 testimony. Nonetheless, the Stipulating Parties agreed to some, but not all, of the provisions of that tariff. Thus, the lack of a perfect record should not be viewed as an impediment to the Commission's adoption of what all parties agree to be the right solution to the issue of developing a fair, just and reasonable rate for new renewable resources.

Third, if Schedule 122 is a fair, just and reasonable rate, standing by itself, it is hard to see how a rate that does not reflect all of the elements of that Schedule could also be fair, just and reasonable for Biglow Canyon. It makes little sense to think that two rates dealing with exactly the same types of costs should be designed based on different principles.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 188

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EXHIBIT ICNU/201

PGE RESPONSE TO ICNU DATA REQUEST 1.13

December 12, 2007

September 14, 2007

TO: Brad Van Cleve
Industrial Customers of Northwest Utilities

FROM: Patrick G. Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1330
PGE Response to ICNU Data Request 1.13
Dated September 5, 2007
Question No. 013

Request:

Are any wind resources included in the current IRP? If so, does the Company assume that these resources will provide useful capacity for reliability purposes, such as meeting peak demands?

Response:

Yes, there are wind resources in PGE's current IRP. Please see PGE's 2007 Integrated Resource Plan (pages 10 and 11, chapters 11 and 13) for a description of proposed acquisitions of wind resources, which can be viewed at http://edocs.puc.state.or.us/efdocs/HAA/lc43haa105740.pdf.

Regarding their capacity contribution, for planning purposes in PGE's 2007 IRP, we assumed that wind would bring a statistical capacity contribution of 15% of the nameplate capability.

BEFORE THE PUBLIC UTILITY COMMISSION

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EXHIBIT ICNU/202

PGE RESPONSE TO ICNU DATA REQUEST 1.6

December 12, 2007

September 14, 2007

TO: Brad Van Cleve
Industrial Customers of Northwest Utilities

FROM: Patrick G. Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1330
PGE Response to ICNU Data Request 1.6
Dated September 5, 2007
Question No. 006

Request:

Explain the process the Company used in UE 180 to allocate cost responsibility of existing run of river hydro resources to customer classes.

Response:

PGE objects to this request because it is not relevant to the current docket. Without waiving objection, PGE responds with the following:

Attachment 006-A provides a summary of the approved cost allocation of the UE 180 generation revenue requirement.

UM 1330
Attachment 006-A

Summary of the approved cost allocation of the UE 180 generation revenue requirement.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 188

In the Matter of	)
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COMPANY	)
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EXHIBIT ICNU/203

PGE RESPONSE TO ICNU DATA REQUEST 1.8

December 12, 2007

September 14, 2007

TO: Brad Van Cleve
Industrial Customers of Northwest Utilities

FROM: Patrick G. Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1330
PGE Response to ICNU Data Request 1.8
Dated September 5, 2007
Question No. 008

Request:

Are the costs of any existing wind resources recovered in PGE's rates at present?

Response:

Please see PGE's response to ICNU's Data Request No. 005.

September 14, 2007

TO: Brad Van Cleve
Industrial Customers of Northwest Utilities

FROM: Patrick G. Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1330
PGE Response to ICNU Data Request 1.5
Dated September 5, 2007
Question No. 005

Request:

Explain the process the Company used in UE 180 to allocate cost responsibility of any existing wind resources to customer classes. Provide a calculation showing the existing wind related costs recovered from each customer class. Explain whether the proposed recovery method in this case is consistent with that method.

Response:

Within the UE 180 test year PGE did not own any wind resources. However, PGE included the cost of two wind-related purchase power contracts, Klondike II and Vansycle Ridge.

Please see the PGE Response to ICNU Data Request No. 006 for how the costs of these two contracts were allocated.

PGE believes that the proposed cost recovery method contained in its proposed Schedule 122 approximates the method used to allocate generation revenue requirements in UE 180.