BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 207

In the Matter of

PACIFICORP, dba PACIFIC POWER,

2010 Transition Adjustment Mechanism

SURREBUTTAL TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

August 25, 2009

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

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PACIFICORP, dba PACIFIC POWER,	)	REPLY TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON
2010 Transition Adjustment Mechanism	)	

Our names are Bob Jenks and Gordon Feighner, and our qualifications are listed in CUB Exhibit 101.

I. Introduction

When PacifiCorp first proposed the TAM as a way to annually update power costs to all classes of customers in 2005, CUB opposed its adoption. CUB expressed concern that such a system would allow the utility to "game" the system and use the TAM to manufacture rate increases.[1] PacifiCorp's rebuttal testimony assured customers that this would not happen and that annual updates would go in both directions, leading to rate decreases as well as rate increases:

Q: Will the update always result in an increase?

A: No. As demonstrated by the Company's RVM updates filed in February and in March of this year, adjustments made to update net power costs go

[1] UE 170/CUB/Jenks/18-30.

> *both ways...In the event market prices trend downward at some future time, the updates would capture that cost decrease.*[2]

Now, several years later customers are still waiting to see an update that captures an overall cost decrease and lower rates. If any year should reflect a decrease, one would expect it to be this year. PGE's April AUT filing showed a rate decrease of 2.6%.[3] The three gas utilities in Oregon are expecting significant rate decreases of between 10% and 20% with their purchased gas adjustment this fall.[4]

PacifiCorp, however, is seeking a rate increase. PacifiCorp's April filing projected an increase in rates of 2.1%. This filing states that overall net power costs have gone down, but that rates must increase due to a reduction in revenues from a loss of load due to the recession. Because the TAM does not include fixed capital costs, a reduction in load should reflect less dispatch of the Company's highest price resources, leading to lower per-unit power costs. A reduction in load, combined with low market prices for purchased power and fuel, would be expected to lead to lower power costs.

Somehow this is not the case for PacifiCorp. The TAM has become much more than the simple updating of a handful of costs and loads that drive cost increases or decreases that Ms. Omohondro testified to several years ago. It is a complicated modeling exercise that seems to go in one direction.

II. CUB's Proposed Adjustments

CUB's is recommending two adjustments in this surrebuttal testimony. First, CUB would like to reiterate its support for the continued inclusion of PacifiCorp's Condit hydro facility in the 2010 power cost forecast. Second, CUB would like to establish its

[2] UE 170/701/Omohondro/4.
[3] UE 208/PGE/100/Neiman-Tinker/1.
[4] PUC News Release, Natural Gas Price Relief Predicted, 7-7-2009.

support of Staff's methodology for adjusting the Company's Fuel Burn Expenses set forth in Staff/200.

A. Continued production from the Company's Condit facility.

PacifiCorp's hydro forecast is based on the assumption that the operating license for the Condit hydro facility will expire in October 2010. As stated in CUB/100/4, PacifiCorp historically assumes the annual expiration of the Condit facility license in October of each year. PacifiCorp has in fact extended this license each year. The end result is, of course, that the Condit facility is only forecast to operate for 9 months of each year, when it actually operates for 12 months of each year. This can be seen from the "Notes" entry for Condit in CUB Exhibit 103:

Begin Confidential Material

[redacted]

CUB Exhibit 103

This passage shows that PacifiCorp has forecasted the last day of operation for the plant on [redacted]. Given that the Company has continually forecasted the plant's closure, CUB sees no reason to believe that this year's forecast of the expiration of the license will be any more accurate than it has been in the past. Even if the plant is finally decommissioned this year, customers have already paid for its closure several times in recent years.

Table 1: Cost Calculations

Production MWh	Average Cost / MWh	Systemwide Adjustment	% Oregon	Total Oregon Adjustment
[redacted]	$55.77	$[redacted]	26.88	$[redacted]

CUB Confidential Exhibit 102 shows that the Condit facility license expiration results in the loss of [redacted] MWh of hydro production from the forecast each year. Using PacifiCorp's average cost of purchased power for the last three months of 2010, $55.27/MWh[5], the additional annual operation in the forecast will decrease systemwide power costs by approximately $[redacted]. As shown in Table 1, Oregon's share of this adjustment is approximately $[redacted]. CUB respectfully requests that the Commission adopt this adjustment in full.

End Confidential Material

B. Staff's Coal Cost Adjustments.

Staff has submitted a number of adjustments to PacifiCorp's Fuel Burn Expenses as part of Reply Testimony (Staff/200/Dougherty). These adjustments are necessary to prevent customers from being overcharged for fuel at three of PacifiCorp's coal-fired facilities: Dave Johnston, Bridger and Huntington.

The proposed change to the Dave Johnston plant relies on substituting a known, escalated current market price for coal from the Powder River Basin for PacifiCorp's forward market price projection. CUB has regularly voiced concerns about utilities using unverifiable forward price curves. Staff presents evidence that the spot market price has

[5] UE 207 / PPL / Exhibit 103.

held steady, making it a reliable indicator of future prices. Given the EIA's forecast of further declines in market coal prices in 2010 (see Staff Exhibit 204), it is wholly prudent to adopt Staff's spot price methodology as a more realistic indicator of the Company's market purchase price for this plant.

Staff also proposes adjustments to the Fuel Burn Expenses at the Bridger and Huntington plants based on the Commission's Lower of Cost or Market Standard. This standard states that goods and services transferred from affiliates (such as PacifiCorp's affiliated mining operations) to regulated utilities must be priced at the lower of cost or fair market rates. This standard is fundamental to protecting customers. Deals between utilities and their affiliates should not be used to increase profits to utility holding companies by overcharging customers for goods or services. Staff's calculations show that PacifiCorp's projections of coal prices from its affiliate mining operations at Bridger and Huntington are significantly greater than the average fair market price, including transportation adjustments. The market price should therefore be adopted as the price point for fuel for these plants. An adjustment in Fuel Burn Expenses to reflect this change in pricing should be adopted by the Commission; CUB finds any of the three options set forth by Staff[6] to be acceptable.

III. Conclusion

In this brief testimony CUB has described its two remaining issues in this docket. Regarding the production forecast for the Condit hydro facility, CUB reiterates that it is unfair for PacifiCorp to keep charging customers for the expiration costs of a plant license that is continually extended. Regarding Staff's adjustments to the Company's

[6] Staff/200/Dougherty/25.

Fuel Burn Expenses, the proposed changes are in accordance with Commission Order No. 01-472. CUB encourages the Commission to adopt both of these adjustments to PacifiCorp's 2010 power cost filing.

UE 207 – CERTIFICATE OF SERVICE

I hereby certify that, on this 23rd day of July, 2009, I served the foregoing **SURREBUTTAL TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UE 207 upon each party listed in the UE 207 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending an original and 5 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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