

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 191

In the Matter of)

PACIFICORP,)

PacifiCorp's 2008 Transition Adjustment)
Mechanism.)

REPLY TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

June 27, 2007



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PACIFICORP,) REPLY TESTIMONY OF
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1 My name is Bob Jenks, and my qualifications are listed in CUB Exhibit 101.

2 **I. Introduction**

3 PacifiCorp's 2008 annual variable power cost update, the Transition Adjustment
4 Mechanism (TAM), is a reasonably straight-forward update of the Company's energy
5 costs. We are, however, concerned that PacifiCorp is proposing changes that are beyond
6 the limited scope of its TAM. We recommend that the Commission reject the
7 Company's proposed modeling changes, and reject a Company addition of Hermiston
8 wheeling losses to its July TAM update. We further recommend that the Commission
9 require PacifiCorp to fully update those variable power costs included in the TAM by
10 recalculating the embedded cost differential with the updated TAM power costs. This
11 would update the variable power cost component of the hydro endowment, and result in a
12 better variable power cost forecast. Finally, we recommend that the Commission require
13 PacifiCorp to include, with its final transition adjustment filing on November 14th, a

1 simple benchmark analysis comparing the Company's internally-generated forward
2 electricity and natural gas price curves with curves produced by independent parties.

3 **II. The Limited Scope Of The TAM**

4 Rather than adjust all costs in general rate cases, PacifiCorp asked the
5 Commission for an annual power cost update, the TAM, two years ago. While the TAM
6 was justified as a tool to allow direct access, both the Company and the Commission
7 applied the TAM to all classes of customers. As a limited, annual update mechanism,
8 TAM rate cases are shorter than general rate cases, customer groups only get one round
9 of testimony, and some cost updates are filed not only after the parties' testimony, but
10 even after the Commission's decision in the case. For these reasons, the TAM is
11 supposed to be a limited filing, circumscribed by a given set of boundaries.

12 In PacifiCorp's proposal in UE 170 for its annual power cost update, the
13 Company describes the variables to be updated:

14 **Q. Please explain the data that will be included in the April filing.**

15 A. The April filing will include testimony and exhibits presenting
16 estimated net power costs based on an updated GRID model run. The
17 net power costs will incorporate the following updates:

- 18 • Forward price curve
- 19 • Forecast loads
- 20 • Normalized hydro generation
- 21 • Forecast fuel prices
- 22 • Contract updates
- 23 • Heat rates, forecast planned outages, and de-rates
- 24 • Wheeling expenses
- 25 • New resource acquisitions (new wholesale sales and purchases)
- 26 • State allocation factors

27 The testimony submitted in the April filing will also include an
28 explanation of the primary drivers of variations in net power costs since

1 the last approved filing, a comparison of existing and estimated
2 customer rates, and a review of PacifiCorp's compliance with prior
3 Commission orders.

4 **Q. Please describe the mid-case net power cost update proposed for**
5 **the annual proceedings.**

6 A. In July, PacifiCorp will update limited elements of the Company's net
7 power costs:

- 8 • Forward Price Curve
- 9 • New Wholesale Sales and Purchases or contract amendments
- 10 • Heat rates, forecast planned outages, and de-rates

11 **Q. Please describe the net power cost update at the end of the**
12 **proceeding.**

13 [A.]The Company will update net power costs around October 1,
14 incorporating changes to:

- 15 • Commission Ordered net power costs
- 16 • Executed Wholesale Sales and Purchases through September 15

17 **Q. How will the Company update power costs just prior to the**
18 **Transition Adjustment window?**

19 A. This final net power cost update will reflect the latest forward price
20 curve.

21 UE 170 PPL/700/Omohundro/11-12.

22 Despite this clearly laid-out scope, PacifiCorp, for its 2008 TAM, is proposing
23 updates beyond those stated above. Our past experience with PGE's annual power cost
24 update, the RVM, has made us particularly sensitive to the possibility that the scope of
25 the Company's annual power cost update may be creeping beyond its defined boundaries.
26 In this docket, we object to the Company's proposals that go beyond the agreed to, and
27 clearly-scheduled adjustments described above. While the dollars at stake with the
28 inappropriate adjustments in this case are small, the principle is large. The TAM must
29 have a clear set of parameters, and the Company and the parties must live within them.

1 **A. GRID Modeling Changes**

2 PacifiCorp proposes two changes to its GRID model this year.
3 PPL/200/Widmer/8. Such changes are not part of the TAM's limited scope. Though we
4 appreciate that these changes lower the Company's forecast of variable power costs, our
5 sensitivity to the exclusion of modeling changes for the utilities' annual power cost
6 updates leads us to conclude that these changes should not be allowed on the grounds that
7 they are inappropriate for a TAM filing. We recommend that the Commission exclude
8 these modeling changes from the TAM, and require the Company to propose such
9 changes in a general rate case.

10 **B. Hermiston Wheeling Losses**

11 CUB Exhibit 102 is PacifiCorp's supplemental response to ICNU data
12 request 1.9. In its response, the Company describes \$3.7 million worth of wheeling
13 losses that the Company omitted from its April TAM filing, but that the Company plans
14 to include in its July TAM update. Such an update is not appropriate for a July filing and,
15 in combination with the GRID modeling changes, we find that our guard is up.

16 The reason to limit the variables to be updated in April, and then further limit
17 what can be updated after the April filing, is that the TAM has a tight time schedule
18 relative to that of a general rate case. Also, as the number of annual, non-rate-case
19 regulatory proceedings expands, it becomes increasingly important to keep these
20 processes within their defined scope. While the amount of money at stake in the
21 Hermiston wheeling omission is not large, we recommend that the Commission reaffirm
22 the limited basis of each TAM filing, and reject this correction as inappropriate for the
23 July update.

1 **III. The Hydro Endowment**

2 In our examination of the Company's case in this TAM filing, it came to our
3 notice that PacifiCorp is not fully updating the power costs that are to be updated in the
4 annual TAM proceeding. When updating the Company's variable power costs and the
5 state allocation factors as they related to variable power costs in this filing, PacifiCorp
6 does not update the hydro endowment as it relates to the specific variables that are
7 updated in the TAM. This is important, as an increase in fuel and other power costs
8 increases the value of the hydro endowment, and those are the factors that are driving the
9 proposed rate increase in this docket. In PacifiCorp's Testimony in this case, the
10 Company describes the primary drivers of the variable power cost increase as:

11 The five primary drivers of the cost increases are higher coal prices,
12 higher gas costs, the expiration of the 2007 TAM cap, expiring purchase
13 power contracts and system load growth.

14 PPL/200/Widmere/2.

15 Though the Company has updated the state allocation factors, it has not fully
16 updated the fuel costs and purchased power costs, because the impact of these variables
17 on the hydro endowment, as calculated by the embedded cost differential, has not been
18 updated. In the Company's filing in its UE 170 rate case, the Embedded Cost
19 Differential Calculation includes the following:

- 20 • Accounts 500-514 Steam Operation & Maintenance Expense; and
21 • Account 555 Other Purchased Power Contracts

22 UE 170 PPL/403/Taylor/1.

23 We do not propose updating the hydro endowment for any variable not included
24 in the TAM (*i.e.* not included in the quote from PacifiCorp's UE 170 Testimony provided
25 earlier). However, a full update of state allocation factors, fuel costs, and purchased

1 power costs necessarily includes an update to the appropriate variables in the embedded
2 cost differential.

3 **IV. Forward Price Curves**

4 We have expressed concern in numerous past dockets about the utilities' use of
5 internally-generated forward electricity and natural gas price curves in their annual power
6 cost updates. The forecast of electricity and natural gas prices used in the Company's
7 annual power cost update will have a significant impact on the rates charged to
8 customers. Due to the timing constraints of direct access, the forward price curves upon
9 which rates are actually based are generated both after Staff and the parties have
10 completed their examination of the Company's filing, as well as after the Commission's
11 order authorizing rates based upon those curves to go into effect.

12 It is unwise to leave such a critical component of customer rates subject to so
13 little, if any, review. In order to increase transparency and provide an automatic check of
14 the Company's forward curves in its final TAM filing, we recommend that the
15 Commission require PacifiCorp to include at least two independently-produced forward
16 electricity and natural gas price curves with its final filing. The Company should also
17 include a chart or table demonstrating, month-by-month, the difference between the
18 Company's internally-generated curves and those of the independent parties. Any
19 deviation of 5% or greater should be explained in the filing. As the Company most likely
20 uses such curves and such a comparison in developing its own curves, the amount of
21 work involved should be negligible.

22 Beside the automatic check of the reasonableness of the Company's forward price
23 curves, another advantage of including such an analysis with the Company's filing would

1 be that any problem in the internally-generated curves would be more readily apparent,
2 and, given the tight timing requirements of direct access, more quickly addressed.

3 **V. Conclusion**

4 CUB recommends that the Commission:

- 5 • Reject PacifiCorp's changes to its GRID model as inappropriate for a TAM
6 filing;
- 7 • Reject the Company's inclusion of Hermiston wheeling losses as inappropriate
8 for the July TAM filing;
- 9 • Require the Company to fully update its variable power costs by updating the
10 embedded cost differential calculation, and thereby the hydro endowment, for
11 those variables that are updated in the TAM; and
- 12 • Require PacifiCorp to file, with the Company's final TAM update, at least two
13 independently-produced forward electricity and natural gas price curves, a
14 month-by-month quantification of the difference between PacifiCorp's forward
15 price curves and those of the independent parties, and an explanation wherever
16 that difference is 5% or greater.

WITNESS QUALIFICATION STATEMENT

NAME: Bob Jenks

EMPLOYER: Citizens' Utility Board of Oregon

TITLE: Executive Director

ADDRESS: 610 SW Broadway, Suite 308
Portland, OR 97205

EDUCATION: Bachelor of Science, Economics
Willamette University, Salem, OR

EXPERIENCE: Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 172, UE 173, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, and UM 1209. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates.

Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.

MEMBERSHIP: National Association of State Utility Consumer Advocates
Board of Directors, OSPIRG Citizen Lobby
Telecommunications Policy Committee, Consumer Federation of America
Electricity Policy Committee, Consumer Federation of America

UE-191/PacifiCorp
June 19, 2007
ICNU 1st Set Data Request 1.9 1st Supplemental

ICNU Data Request 1.9

Please provide the system level loss factors assumed in GRID in the most recently completed Utah, Oregon, and Washington rate cases.

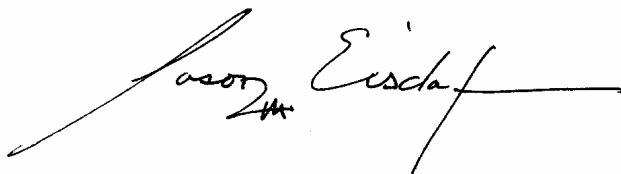
1st Supplemental Response to ICNU Data Request 1.9

The Company has recently discovered that in the filed net power cost calculation, the losses related to wheeling generation from the Hermiston plants to load centers have been inadvertently omitted. As a result, the net power costs have been understated by approximately \$3.7m. The correction will be incorporated in the July 25, 2007 TAM update.

CERTIFICATE OF SERVICE

I hereby certify that on this 27th day of June, 2007, I served the foregoing Reply Testimony of the Citizens' Utility Board of Oregon in docket UE 191 upon each party listed below, by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,



Jason Eisdorfer Attorney #92292
The Citizens' Utility Board of Oregon

W=Waive Paper service, C=Confidential, HC=Highly Confidential

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