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May 26, 2010

Via Electronic Filing and U.S. Mail

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

#### RE: <u>Docket No. UE 219</u> – In the Matter of PACIFICORP, dba PACIFIC POWER Application to Implement the Provisions of Senate Bill 76.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Reply 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 219 Service List (parties)

# PUBLIC UTILITY COMMISSION OF OREGON

UE 219

# STAFF REPLY TESTIMONY OF

# **KELCEY BROWN**

In the Matter of PACIFICORP, dba PACIFIC POWER Application to Implement the Provisions of Senate Bill 76.

> REDACTED VERSION May 26, 2010

CASE: UE 219 WITNESS: Kelcey Brown

# PUBLIC UTILITY COMMISSION OF OREGON

# **STAFF EXHIBIT 100**

**Reply Testimony** 

May 26, 2010

# CERTAIN INFORMATION CONTAINED IN STAFF EXHIBIT 100 IS CONFIDENTIAL AND SUBJECT TO PROTECTIVE ORDER NO. 10-148. YOU MUST HAVE SIGNED APPENDIX B OF THE PROTECTIVE ORDER IN DOCKET UE 219 TO RECEIVE THE CONFIDENTIAL VERSION OF THIS EXHIBIT.

# Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

 A. My name is Kelcey Brown. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551. I am a Senior Economist in the Electric and Natural Gas Division of the Utility Program of the Public Utility Commission of Oregon (OPUC).

# Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/101.

#### Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

 A. First, I will discuss Staff's analysis of PacifiCorp's proposed surcharge and provide a recommendation of whether or not these rates are in the best interest of customers. Second, I will introduce Staff witness Ming Peng, who will provide Staff's supplemental testimony on the depreciation schedules on June 4, 2010. Third, I will provide a recommendation on PacifiCorp's request for a disclaimer of jurisdiction under ORS 757.480. Lastly, I discuss Staff's recommendation with regard to PacifiCorp's request that the refund provision currently contained in Schedule 199 be removed.

# Q. PLEASE INTRODUCE THE ADDITIONAL STAFF WITNESS IN THIS PROCEEDING?

A. Staff witness Ming Peng will provide testimony supporting the depreciation
schedules associated with the remaining investment of the JC Boyle, Copco 1,
Copco 2, and Iron Gate Dams and other eligible costs through July 14, 2009.

Ms. Peng will file supplemental testimony supporting these schedules on June 4, 2010.

#### **Summary Conclusions**

## Q. PLEASE PROVIDE A SUMMARY OF STAFF'S CONCLUSION WITH REGARD TO PACIFICORP'S PROPOSED SURCHARGE RATES.

A. PacifiCorp's estimate of costs associated with the relicensing scenario of the Klamath project seems high compared to previous estimates in its relicensing proceeding. However, Staff recognizes there is the potential that these relicensing costs could be even higher than PacifiCorp's current estimates, with customers bearing the sole responsibility of this cost risk. PacifiCorp's signing of the final agreement with Oregon, California, and the Department of the Interior associated with dam removal strikes the appropriate balance of reasonable cost and a manageable risk to customers. Therefore, at this time, Staff finds that PacifiCorp's proposed surcharge rates for dam removal are in the best interest of customers.

# Q. PLEASE PROVIDE A SUMMARY OF STAFF'S PROPOSED DEPRECIATION SCHEDULES.

A. Consistent with ORS 757.734, Staff's proposed depreciation schedules for the four facilities and other approved costs are based on the assumption that the facilities will be removed in 2020. The Commission may change the proposed depreciation schedules if removal of the dams is expected to occur in a year other than 2020.

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# Q. PLEASE PROVIDE YOUR RECOMMENDATION WITH REGARD TO PACIFICORP'S REQUEST FOR A DISCLAIMER OF JURISDICTION UNDER ORS 757.480.

A. Staff does not believe that the Commission should take action at this time on PacifiCorp's request for a disclaimer of jurisdiction under ORS 757.480. Given that the removal of the dams is still in question Staff does not believe that the timing of PacifiCorp's request is appropriate. Therefore, Staff recommends that the Commission not address whether ORS 757.480 applies to the removal of the dam, until such time that PacifiCorp actually decides on dam removal.

# Q. PLEASE PROVIDE YOUR RECOMMENDATION WITH REGARD TO PACIFICORP'S REQUEST TO MODIFY THE LANGUAGE IN SCHEDULE 199.

# A. Staff recommends that the Commission not approve PacifiCorp's request to remove the entirety of the refund provision currently contained in Schedule 199. Instead, Staff proposes a modification to the existing language.

#### **Background**

#### **Q. PLEASE PROVIDE AN OVERVIEW OF THE KLAMATH PROJECT.**

 A. The Klamath Project is a 169 megawatt (MW) hydroelectric facility on the Klamath River in southern Oregon and northern California. This Project includes the hydroelectric dams Iron Gate, Copco No.1, Copco No. 2, and J.C. Boyle. PacifiCorp filed its final license application to the Federal Energy Regulatory Commission (FERC) in February 2004, and continued to pursue settlement to resolve issues related to the Project license.

Staff/100 Brown/4

1		On November 13, 2008 PacifiCorp entered into an "Agreement in
2		Principle" (AIP) with the states of Oregon and California, and the Department of
3		the Interior. This AIP provided a framework for the transfer of the dams from
4		PacifiCorp to a designated removal entity (DRE), for the purpose of removing
5		the dams in 2020. Subsequently, on February 18, 2010, the parties signed the
6		Klamath Hydroelectric Settlement Agreement (KHSA) which describes:
7		implementation, studies and environmental review, costs and management of
8		funding for dam removal, local community power provisions, interim operations,
9		dam removal entity responsibilities, and general provisions.
10	Q.	PLEASE PROVIDE AN OVERVIEW OF SENATE BILL 76, AS IT
11		PERTAINS TO THE COMMISSION AND THIS PROCEEDING.
12	A.	On July 14, 2009 the Governor signed into law Senate Bill 76. This statute
13		required PacifiCorp to file a copy of the KHSA with the Commission within 30
14		days of execution, along with copies of certain studies and analyses relating to
15		removing or relicensing Project dams. ORS 757.736(1).
16		Within six months of the Company's filing of the KHSA, analyses, and
17		tariffs, the Commission must conduct a hearing under ORS 757.210 and enter
18		an order setting forth its decision on whether the imposition of the surcharges
19		results in fair, just, and reasonable rates. ORS 757.734(1).
20		Senate Bill 76 also requires the Commission to determine an
21		accelerated depreciation schedule for the Project within six months of
22		execution of the KHSA. ORS 757.734(1).
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1		Relicensing vs. Decommissioning	
2	Q.	PLEASE DISCUSS STAFF'S ANALYSIS WITH REGARD TO	
3		PACIFICORP'S DECISION TO DECOMMISSION VERSUS RELICENSE	
4		THE KLAMATH PROJECT.	
5	A.	Staff reviewed PacifiCorp's assessment of relicensing costs, and an overview	
6		and inventory of the analyses and studies related to the costs and risks of	
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		potential relicensing and dam removal outcomes.	
8	Q.	WHAT IS THE MOST IMPORTANT COMPONENT IN THE ANALYSIS	
9		WHEN LOOKING AT THE QUESTION OF WHETHER TO RELICENSE OR	
10		DECOMMISSION THE FACILITY?	
11	A.	When looking at relicensing the largest and most important cost estimate is the	
12		costs associated with the mitigation measures PacifiCorp might incur in	
13		obtaining the license for the Project. When looking at decommissioning,	
14		absent the cost of dam removal, the cost of replacement power is integral to	
15		the decision analysis.	
16	Q.	IS PACIFICORP'S ESTIMATE FOR REPLACEMENT POWER COSTS IN	
17		ITS DECOMMISSIONING SCENARIO REASONABLE?	
18	A.	Yes. PacifiCorp used an official forward price curve from its 2008 IRP in its	
19		estimate for replacement power costs in both the decommissioning and	
20		relicensing scenarios.	
21	Q.	WHAT IS PACIFICORP'S CURRENT ESTIMATE FOR MITIGATION	
22		COSTS ASSOCIATED WITH RELICENSING THE PROJECT?	

A. PacifiCorp's current estimate for relicensing mitigation costs is a second se

# Q. IS PACIFICORP'S ANALYSIS CONSISTENT WITH PREVIOUS ESTIMATES OF MITIGATION COSTS IDENTIFIED IN ITS RELICENSING PROCEEDING WITH FERC?

A. Yes and No. PacifiCorp's current analysis of the relicensing measures associated with the Klamath dam facilities are consistent with the measures prescribed by staff at FERC contained in the Final Environmental Impact Statement (FEIS) issued on November 16, 2007.<sup>2</sup> However, PacifiCorp's assessed costs for these mitigation measures are significantly higher than what was originally included in the FEIS.

#### Q. WHAT IS A FEIS?

A. The National Environmental Policy Act requires a FEIS when a federal agency's actions significantly affect the quality of the human environment.
More specifically, the FEIS is FERC staff's final assessment of the positive and negative environmental impacts of relicensing and proposed mitigation measures or alternative actions in order to address these impacts.

Q. DOES THE FEIS INCLUDE AN ESTIMATION OF THE COSTS

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ASSOCIATED WITH THESE MITIGATION MEASURES?

<sup>2</sup> For a copy of the FEIS use the following URL address:

<sup>&</sup>lt;sup>1</sup> See Confidential Exhibit PPL/202, Kelly/1.

http://www.ferc.gov/industries/hydropower/enviro/eis/2007/11-16-07.asp.

A. Yes. Using the Klamath Hydroelectric Project FEIS, Appendix A, table A-1, staff alternative plus mandatory conditions, Staff estimated relicensing mitigation costs at approximately \$219 million (in 2006 dollars).

# Q. IS STAFF AWARE OF ANY OTHER ESTIMATES OF MITIGATION COSTS ASSOCIATED WITH RELICENSING?

 A. Yes. The California Energy Commission (CEC), in cooperation with the U.S.
Department of the Interior, commissioned a study of the "Economic Modeling of Relicensing and Decommissioning Options for the Klamath Basin Hydroelectric Project." This study was prepared by M.Cubed and the U.S. Bureau of Reclamation Technical Services Center in November 2006.<sup>3</sup>

# Q. PLEASE PROVIDE A SUMMARY OF THE CEC STUDY ON RELICENSING AND DECOMMISSIONING COSTS.

A. At the time that the CEC prepared and filed its study on relicensing and decommissioning costs of the Klamath Project PacifiCorp had not yet entered into the AIP and was still attempting to resolve issues for relicensing of the Project. Several parties at that time, including the CEC, believed that decommissioning was the appropriate resolution. In support of this conclusion, the CEC published its study which showed that mitigation costs on a net present value basis ranged from \$100 million to \$192 million (in 2006 dollars). Altogether, the study found that the relicensing option could cost between \$230 and \$470 million in 2006 dollars over a 30 year period. This estimate includes

<sup>&</sup>lt;sup>3</sup> For copies of the CEC Original study, Addendum A and PacifiCorp's responses please see <u>www.ferc.gov</u> in the elibrary under Docket P-2082 using the provided dates.

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costs associated with on-going capital costs, continued operation and maintenance, and restricted power output due to relicensing measures.

In March 2007, PacifiCorp filed a response to the CEC report, refuting many of the CEC cost estimates and claiming significant modeling errors. The CEC filed an Addendum to its initial report in April 2007, recognizing many of PacifiCorp's corrections and posted a revised total relicensing cost estimate on a net present value basis of \$223 million to \$415 million, with a midline estimate of \$320 million.

PacifiCorp continued to refute the CEC study, including the Addendum. Using its own mitigation cost assumptions PacifiCorp claimed that, due to errors in the model and differences of opinion with regard to the appropriateness of specific mitigation costs, its midline estimate was approximately \$249 million on a net present value basis (in 2006 dollars).

# Q. ARE YOU ABLE TO COMPARE PACIFICORP'S CURRENT ESTIMATE OF RELICENSING COSTS WITH THE CEC ESTIMATES OR ITS OWN PREVIOUS ESTIMATES?

 A. No. PacifiCorp's analysis shows a 44-year present value of revenue requirement, which is not comparable to a 30-year present value estimate of capital costs only.

 Q. HAS PACIFICORP PROVIDED ANY ESTIMATION OF RELICENSING COSTS THAT ARE COMPARABLE TO THE CEC OR FEIS ESTIMATES?
A. Yes. As reported by PacifiCorp witness Corey Scott at PPL/300, Scott/6, PacifiCorp estimates mitigation costs to be in excess of \$400 million in capital

costs over a 40-year license term (in 2009 dollars). Comparably, the CEC study estimated that relicensing mitigation costs would be approximately \$397 million (in 2009 dollars) and the FEIS estimated relicensing costs at approximately \$232 million (in 2009 dollars).<sup>4</sup> Q. DID PACIFICORP DISCUSS THESE CHANGES IN ESTIMATES ASSOCIATED WITH RELICENSING MITIGATION COSTS IN **TESTIMONY?** A. No. PacifiCorp did not discuss any previous estimates for relicensing costs versus its current estimates. Q. DID PACIFICORP PERFORM SCENARIO ANALYSIS USING LOWER ESTIMATED RELICENSING COSTS? A. No. PacifiCorp only performed scenario analysis which contemplated higher potential relicensing costs, not lower. Q. DO YOU BELIEVE THE COMPANY'S CURRENT ESTIMATES FOR RELICENSING COSTS ARE REASONABLE? A. Yes. In Staff's judgment, these estimates are reasonable when taking into consideration the potential risk of costs being much higher. Q. HAS PACIFICORP ATTEMPTED TO QUANTIFY THE POTENTIAL RISKS ASSOCIATED WITH RELICENSING OF THE KLAMATH PROJECT?

<sup>&</sup>lt;sup>4</sup> The CEC estimate of \$397 million in 2009 dollars was calculated using a rate of inflation of 1.9 percent from the current 2006 estimate of approximately \$375 million. The FEIS estimate of \$232 million in 2009 dollars was calculated using a rate of inflation of 1.9 percent from the current 2006 estimate of approximate of approximately \$219 million.

A. No. PacifiCorp has not attempted to quantify the potential risks associated with relicensing of the Klamath Project. However, the Company correctly points out that increasing costs is a risk associated with relicensing. Q. HAS THE COMPANY INCLUDED CONTINGENCY COSTS IN ITS **RELICENSING COST ESTIMATE?** A. Yes. The Company included contingency costs of **Contract Sector** in its capital cost estimates. Q. SINCE PACIFICORP HAS ALREADY INCLUDED CONTINGENCY COSTS IN ITS CAPITAL COST ESTIMATES, WHAT ADDITIONAL RISKS DO **OREGON CUSTOMERS FACE IF PACIFICORP WERE TO CONTINUE TO** PURSUE RELICENSING OF THE KLAMATH PROJECT? A. One of the risks cited by PacifiCorp, at PPL/300, Scott/10, Lines 11-15, points out that were it to continue to pursue relicensing the Company faces the possibility that it cannot meet Section 401 water quality standards in order to receive certification from California or Oregon. Q. WHAT IS A SECTION 401 WATER QUALITY CERTIFICATION? A. A 401 water quality certification requires any applicant of a federal license to obtain certification from the applicable state that it will comply with the water quality parameters of the federal Clean Water Act. Q. WHAT ARE THE RAMIFICATIONS TO PACIFICORP IF ITS WATER QUALITY APPLICATION WERE DENIED? A. In the relicensing process at FERC a federal license may not be granted if a 23 section 401 water quality certification has been denied. In this instance, as

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stated by PacifiCorp, "FERC would be unable to issue a new license, yet maintains that it has the authority to require the owner to decommission and remove the project facilities at the owner's expense." (PPL/300/Scott/10/Lines 13-15)

# Q. HAS PACIFICORP FILED ITS 401 WATER QUALITY APPLICATIONS WITH THE STATE OF OREGON AND CALIFORNIA?

A. Yes. However, these applications are currently being held in abeyance as a condition of the KHSA agreement.

## Q. WHAT ISSUES HAVE BEEN RAISED WITH REGARD TO WATER QUALITY AT THE KLAMATH PROJECT?

A. Some of the complaints associated with the Klamath River are: excessive foaming, water discoloration, overabundance of algae, high water temperature, unsightliness, fish kills, and damaged ecosystems. The issues of greatest concern are the Klamath Project's impact on water quality issues affecting fisheries.

**Q. IF PACIFICORP WERE TO RECEIVE A NEW LICENSE WHAT** 

# ADDITIONAL MITIGATION COST RISKS DOES THE COMPANY FACE?

A. In the event that the initial measures prescribed by the FERC license are unsuccessful the Company is fiscally responsible for not only these failed attempts, but also for the new and more costly efforts that would have to be made. In addition, there are potential legal liabilities associated with the economic fallout of failure of the initial measures, e.g. salmon fishery closures and health problems with water quality issues. This onus of responsibility for

1		future problems and cost escalations is borne solely by the Company and its
2		customers.
3	Q.	DOES THE KHSA AGREEMENT, ENTERED INTO BY PACIFICORP
4		BENEFIT CUSTOMERS?
5	A.	Yes. The KHSA mitigates the risks associated with decommissioning and
6		removal of the facilities for PacifiCorp, and is therefore the least risky
7		alternative for customers compared to relicensing.
8		Refund Provision in Schedule 199
9	Q.	PLEASE DESCRIBE SCHEDULE 199.
10	A.	Schedule 199 includes two surcharges: (1) for the costs of removing the J.C.
11		Boyle Dam and (2) for the costs of removing Copco 1, Copco 2, and Iron Gate
12		Dams. These surcharges have been designed so that total annual collections
13		of the surcharges remain approximately the same during the collection period.
14		All amounts collected under Schedule 199 will be transferred to the trust
15		accounts established by the Commission under ORS 757.738.
16	Q.	CAN THESE SURCHARGE RATES BE CHANGED, TO TAKE INTO
17		CONSIDERATION POTENTIAL CHANGES IN THE FUTURE THAT MAY
18		AFFECT THE TOTAL COLLECTION?
19	A.	Yes. Under the Terms and Conditions of Schedule 199, it specifically states
20		that the surcharge rates may be adjusted at a future date, subject to
21		Commission determination. Considering the collection period spans
22		approximately 10 years it is important for the Commission and the Company to
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monitor changes in load growth and other factors that my impact the total Oregon contribution over this time period.

### Q. PLEASE DESCRIBE THE REQUEST BY THE COMPANY TO REMOVE THE EXISTING REFUND PROVISION CONTAINED IN SCHEDULE 199.

A. Schedule 199 currently contains a refund provision which states "pending review by the Commission as to whether the imposition of surcharges under the terms of the final agreement results in rates that are fair, just and reasonable or during any period of judicial review of such a finding. If the rates resulting from these surcharges are finally determined not to be fair, just and reasonable the surcharges shall be refunded pursuant to ORS 757.736, Subsection (5).<sup>\*5</sup> PacifiCorp would like to remove this language from Schedule 199 upon a determination that the dam removal surcharges result in rates that are fair, just and reasonable in this proceeding.

# Q. DOES STAFF RECOMMEND THAT THE COMMISSION APPROVE PACIFICORP'S REQUEST TO REMOVE THE LANGUAGE?

A. No. Staff recommends the Commission modify the language to exclude the first sentence as PacifiCorp requests, but to include a slight modification to the last sentence: "If the rates resulting from these surcharges are determined not to be fair, just and reasonable the surcharges shall be refunded pursuant to ORS 757.736, Subsection (5)."

- **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
- A. Yes.

<sup>&</sup>lt;sup>5</sup> See Advice No. 10-008, Oregon Schedule 199, Terms and Conditions.

CASE: UE 219 WITNESS: Kelcey Brown

# PUBLIC UTILITY COMMISSION OF OREGON

# **STAFF EXHIBIT 101**

**Witness Qualification Statement** 

May 26, 2010

#### WITNESS QUALIFICATION STATEMENT

NAME:	Kelcey Brown		
EMPLOYER:	Public Utility Commission of Oregon		
TITLE:	Senior Economist, Electric and Natural Gas Division, Resource and Market Analysis		
ADDRESS:	550 Capitol Street NE Suite 215, Salem, Oregon 97301-2115.		
EDUCATION:	All course work towards Masters in Economics University of Wyoming		
	B.S. University of Wyoming Major: Business Economics Minor: Finance		
EXPERIENCE:	Since November 2007 I have been employed by the Public Utility Commission of Oregon. Responsibilities include research, analysis and recommendations on a wide range of cost, revenue and policy issues for electric utilities. I have provided testimony in UE 199, UE 200, UE 207, UE 210, UM 1355, and UE 204. I have also filed comments on several dockets such as LC 47, UM 1466 and UM 1467.		
	From June 2003 to November 2007 I worked as the Economic Analyst for Blackfoot Telecommunications Group, a competitive and incumbent telephone provider in Missoula, Montana. I conducted all long and short term sales and revenue forecasts, resource acquisition cost- benefit analysis, business case analysis on new products and build- outs, pricing, regulatory support, market research, and strategic planning support.		
	From May 2002 to August 2002 I worked as an intern at the Illinois Commerce Commission in Springfield, Illinois. I performed competitive market analysis, spot market monitoring and pricing review, and extensive research on locational marginal pricing and transmission system incentives for development.		
	My course work, towards a Master's degree at the University of Wyoming, focused heavily on the regulatory economics of network industries such as electricity, natural gas, and telecommunications.		

UE 219	
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#### **CERTIFICATE OF SERVICE**

#### **UE 219**

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 26th day of May, 2010.

Balre

Kay Barnes Public Utility Commission Regulatory Operations 550 Capitol St NE Ste 215 Salem, Oregon 97301-2551 Telephone: (503) 378-5763