

UE 191
PPL/204/
Widmer

Received at Hearing
Date: 8/10/07

Errata to PPL/204

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AUG 10 2007

**Public Utility Commission of Oregon
Administrative Hearings Division**

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8-13-07

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1 | **Overstatement of Value of Margin**

2 | **Q. How is Mr. Wordley defining wholesale margin?**

3 | A. Mr. Wordley defines wholesale margin as the average price per megawatt hour of
4 | short-term firm and nonfirm sales, less the average price per megawatt hour of
5 | short-term firm and non-firm purchases.

6 | **Q. Do you agree with this definition?**

7 | A. No. Typically, a wholesale margin is connected to wholesale trading, where a
8 | company buys energy that it intends to sell to generate a margin. Mr. Wordley is
9 | improperly applying the concept of margin to the Company's short-term
10 | transactions, the majority of which are balancing transactions where the Company
11 | is either buying or selling energy to cover a short position or to reduce a long
12 | position to balance the system.

13 | **Q. What margin does Mr. Wordley propose in his adjustment and how does this**
14 | **compare to the Company's historical wholesale margins?**

15 | A. Mr. Wordley's wholesale margin adjustment would produce a wholesale margin
16 | of \$5.43 per megawatt hour if adopted, based on the Company's filed case, which
17 | now includes a \$2.92 margin. In comparison, actual margins per megawatt hour
18 | for calendar years 2002 through 2006 were (\$2.41~~2~~), \$.08, (\$3.03), (\$4.75) and
19 | \$1.59.¹ Thus, the adjustment does not reflect the actual information upon which it
20 | purports to be based.

¹ The following are the total sales and purchases on which these margins are based:
2002: Sales-\$617,419,752; Energy-\$22,627,158 MWh; Average Price-\$27.29
Purchases-\$678,978,961; Energy-22,859,398 MWh; Average Price-\$29.70
2003: Sales-\$740,392,188; Energy-\$18,814,901 MWh; Average Price-\$39.35
Purchases-\$656,264,254; Energy-\$16,710,040 MWh; Average Price-\$39.27

1 **Mismatches Inherent in the Margin Adjustment**

2 **Q. Does the proposed adjustment create significant problems with the mismatch**
3 **of costs and benefits?**

4 A. Yes. There are at least three ways in which the proposed wholesale margin
5 adjustment violates the regulatory principle of matching in a manner that is
6 prejudicial to PacifiCorp.

7 • There are different resources included in the actual results than in GRID filed
8 net power costs. Similarly, certain resource costs are excluded in the
9 normalized net power costs even though these costs were incurred to generate
10 actual wholesale sales or offset actual wholesale purchases.

11 • There are different resource planned maintenance schedules in actual
12 operations than were in GRID due to the 48-month normalization method.

13 • The adjustment combines general rate and TAM case results, even though the
14 TAM updates wholesale transaction volumes throughout the year, leading to a
15 more accurate forecast, while a rate case does not.

16 **Q. Does the development of the wholesale margin adjustment from Dockets UE**
17 **170 and UE 134 violate the regulatory principle of matching?**

2004:	<u>Sales-\$931,783,050; Energy-\$21,950,084 MWh; Average Price-\$42.45</u>
	<u>Purchases-\$906,980,291; Energy-\$19,940,246 MWh; Average Price-\$45.48</u>
2005:	<u>Sales-\$1,224,842,304; Energy-\$22,669,497 MWh; Average Price-\$54.03</u>
	<u>Purchases-\$1,093,436,691; Energy-18,601,461 MWh; Average Price-\$58.78</u>
2006:	<u>Sales-\$1,846,626,450; Energy-\$34,387,824 MWh; Average Price-\$53.70</u>
	<u>Purchases-\$1,518,140,121; Energy-\$29,132,315 MWh; Average Price-\$52.11</u>

1 **Q. Mr. Falkenberg claims that the removal of the contracts lowered net power**
2 **costs. Is that the case in the Company's updated net power costs?**

3 A. No. Two of the contracts used in Mr. Falkenberg's adjustment lower the net
4 power costs when they are dispatched and would ~~reduce~~increase net power costs if
5 removed. Therefore, customers are receiving a benefit from these contracts in
6 addition to the reliability benefit they receive.

7 **Q. What is the impact of the other three call option contracts?**

8 A. When the remaining call option contracts used in Mr. Falkenberg's adjustment are
9 removed from the GRID calculation, the Company's net power costs decrease.
10 Therefore, the Company proposes to remove these contracts from the Company's
11 final TAM calculation as long as that is still the case when the final update is
12 completed. If their removal does not lower net power costs, they should not be
13 removed.

14 **Q. What other adjustment may the Company make regarding the call option**
15 **contracts?**

16 A. Following the same logic, the Company may also remove the premium payments
17 when those in-the-money contracts are not dispatched. At the current time,
18 removing those three contracts and a portion of the premium payments of the
19 other two contracts, lowers net power costs by approximately \$5.3 million on total
20 Company basis. The value of the adjustment will be based on the Company's
21 final net power costs update.

1 the mean and the median would be equal. However, as Mr. Falkenberg correctly
2 points out, the distribution of hydrologic generation data is asymmetric. Thus, it
3 would be inappropriate to use the mean rather than the median to define the
4 central tendency of hydro generation data. Again, the issue is not a question of
5 accuracy, but a choice of the best statistic to use to define the central tendency.

6 The Company believes that the median rather than the arithmetic mean
7 provides the best predictive result for any future year. All values above the
8 median have the same probability of occurrence (50 percent) as do all of the
9 values below the median. In a small sample, such as 40 measures of the annual
10 hydro generation, the mean can be affected by the magnitude of a single extreme
11 event.

12 As an example, consider the Lewis River historical generation. Exhibit
13 206 shows the mean and the median value of the historical generation calculated
14 with and without the extreme years (above and below the 90th percentile). The
15 effect of excluding the extreme years on the mean hydro generation is a shift of
16 190.6 megawatt ~~hour~~days, while the impact on the median is unaffected. By
17 selecting the median rather than the arithmetic mean as the third point and
18 measure of central tendency, there is some assurance of stability in the hydro
19 generation distribution, with changes generally affecting the upper and lower
20 bounds.

21 **Q. Is Mr. Falkenberg's mean hydro adjustment calculation incorrect?**

22 **A.** Yes. First, Mr Falkenberg substitutes the "mean" hydro generation impact in the
23 calculation using a flawed linear regression approach. Second, he inappropriately

1 | A. No. The Company's GRID modeling produces 44,945.1 million megawatt hours
2 of coal generation, which exceeds the actual 48-month period ended December
3 2006 amount of 44.6 million megawatt hours. Therefore, the Company's
4 generation modeling is generous if anything.

5 **Q. Do you agree with Mr. Falkenberg's claim that the Company's adjustment is**
6 **trivial?**

7 A. No. This is a substantial cost incurred to serve customers that should be
8 recoverable.

9 **Q. What is your recommendation for Mr. Falkenberg's adjustment?**

10 A. The proposed adjustment should be rejected because the Company's adjustment is
11 not one-sided, is not trivial and our modeling is appropriate.

12 **ICNU Adjustment - Reverse DJ-3 Derate**

13 **Q. Please explain Mr. Falkenberg's proposal to reverse the Company's rerating**
14 **of the Dave Johnston Unit 3 generation plant.**

15 A. The proposed adjustment would increase the Company's official re-rated net
16 generation capability of 220 megawatts to 230 megawatts. Mr. Falkenberg
17 believes the adjustment is appropriate because at times the unit runs above the 220
18 megawatt level. The adjustment would reduce proposed net power costs by \$2.71
19 million total Company.

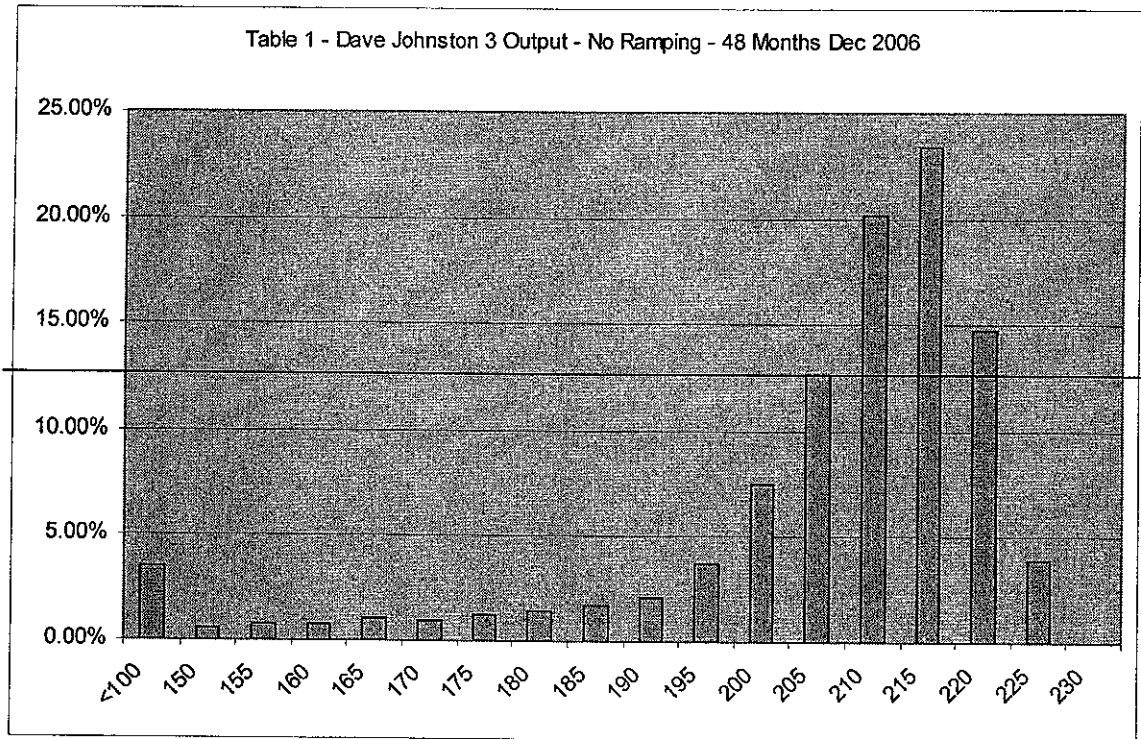
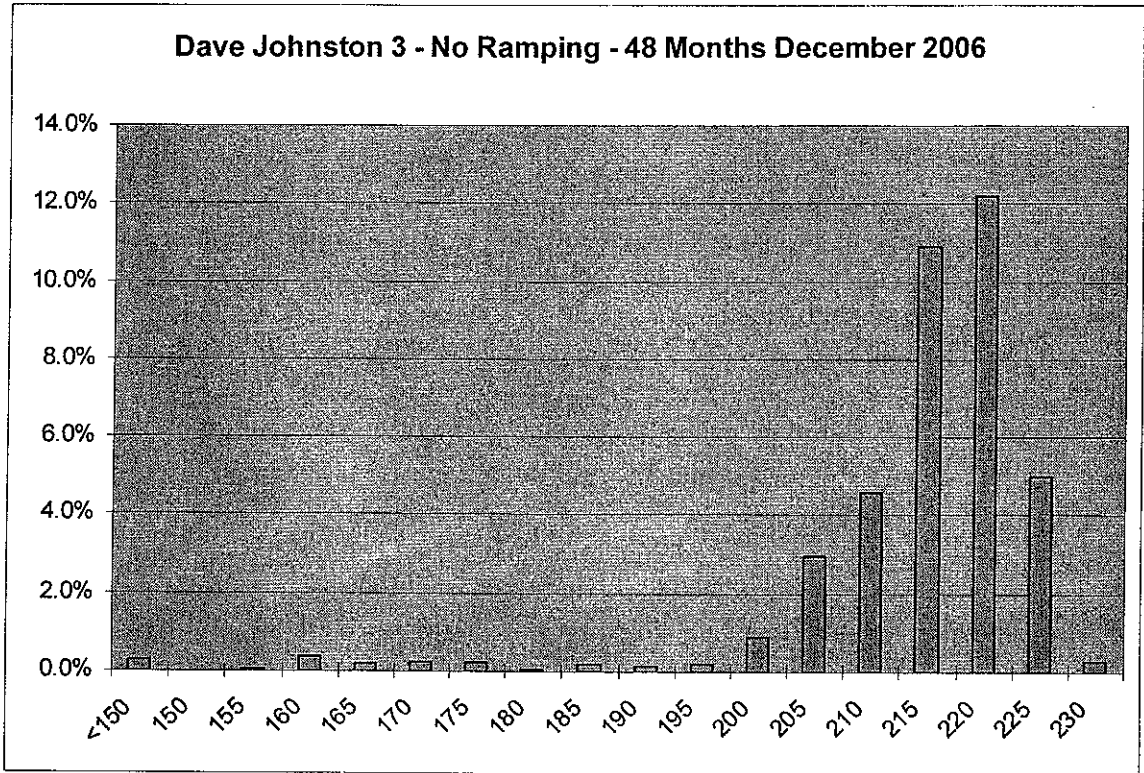
20 **Q. Mr. Falkenberg claims that the Company's de-rate adjustment to Dave**
21 **Johnston 3 is not warranted. Do you agree with that assertion?**

22 A. No. The unit is limited by state law to 1.2 lb/MM Btu of SO2 emission as long as
23 the heat input is below 2500 MMBtu/hour. If the unit exceeds the 2500 MMBtu

1 heat input number, a reduction in the SO₂ emission rate is triggered to 0.5lb/MM
2 Btu SO₂. Through analysis, the Company determined that running the unit at the
3 2500 MMBtu/hour heat input, the unit produces approximately 220 megawatts of
4 net generation. If the Company triggers the 0.5 lb/MMBtu SO₂ emission limit,
5 the Company either has to build a scrubber or find a lower sulfur coal source.
6 There are no plans to build a scrubber by the end of the test period and the
7 Company is already burning among the lowest sulfur source coals available.

8 **Q. Mr. Falkenberg states that in the last four years, the level of generation at the**
9 **Dave Johnston 3 unit has exceeded the 220 megawatt level approximately**
10 **5900 hours and by nearly 1800 hours in 2006. Did the Company exceed the**
11 **state imposed emission limit in these hours?**

12 A. No. The Company reviewed the 48-month historical generation levels ending
13 December 2006, consistent with the data used to determine the thermal de-rates
14 included in GRID. The Company found that over the last two years of the data,
15 the generation level was above 220 megawatts, on average, approximately 3.95.0
16 percent of the time, as shown on Table 1 below. During these hours, the level of
17 generation was on average 225 megawatts or less. This is due to variations in the
18 sulfur content of the coal source. Through the Company use of targeting the SO₂
19 emission limit, the level of generation could slightly be above 220 megawatt a
20 limited amount of time but not consistently.



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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing **Errata to Widmer Testimony** in Docket UE 191 on the following named person(s) by hand delivery on the date indicated below.

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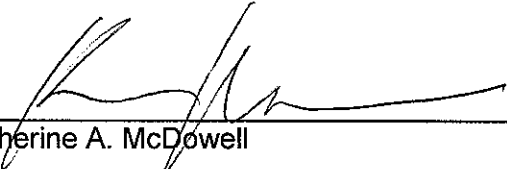
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DATED: August 10, 2007



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