BEFORE THE PUBLIC UTILITY COMMISSION OF THE STATE OF OREGON

Docket No. UE-173

PACIFICORP

Power Cost Adjustment Mechanism ("PCAM")

Supplemental Response Testimony and Exhibit

October 2005

103 Omohundro
Testimony

Case UM-173
PPL Exhibit 103
Witness: Christy A. Omohundro

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

PACIFICORP

Supplemental Response Testimony of Christy A. Omohundro

Policy

October 2005

Q. Ms. Omohundro, have you previously offered testimony in this proceeding?

A. Yes. Direct and Rebuttal testimony was previously filed on my behalf.

Q. What is the purpose of your Supplemental Response testimony?

A. In large measure, the Supplemental testimony of Staff and Intervenors repeats arguments made in earlier rounds of testimony that were responded to in the Company's Rebuttal testimony. It is not my intention to repeat our responses here. Nonetheless, I feel compelled to state again in plain terms why the Company is seeking to implement a Power Cost Adjustment Mechanism ("PCAM"). I also wish to respond to Mr. Jenks' argument that the Company is already being compensated for underrecovery risk through its allowed rate of return and his statement that the Company's proposed PCAM is overly generous. I also address Mr. Gorman's assertion that PacifiCorp's allowed rate of return should be reduced if it is permitted to implement a PCAM. Finally, I explain the Company's position with regard to a dead band.

I must confess to some frustration at the contradictions in the positions taken by the other parties to this proceeding and the apparent obtuseness of some of their testimony.

Q. Please explain.

A. There seem to be two basic parts to the testimony offered by Staff and intervenors. In one part, they seek to demonstrate in various ways why existing regulatory mechanisms adequately protect the Company from material underrecovery of net power costs. In the other part, they suggest that a PCAM will afford a windfall to the Company and impose a substantial additional burden on customers.

For example, in his Supplemental testimony, Mr. Jenks asserts that the Company's recently-approved Transition Adjustment Mechanism ("TAM"), combined with the Company's ability to file deferred cost applications, is adequate to protect the Company's credit quality. Mr. Jenks also suggests that the Company has overstated its risk of underrecovery of power costs and that the Company's substantial losses over the last five years are somehow aberrational. But, in the next breath, Mr. Jenks characterizes the Company's proposed PCAM as a "lottery jackpot for shareholders" and expresses considerable concern that customers would be required to pay 70 percent of costs that are not otherwise recoverable by the Company (CUB 200/Jenks/4).

Similarly, Mr. Galbraith states in his Supplemental testimony that there is "considerable uncertainty" (Staff/300/Galbraith/6) as to whether the Company faces an asymmetric recovery problem, but then expresses considerable certainty that the proposed PCAM will result in a "large shift in risk to customers" (Staff/300/Galbraith/12).

Finally, Mr. Falkenberg continues to insist that the Company has provided "scarcely any justification" for a PCAM (ICNU/200/Falkenberg/3). He suggests that the Company's risk of underrecovery is symmetric (aka stochastic) and like Mr. Jenks, suggests that the TAM provides adequate protection. Yet, the other ICNU witness, Mr. Gorman, testifies that the proposed PCAM will significantly reduce the Company's risk of not earning its authorized rate of return. Mr. Gorman suggests that this reduction in risk should be offset by a .25 percent reduction in the Company's allowed rate of return. He characterizes this adjustment as "extremely conservative" and suggests that the Commission consider a "much higher" ROE adjustment.

Q. Why do you consider these positions contradictory?

A. Either there is a "problem" or there is not. If existing regulatory mechanisms are adequate, a PCAM would not place any additional cost burden on customers. If the Company does not have a material underrecovery of power costs in the future, the PCAM will not trigger. If the variability of net power costs is in fact symmetric, the PCAM will operate symmetrically and the customer benefits and burdens of the PCAM will equal out and customers will not be exposed to any increased risk.

The Company believes that there is indeed a problem. As documented by Mr. Widmer, over the last five years, the Company has absorbed hundreds of millions of dollars of power costs. The Company believes that notwithstanding the TAM, it faces a considerable risk of underrecovery in the future, and that absent a PCAM, it does not have a reasonable opportunity to earn its allowed rate of return. I strongly suspect that the other parties to this proceeding share this expectation, which is why they wish to preserve the *status quo* for as long as possible.

I found Mr. Gorman's testimony especially revealing in this regard. It demonstrates that ICNU understands that, absent a PCAM, the Company faces a significant risk of not earning its authorized return on equity. Perversely, ICNU's proposed remedy for a mechanism that will level the playing field is to move the goal posts.

Q. What is your response to Mr. Jenks' assertion that the Company is already being compensated for its underrecovery risk through its return on equity?

A. PacifiCorp's allowed rate of return is derived from the financial performance of various "comparable" utilities whose stock is publicly traded. PPL Exhibit 104, is a listing of the sixteen comparable Companies that Mr. Hadaway relied upon in arriving at an ROE recommendation in UE 170. Fourteen of the sixteen Companies have some means available to them for recovering power cost variability and all of the companies have an allowed return on equity in excess of the 10 percent established for PacifiCorp in UE 170[1].

Q. In light of this data, do you believe that Mr. Gorman's proposed ROE adjustment is reasonable?

A. No. If anything, this data would suggest that if PacifiCorp is denied a PCAM, its allowed return on equity should be increased by the amount of Mr. Gorman's proposed adjustment.

Q. Do you have any comments with regard to Mr. Jenks' suggestion that the Company's proposed mechanism is ridiculously generous without the TAM and absurdly generous with the inclusion of the TAM?

A. Yes. The Commission has adopted a recovery mechanism for Northwest Natural Gas Company that is similar in format to the combination of the Company's TAM and the proposed PCAM. For example, an annual forecast of gas costs subject to

[1] Published allowed ROE numbers were not available for three of the comparable companies.

review is included in rates for Northwest Natural, similar to the Company's TAM, which adopts an annual forecast of net power costs. In addition, gas cost variances from the level included in rates are tracked for Northwest Natural and 67 percent of the variance between costs in rates and actual costs is recovered from or returned to customers, similar to the Company's proposed PCAM. Further, as explained in Mr. Widmer's Rebuttal testimony, the Company's proposed mechanism is not as generous as those for Puget and Avista, as Mr. Jenks continues to suggest.

Q. Is the Company fundamentally opposed to a PCAM with a dead band?

A. No. The Company is open to a mechanism with a dead band that provides a reasonable level of sharing and recovery, but we do not agree that the mechanisms proposed by Staff and CUB would provide a reasonable level of recovery. For example, the 250 basis point annual dead band proposed by Staff is equivalent to approximately $142 million Total Company or $40 million Oregon, with significant cost sharing on top of that. These numbers are simply too large and would continue to result in significant financial harm to the Company, despite the Company prudently managing its system. In contrast, Puget Sound Energy's dead band is $20 million annually, capped at $40 million over four years. Once the cap has been reached, the company only bears 1 percent of cost variations from costs in rates.

Q. Does this conclude your Supplemental Response testimony?

A. Yes.

104 Omohundro
Exhibit

Case UM –173
PPL Exhibit 104
Witness: Christy A. Omohundro

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

PACIFICORP

Exhibit Accompanying Supplemental Response Testimony of Christy A. Omohundro

Study of Oregon Comparable Company Power Cost Trackers

October 2005

Study of Oregon Comparable Company Power Cost Trackers
(updated March 2005)

No.	Comparable Company	Operating Company by Jurisdiction	Power Cost Tracker (Yes or No)	Allowed ROE (if specified)
1	Ameren	CIPSCO (IL)	No	10.71%
2	CH Energy Group	Central Hudson G&E (NY)	Yes	10.3%
3	Cleco Corp.	CLeCO Power (LA)	Yes	12.25%
4	Con. Ed	Con. Ed. (NY)	Yes	10.3%
5	DTE Energy	Detroit Edison (MI)	Yes	11%
6	FPL Group	Florida P&L (FL)	Yes	--
7	MGE Energy, Inc.	Madison G&E (WI)	Yes	12%
8	Northeast Utilites	Public Svc. Co. of NH (NH)	No	--
9	NSTAR	Boston Edison (MA)	Yes	11.75%
10	Progress Energy	Pregress Energy Carolina (NC)	Yes	--
11	SCANA Corp.	South Carolina E&G (SC)	Yes	12.45%
12	Sempra Energy	San Diego G&E (CA)	Yes	10.90%
13	Southern Company	Southern Company	Yes	11.25 - 12.88%
14	Vectren Corp.	Southern Indiana G&E	Yes	11.25%
15	Wisconsin Energy	Wisconsin Electric Power Co.	Yes	12.20%
16	Xcel Energy	NSP-Minnesota (MN)	Yes	11.40%

206 Widmer Testimony

Case UM-173
PPL Exhibit 206
Witness: Mark T. Widmer

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

PACIFICORP

Supplemental Response Testimony of Mark T. Widmer

Net Power Costs

October 2005

Q. Are you the same Mark T. Widmer that filed direct and rebuttal testimony with the Company's original filing?

A. Yes.

Q. What is the purpose of your Supplemental Response testimony?

A. The purpose of my testimony is to address various issues raised by ICNU witness Mr. Falkenberg, CUB witness Mr. Jenks and Staff Witness Mr. Galbraith. I do not address all aspects of their testimony because some of it repeats arguments that were addressed in Rebuttal testimony.

Q. Is Mr. Falkenberg correct when he suggests that the Company's recently authorized Transition Adjustment Mechanism (TAM) can be thought of as a forward looking Power Cost Adjustment mechanism (PCAM)?

A. No. The TAM and PCAM are not the same. The TAM updates normalized net power costs for the most recent information that is available at a point in time, prior to the test period, and does not include any kind of true-up for actual cost variations. The Company still bears the asymmetric recovery risk because we recover normalized net power costs and bear the risks and rewards of deviations from actual results. In contrast, a PCAM would capture the variance between actual and normalized net power costs and share that variance between customers and shareholders. In other words, a PCAM addresses the substantial net power cost volatility that can occur between rate cases and the asymmetric recovery risk. The TAM does not.

Q. Please explain the types of events that can cause substantial net power cost volatility and cost increases between rate cases?

A. There are several events that can cause significant net power cost volatility. Those events separately, or in combination, include poor hydro conditions, thermal plant outages, extreme temperature and weather conditions, changes in the economy, transmission outages, market price spikes, changes in load, etc.

Q. Do you agree with Mr. Galbraith's and Mr. Jenks' suggestions that the data from the 2000/2001 energy crisis was anomalous and should not be used as evidence of an ongoing problem with normalized ratemaking?

A. No. While I agree that there were anomalous circumstances during the energy crisis that drove market prices to extreme levels, it is not possible to fully identify the impact of those circumstances – and that certainly wasn't the whole story. During this time, the region experienced the second worst water year on record, and the Company also experienced a major outage at its Hunter 1 generation facility. These factors all culminated during a period of high market prices for gas and electricity, and are clearly the very types of events that PCAMs are intended to address. Exclusion of the related data would be illogical. Even under less extreme market prices as those that existed during the energy crisis, it would have been very expensive for the Company to replace generation lost due to those events.

Q. Do you agree with Mr. Jenks that PPL Exhibit 201 should have included the impact of the 15% prudence disallowance which the Company stipulated to in UM 995?

A. Yes. However, even with the disallowance taken into consideration, the results would have painted the same picture for the Company – an asymmetric exposure to net power costs in the favor of customers.

Q. Does Mr. Galbraith's clarification of his phrase "primary form of ratemaking" change the general conclusion stated in your Rebuttal testimony regarding recovery of net power costs?

A. No. Even with a PCAM, the bulk of the Company's net power costs will be recovered through either a general rate case process or the TAM. Not a PCAM, as suggested by Mr. Galbraith.

Q. Both Mr. Galbraith and Mr. Jenks have suggested that QF costs should be treated as any other costs in terms of recovery. Did the recently enacted 2005 Energy Policy Act (EPAct) address this issue?

A. Yes. The EPAct requires that electric utilities recover all prudently incurred QF costs. Section 210 (m) (7) states:

> The Commission shall issue and enforce such regulations as are necessary to ensure that an electric utility that purchases energy or capacity from a qualifying cogeneration facility or qualified small production facility in accordance with any legally enforceable obligation entered into or imposed under this section recovers all prudently incurred costs associated with the purchase.

Q. Does this conclude your Supplemental Response testimony?

A. Yes.

**302 Duvall
Testimony**

Case UM-173
PPL Exhibit 302
Witness: Gregory N. Duvall

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

PACIFICORP

Supplemental Response Testimony of Gregory N. Duvall

Allocation Methodology

October 2005

Q. Are you the same Gregory N. Duvall that submitted direct and rebuttal testimony in this docket?

A. Yes.

Q. What is the purpose of your Supplemental Response testimony?

I will show that Mr. Wordley's recommendation to allocate net power costs using actual hydro output without adjusting the hydro endowment calculation is inconsistent with both the Revised Protocol and the Commission's recent order in UE 170 implementing the Transition Adjustment Mechanism (TAM). I will also address several statements made by Mr. Jenks that are misleading.

Q. Has Mr. Wordley changed his position from what he filed in direct testimony in this case?

A. Not from a conceptual point of view, although he has substituted the use of the SE factor for the SG factor in his recommendation.

Q. Has he introduced any new evidence to support his position?

A. No.

Q. Is his position reasonable?

A. No. He proposes to allocate increases in net power costs resulting from reductions in hydro output in two different ways, depending on the reason for the reduction in hydro output.

If hydro output reductions result from relicensing requirements or contract reductions, he proposes to allocate the increase in net power costs on a system-wide basis and reduce the benefit of the hydro endowment through the Embedded Cost Differential (ECD) calculation. In this case, his position is to use consistent hydro output assumptions to calculate both net power costs and the hydro endowment. This position is consistent with the Revised Protocol. The Company agrees with Mr. Wordley on this approach.

In contrast, if the hydro output reductions are due to the use of actual hydro data, he proposes to allocate the increase in net power costs system-wide without reducing the benefit of the hydro endowment. In other words, his proposal for allocating costs under a PCAM is to calculate net power costs using actual hydro data and calculate the hydro endowment using normalized hydro data. Mr. Wordley has presented no rationale for supporting this position which is inconsistent with the Revised Protocol. The Company disagrees with Mr. Wordley on this approach.

Q. If the Commission were to reject the Company's allocation proposal and adopt Staff's proposal in this docket, how can this inconsistency be remedied?

A. The Commission could remedy this inconsistency described above by requiring that the same hydro data be used to calculate both net power costs and the hydro endowment.

Q. Does the Commission have any new evidence to support such a position?

A. Yes. The Commission granted PacifiCorp a TAM in its order in UE 170. The TAM adjustment uses the same hydro data for calculating net power costs and the hydro endowment. This is consistent with the Revised Protocol.

Q. **On page six of his supplemental testimony, Mr. Jenks says that the Company's proposed allocation method results in increased hydro-related costs being allocated to Oregon. Is his contention correct?**

A. No. The Company's proposal does not result in increased hydro-related costs being allocated to Oregon. Net power costs based on actual hydro output could be higher or lower than net power costs based on normalized hydro output. The Company's proposal assigns the risk of variations in hydro output to Oregon in a manner consistent with the allocation of hydro costs and benefits in the Revised Protocol.

Q. **On page five of his supplemental testimony, Mr. Jenks argues that Dr. Marc Hellman's testimony in UM 1050 addressed non-normalized hydro, and it supported the approach that such costs are a system cost. Is this a fair representation of Dr. Hellman's testimony?**

A. No. First, in other portions of his testimony, Mr. Jenks claims that the Revised Protocol did not address non-normalized hydro, so it is unclear why he implies Dr. Hellman addressed non-normalized hydro in his testimony in UM 1050. More importantly, Dr. Hellman's testimony supported the Revised Protocol treatment of lost hydro generation, which has two components. First, replacement costs are allocated system-wide and second, the benefit of the hydro endowment is reduced to reflect the reduction in hydro output. Dr. Hellman made no alternate recommendation for the treatment of reduced hydro output when using non-normalized hydro output.

Q. Mr. Jenks refers to the Revised Protocol as a negotiated settlement and Mr. Wordley refers to it as a package deal. Both of them infer that the Company is proposing to change the deal. Is this a reasonable claim?

A. No. It is interesting to note the both Mr. Jenks and Mr. Wordley also claim that the Revised Protocol does not address non-normalized cost. In other words, all parties seem to agree that there was no deal on non-normalized costs. The Company's proposal is meant to apply the principles of the Revised Protocol to non-normalized costs.

Q. Mr. Jenks indicates that the use of the hydro system for reserves reduces the volume of hydro that is available to serve load. Is this correct?

A. No.

Q. Mr. Jenks states that Oregon did not receive the benefits of hydro as a protection from Utah load growth. Is this true?

A. No. The hydro endowment included in the Revised Protocol provides protection from Utah load growth.

Q. Mr. Jenks states that under the Revised Protocol, as Utah grows, the cost of that load growth is allocated to Oregon based on Oregon's share of the overall system. Is this true?

A. No. On October 20, 2005, the Company filed its Load Growth Report with the Commission, as required by the Revised Protocol. This study concludes that Utah is paying 100 to 106 percent of incremental revenue requirement associated with its excess load growth. The October 20 report shows that Oregon pays none of the cost of Utah load growth.

Q. What does Mr. Jenks recommend for allocating the costs of hydro variation?

A. He recommends the costs of hydro variation be allocated system-wide based on actual monthly load.

Q. Is Mr. Jenks' recommendation reasonable?

A. No. Like Mr. Wordley, his recommendation is to calculate net power costs using actual hydro output and calculate the hydro endowment using normalized hydro output. This inconsistency can be remedied, as describe above, by using actual hydro output for both net power costs and the hydro endowment.

Q. Does this conclude your supplemental response testimony?

A. Yes.