BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 207

In The Matter: PACIFICORP, dba PACIFIC POWER 2010 Transition Adjustment Mechanism Schedule 200, Cost-Based Supply Service	

STAFF-PACIFICORP-CUB-ICNU-SEMPRA

JOINT TESTIMONY IN SUPPORT OF STIPULATION

WITNESSES: KELCEY BROWN, GREG DUVALL, BOB JENKS,
GORDON FEIGHNER, RANDALL J. FALKENBERG, AND
KEVIN C. HIGGINS

September 25, 2009

INTRODUCTION

Q. Who is sponsoring this testimony?

A. This testimony is jointly sponsored by Staff of the Public Utility Commission of Oregon ("Staff"), PacifiCorp (or the "Company"), the Citizens' Utility Board of Oregon ("CUB"), the Industrial Customers of Northwest Utilities ("ICNU"), and Sempra Energy Solutions LLC ("Sempra"). In this Joint Testimony, the parties are referred to collectively as the "Parties."

Q. Please state your names.

A. Kelcey Brown, Greg Duvall, Bob Jenks, Gordon Feighner, Randall J. Falkenberg and Kevin Higgins. Ms. Brown's qualifications are set forth in Exhibit Staff/101, Brown/1; Mr. Duvall's qualifications are set forth in PPL/100, Duvall/1; Mr. Jenks' and Mr. Feighner's qualifications are set forth in Exhibit CUB/101; Mr. Falkenberg's qualifications are set forth in Exhibit ICNU/101; and Mr. Higgins' qualifications are set forth in SES/100, Higgins/1–2.

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the stipulation filed in this proceeding on September 25, 2009 ("Stipulation"), between Staff, CUB, ICNU, Sempra, and PacifiCorp (referred to hereinafter jointly as the "Parties" and individually as a "Party").

Q. Does the Stipulation resolve all contested issues in this proceeding?

A. Yes. The Stipulation is a comprehensive settlement of all issues in the Company's 2010 Transition Adjustment Mechanism ("TAM") filing. The purpose of the TAM filing is to update net power costs ("NPC") for 2010 and to set transition adjustments for Oregon customers who choose direct access in the November 2009 open enrollment window.

In addition to resolving all issues in the 2010 TAM, the Stipulation includes provisions that: (1) resolve issues related to the TAM Guidelines that were the subject of testimony in UE 210, the Company's general rate case proceeding; (2) clarify that certain of the TAM Guidelines are to be applied in a symmetrical manner; (3) resolve that implementation of any changes to NPC that may result from the Commission's decision in UM 1355 will be reflected in NPC beginning with the Company's next TAM or general rate case filing; and (4) address the Company's application for an accounting order regarding coal stripping costs, docketed as UM 1448.

Q. Have all Parties to the proceeding signed on to the Stipulation?

A. Yes.

Stipulated 2010 NPC Revenue Increase

Q. What was the Company's proposed increase to NPC revenues prior to this settlement?

A. The Company's March 30, 2009 TAM filing reflected an increase of approximately $20.6 million over the $252.4 million NPC revenues expected to be recovered in Oregon rates in 2010 based on rates for 2009 set in UE 199 adjusted for the loss of retail load. On August 11, 2009, the Company filed an update and corrections that resulted in a decrease of $0.6 million from the March 30, 2009 filing. The total revenue increase resulting from the August update was approximately $20.0 million.

Q. What do the Parties agree with respect to the Company's proposed 2010 TAM NPC revenue increase?

A. The Parties agree to reduce PacifiCorp's proposed increase in NPC revenues in the August 2009 update filing to $4.0 million on an Oregon-allocated basis. As shown in Exhibit A to the Stipulation, this equates to 2010 NPC of $1.031 billion on a total-company basis, and $256.4 million on an Oregon-allocated basis. This overall rate increase prior to the updates to be filed on November 9 and 16, 2009, described below, is approximately 0.4 percent.

Q. Will the stipulated increase be subject to the updates to NPC scheduled to be filed in this proceeding on November 9, 2009 and November 16, 2009?

A. Yes. The stipulated increase will be updated for the NPC elements described in the TAM Guidelines on November 9, 2009 and November 16, 2009, with a contract lock-down date of November 2, 2009 (collectively the "November Updates.") The amount of the November Updates may be positive or negative, depending on whether the November Updates result in an increase or decrease to NPC. The Parties agree that there is no cap on the November Updates.

Q. Please explain Exhibit B to the Stipulation – the baseline NPC report.

A. Exhibit B is the baseline net power cost report against which the November Updates will be compared. The report includes adjustments to specific NPC elements that allow the Company to derive the stipulated total-company NPC and the Oregon allocation. With the exception of the adjustment for Condit, as described below, these same adjustments included in Exhibit B will be applied against the November Updates. These adjustments were created for purposes of settlement only and do not reflect or imply agreement by the Parties on the merits of the adjustments.

Q. What is the adjustment for Condit in Exhibit B?

A. In the sur-surrebuttal testimony of Mr. Duvall filed on September 4, 2009, the Company agreed to include operations at the Condit facility through the full test year, rather than through the first nine months of the test year. Exhibit B currently shows a proxy amount for the facility's inclusion in the last three months of 2010. In the November Updates, the Company will run the GRID model with a full year of Condit and the actual forecasted value will be incorporated into NPC.

Q. How will the final NPC report be used once the November Updates are completed?

A. It will be used to establish the amount of generation assumed for 2010 for the Company's generation resources. If the Company requests a deferral of costs for an NPC-related event(s), the final NPC report would be useful to parties for quantifying the additional costs of these event(s). This in no way implies a Party's obligation to support the Company's request for deferrals of this nature.

Q. How will PacifiCorp implement the rates resulting from the Stipulation?

A. Upon approval of this Stipulation and after the Company files its November Updates, PacifiCorp will file revised Schedule 200 rates and revised transition adjustment Schedules 294 and 295 as part of a compliance filing in Docket UE 207, to be effective January 1, 2010. For the period of January 1, 2010 through February 1, 2010, the final NPC revenue increase will be spread to rate schedules through changes to Schedule 200 rates, consistent with current practice for implementation of TAM rates. The process by which the final NPC revenue increase will be spread across each rate schedule is shown in Exhibit C to the Stipulation. After February 1, 2010, the NPC rates will be reflected in a new Schedule 201, subject to the Commission's approval of a redesign of Schedule 200 agreed to by the Parties in the Company's general rate case in UE 210.

Q. Please briefly describe the redesign of Schedule 200.

A. As outlined in the TAM Guidelines and reflected in the Rate Spread and Rate Design Stipulation filed in UE 210, the Parties have agreed to change the present Schedule 200 rate design by unbundling NPC from other generation costs. The Parties propose to have all NPC collected through a new Schedule 201, Net Power Costs, which will be applied as a rider to Schedule 200. Schedule 200 will continue to collect other generation costs. Upon approval of the Rate Spread and Rate Design Stipulation in UE 210, the Company will include the redesigned schedules in its compliance filing in that proceeding, to be effective February 2, 2010. Implementation of the new rate design will not impact the final NPC revenue increase that is a product of this Stipulation or the spread to rate schedules shown on Exhibit C.

Resolutions of Issues Relating to the TAM Guidelines

Q. The Stipulation includes several provisions related to the TAM Guidelines. First, please briefly explain the TAM Guidelines.

A. The TAM Guidelines were created by a stipulation of the parties in UE 199 and govern the Company's future TAM filings. Additionally, the parties agreed in the

UE 199 stipulation that the TAM Guidelines would also apply to the Company's rebuttal and final updates in UE 207. The Commission adopted the TAM Guidelines in Order No. 09-274 on July 16, 2009. As discussed in more detail below, in this proceeding the Parties have agreed to language in the stipulation resolving the two outstanding issues identified in the Guidelines to be addressed in the Company's general rate case proceeding, UE 210, and to further clarify the TAM Guidelines.

Q. What were the two outstanding issues that were to be addressed in UE 210?

A. The two issues identified in the TAM Guidelines to be addressed in the general rate case were (1) whether variable costs of a new generation resource could be included in a stand-alone TAM if the Company will not recover the fixed costs in the TAM rate effective period, and (2) if changes in methodologies utilized in the calculation of NPC will be permitted in stand-alone TAM proceedings. The June 8, 2009, Ruling by the administrative law judges in UE 210 granted the request to file testimony on these issues in UE 210.

Q. What have the Parties agreed to in respect to the first item—the inclusion of new resources in NPC without fixed cost recovery?

A. Section 12 in the Stipulation is an amendment to the TAM Guidelines that outlines when the variable costs and dispatch benefits of new resources will be included in stand-alone TAM filings. Specifically, new resources will be included: (a) if the Company has acquired the resource prior to April 1 of the year of the stand-alone TAM filing, or (b) for a Company-built resource, if it was used and useful prior to April 1 of the year of the stand-alone TAM filing. These conditions do not apply to resources that are eligible for recovery through the Renewable Adjustment Clause, adopted by Order No. 08-548. The Company will provide notice to the Parties by March 1 of the year of the stand-alone TAM filing, if a new resource subject to this new provision will be included in the TAM. If a new resource is included in the stand-alone TAM, the prudence of the decision to build or acquire the resource will be determined in the TAM proceeding. This provision does not limit the Parties' ability to challenge the prudence of the Company's decision to build or acquire the resource in subsequent rate proceedings based on the discovery of new information or evidence, to the extent provided by law. This provision also does not limit the Parties' ability to propose a disallowance of the fixed capital costs or fixed construction costs associated with the new resource in subsequent rate proceedings.

Q. What have the Parties agreed to in respect to the second item—whether changes in methodologies in the calculation of NPC are permitted in stand-alone TAMs?

A. Section 13 of the Stipulation amends the TAM Guidelines to permit the Company to propose changes to the methodologies used to calculate the cost elements and other inputs to the GRID model in stand-alone TAMs. The Company will provide notice to the Parties of substantial changes to these items by March 1 of the year of the stand-alone TAM. The Company will include a justification of each substantial change in the April 1 filing. The Company will also provide workpapers, where practical, that contain a side-by-side comparison of the GRID model results with and without the proposed changes. The intent of the Parties is that this amendment will allow other parties in stand-alone TAM proceedings to similarly propose changes in methodologies and the calculation of cost elements.

Q. **Why is the agreement on these issues included in the Stipulation in UE 207 rather than in UE 210?**

A. For settlement, the Parties agreed to include all TAM-related provisions in the TAM settlement for ease of presentation. The Parties agree to file notice in UE 210 that the TAM design-related issues in that docket are resolved in the UE 207 Stipulation.

Q. **Section 14 contains a clarification to the TAM Guidelines. What is the purpose of this clarification?**

A. During the TAM proceeding, a difference came to light between how the Company and other parties interpret the TAM Guidelines in terms of limitations on other parties. For the purposes of settlement, the Parties have agreed to section 14 of the Stipulation. This language is intended to explain how the Parties interpret the TAM Guidelines to apply in a more symmetrical manner with respect to specific issues concerning inputs, costs, updates, modeling assumptions, methodologies and error corrections.

Q. **Can you provide an example of symmetric treatment related to the Initial Filing?**

A. Yes. For example, Section A. (Initial Filing) of the TAM Guidelines allows the Company to update its NPC forecast for specific factors delineated in Attachment A of the TAM Guidelines. Staff and intervenors may challenge any of the

Company's updates, modeling assumptions, inputs, methodologies, or costs in their responsive testimony. Staff and intervenors must base their information on events that occurred on or before the date of the Company's Initial Filing, except in the case of updates allowable in the Company's Rebuttal (or subsequent) Filing, such as contract updates.

Q. Can you provide an example of symmetric treatment during the rebuttal phase of the proceeding?

A. Yes. Under the TAM Guidelines, Section B, the Company is permitted to update its Initial Filing for certain NPC components with its Rebuttal Update Filing. Staff and intervenors may propose adjustments to the rebuttal filing, but are limited in so doing in the same manner as the Company with respect to updates. For example, the TAM Guidelines preclude the Company from updating captive coal costs in the Rebuttal Update. In their response testimony, Staff and intervenors are likewise precluded from proposing updates to captive coal costs based on events that occurred after the Initial Filing. Staff and intervenors may propose adjustments to captive coal costs based on events occurring prior to the Initial Filing. Nothing, however, prevents a party from separately raising non-update related proposals, including but not limited to prudence, regarding the Company's captive coal costs.

As a second example, the Company is allowed to update transportation/transmission contracts in its rebuttal filing based on events that occurred after the Initial Filing. Likewise, Staff and Intervenors are able to propose updates to transportation/transmission contracts based on events that occurred prior to the Company's rebuttal filing date.

Q. Does section 14 of the Stipulation clarify anything else?

A. Yes. This section is intended to amend the Guidelines to affirm that the Company and parties in TAM proceedings can propose corrections to errors after the Company's Initial Filing, including corrections to the Rebuttal and Final Updates.

Resolution of Other Issues

Q. What did the Parties agree with respect to implementation of a Commission decision in UM 1355, the investigation into forecasting forced outage rates for electric generating units?

A. The Parties agree that the stipulated NPC revenue increase in UE 207 includes any changes to NPC in 2010 that may result from the Commission's decision in UM 1355. Any specific methodological changes ordered by the Commission in UM 1355 will be reflected in the Company's next TAM or general rate case filing.

Q. What did the Parties agree with respect to the Company's pending application for an accounting order related to coal stripping costs in UM 1448?

A. The Company agrees that it will file a request to withdraw the application without prejudice. This request is being filed concurrently with the UE 207 stipulation and supporting testimony on September 25, 2009. The Parties agree that no Party will oppose the Company's request to withdraw the application.

Q. What did the Parties agree in regards to the calculation of the transition adjustments in Schedules 294 and 295 for direct access?

A. First, the Parties agree to continue to calculate the transition adjustments for direct access consistent with the modifications identified in the stipulation in UE 199. This agreement, which is outlined in Section 15 of the UE 199 stipulation, modifies the calculation of the transition adjustments in two ways: (1) the Company will relax the market cap limitations in the GRID model by 15 MW at Mid-Columbia and 10 MW at COB to determine the value of the freed up power; and (2) any remaining monthly thermal generation that is backed down for assumed direct access load will be priced at the simple monthly average of the COB price, the Mid-Columbia price, and the avoided cost of thermal generation as determined by GRID. The monthly COB and Mid-Columbia prices will be applied to the heavy load hours or light load hours separately. The existing balancing account mechanisms will remain in effect.

Second, as a result of the change in rate design for Schedule 200 and the implementation of Schedule 201 that is expected to be effective February 2, 2010, Schedule 200 will no longer be by-passable for direct access customers and will no longer be subtracted in the calculation of the transition adjustments in Schedules 294 and 295. The Company will implement this change effective January 1, 2010 by including in its compliance filing in this proceeding revised tariff sheets for Schedule 200 with per kilowatt-hour rates for direct access rate schedules that will collect the portion of Schedule 200 that is no longer by-passable. Transition rates will be calculated using rates comparable to the proposed Schedule 201 in UE 210. This tariff change will enable the Company to transition to the new Schedules 200 and 201, effective February 2, 2010, with minimal impact to the direct access rates. Updates to the applicability language for direct access tariffs necessary to implement this change will be filed as part of the compliance filing for this docket.

Third, the Company will calculate the transition adjustments in Schedules 294 and 295 with primary and secondary line losses, as applicable, in addition to the transmission losses already included in the calculation.

Q. What did the Parties agree in regards to the enrollment period for the multi-year opt-out for direct access offered under Schedule 295?

A. The Parties agree that the enrollment period will be extended from prior years and begin at Noon on November 16, 2009 and end at Noon on December 7, 2009.

Q. If the Commission rejects any material part of the Stipulation, are the Parties entitled to reconsider their participation in the Stipulation?

A. Yes. The Stipulation provides that if the Commission rejects all or any material portion of the Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

Reasonableness of the Stipulation

Q. Have the Parties evaluated the overall fairness of the Stipulation?

A. Yes. Each Party has reviewed the calculation of the 2010 NPC revenue increase and the rates resulting from this increase. The Parties agree that the rates resulting from the Stipulation are fair, just, and reasonable based on their respective case positions, the positions of other Parties, and the discovery produced in this proceeding by the Company. The Parties also agree that the results of the other issues resolved in the Stipulation are fair and reasonable and should be adopted.

Q. What do the Parties recommend regarding the Stipulation?

A. The Parties recommend that the Commission adopt the Stipulation as the basis for resolving issues in this proceeding and include the terms and conditions of the Stipulation in its order in this case.

Q. Does this conclude your Joint Testimony?

A. Yes.