

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 207

In the Matter of)
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PACIFICORP, dba PACIFIC POWER,)
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2010 Transition Adjustment Mechanism)
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**REPLY TESTIMONY
OF THE
CITIZENS' UTILITY BOARD OF OREGON**

July 14, 2009



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OF OREGON**

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PACIFICORP, dba PACIFIC POWER,)	REPLY TESTIMONY OF
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2010 Transition Adjustment Mechanism)	OF OREGON
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1 Our names are Bob Jenks and Gordon Feighner, and our qualifications are listed
2 in CUB Exhibit 101.

3 **I. Introduction**

4 The Transition Adjustment Mechanism [TAM] was established in order to set the
5 annual transition adjustment for direct access customers. Because this adjustment
6 requires updating power costs, the Company and the Commission have supported
7 applying this update to classes of customers that are not eligible for direct access. While
8 updating fuel prices, power purchase costs, and loads on an annual basis seems
9 reasonable, CUB has expressed its concern that these mechanisms allow creative utilities
10 to manufacture “costs” that have little to do with actual increases in power costs. CUB
11 requests that the Commission keep this in mind when reviewing this and other dockets.

1 PacifiCorp's 2010 TAM proposes to increase its power costs by \$6 million and to
2 increase rates through an update of its load forecast which, with declining loads, creates
3 an additional increase of \$14 million. PacifiCorp's TAM also imports issues from the
4 UM 1355 docket which need to be discussed.

5 It is CUB's position that PacifiCorp's proposed increase in power costs in this
6 docket has little to do with increases in fuel or purchased power costs. Instead, this power
7 cost increase is primarily caused by PacifiCorp's claim that it will produce less
8 hydropower in 2010 than it forecast for 2009. CUB takes the position that there is little
9 evidence to support the claims of reduced hydro generation. In fact, CUB forecasts that
10 hydro production will increase, leading to net power costs that are largely unchanged
11 from this year – though reduced loads would still lead to an overall rate increase. In light
12 of the foregoing, CUB's testimony will focus on the following:

- 13
 - *PacifiCorp's hydropower forecast, which forecasts a reduction in hydro*
14 *generation accounting for \$4.75 million of the \$6.1 million proposed*
15 *increase.*
 - 16
 - *Issues imported from UM 1355 and CUB's proposal as to how these issues*
17 *should be folded into this docket.*

18 **II. PacifiCorp's hydropower forecast for 2010 forecasts a reduction in**
19 **hydro generation that accounts for \$4.75 million of the proposed**
20 **\$6.1 million increase; it is CUB's position that PacifiCorp's hydro**
21 **output will in fact increase in 2010.**
22

23 According to PacifiCorp, its power costs will increase by \$19 million (total
24 Company) in 2010 due to changes in hydro operations:

1 The operational flexibility at the Company's Lewis River system has
2 decreased due to changes in the Company's contracts for generation from
3 the Mid Columbia projects. Also, the hydro generation in the current
4 filing reflects the expiration of the operating license of the Condit dam and
5 minimum flow requirement on other facilities from relicensing. The total
6 impact of the reduction in hydro generation from the Company-owned
7 facilities increases net power costs by approximately \$19 million from UE
8 199 on a total Company basis.

9 UE 207/PPL/100/6.

10 **A. Hydro generation is actually increasing.**

11 CUB Confidential Exhibit 102 is a forecast of hydro generation developed by
12 PacifiCorp. CUB Confidential Exhibit 103 contains notes that were provided with that
13 forecast as part of the TAM case. The notes show that this forecast was updated in
14 March 2009, shortly before the TAM was filed. Although this forecast shows an increase
15 in hydro production, the increase was not utilized by PacifiCorp in this case.

16 The updated forecast from March 2009 shows that hydro production is expected
17 to increase from [REDACTED]. While the Company's testimony
18 says that the operational flexibility of the Lewis River system has decreased, the forecast
19 shows an expected increase in hydro production from the Lewis River system, from [REDACTED]
20 [REDACTED]. The forecast also projects increases for the [REDACTED]
21 [REDACTED]. Clearly the testimony and the forecast cannot both be
22 right.

23 The value of this increase in hydro output can be calculated using the 2010
24 average cost of purchased power, \$58.29/MWh.¹ This calculation shows that increased
25 hydro production will in fact reduce power costs by [REDACTED], instead of increasing
26 costs by [REDACTED] due to supposed reductions in hydro production.

¹ UE 207 / PPL / Exhibit 103.

1 CUB respectfully requests that the Commission adopt CUB's calculation and
2 order this appropriate and necessary reduction in rates.

3 **B. Continued production from the Company's Condit facility.**

4 The increase in hydro production for 2010 (in contradiction of PacifiCorp's
5 testimony in this matter) still understates the actual expected hydro production, because
6 the PacifiCorp forecast is based on the assumption that the Condit operating license will
7 expire in October 2010. As CUB Confidential Exhibit 103 shows, PacifiCorp historically
8 assumes the annual expiration of the Condit facility license in October of each year.
9 PacifiCorp has in fact extended this license each year. The end result is, of course, that
10 the Condit facility is only forecast to operate for 9 months of each year, when it actually
11 operates for 12 months of each year. This can be seen from the "Notes" entry in Exhibit
12 104 for Condit:

13 Begin Confidential Material



20 *CUB Exhibit 103*

21 This passage shows that PacifiCorp has forecasted the last day of operation for the
22 plant on [REDACTED] Given that the Company
23 has continually forecasted the plant's closure, CUB sees no reason to believe that this
24 year's forecast of the expiration of the license will be any more accurate than it has been
25 in the past.

1 It is downright unfair of PacifiCorp to keep charging customers for the expiration
2 of a license that is continually extended.

3 Each time PacifiCorp forecasts the expiration of the license, the Company models
4 the closure as part of the TAM and customers pay to replace the power generated by the
5 dam in the last 3 months of the year. In some respects, this phenomenon is similar to
6 what was occurring with PGE's Sullivan Dam in 2005 and 2006.² In that case PGE
7 forecasted planned maintenance for Sullivan during 2005, resulting in higher power costs
8 to customers due to the purchase of higher-priced replacement power. The issues were,
9 however, that PGE did not shut the plant down for maintenance that year and that PGE
10 again forecast the same outage in 2006. CUB, ICNU and Staff all objected to PGE's
11 customers having to pay for the same maintenance outage two years in a row. In the
12 same manner, CUB now objects to PacifiCorp's customers being asked to pay for the
13 Condit facility license expiration year after year.

14 CUB Confidential Exhibit 102 shows that the Condit facility license expiration
15 results in the loss of ████████ MWh of hydro production from the forecast each year.
16 Using the same value for power calculated above, including the additional annual
17 operation in the forecast will decrease power costs by approximately ████████.

18 End Confidential Material

19 With this adjustment and the earlier hydro adjustment, CUB is respectfully
20 requesting that the Commission adopt CUB's recommendation that the value of increased
21 hydro production will decrease net power costs by \$20 million on a total Company basis,
22 or \$5 million on an Oregon allocated basis, and then issue an order which incorporates
23 these adjustments.

² See UE 172 / CUB Exhibit 100 / 2-5.

1 **C. PacifiCorp is changing the way it forecasts hydro production.**

2 In this docket, PacifiCorp changes the way that it forecasts hydro production. Mr.
3 Duvall, testifying for the Company, claims that this change does not have much of an
4 impact on rates:

5 In UE 199, the Company used three equally weighted “exceedance levels”
6 to determine the hydro volumes used in GRID and the dispatch of the
7 resources. In this proceeding, the Company uses a median hydro
8 condition that is created using a single water year input based on historical
9 water inflow profile and median water volume...

10 This change does not significantly change the net power cost results.

11 *UE 207/PPL/100/12.*

12 While Mr. Duvall does not state the exact effect of this change beyond saying it
13 does not significantly change the results, last year he opposed a similar change to the
14 median hydro method when it would have lowered power costs by \$2.3 million:

15 Mr. Falkenberg repeats his proposed adjustment in UE 191 and alleges
16 that the Company’s VISTA model for modeling normalized hydro
17 generation overstates the likelihood of extreme hydro conditions. He
18 recommends that the Commission eliminate this alleged bias by changing
19 the weights for the wet, median and dry cases to those he developed based
20 upon historical data. He also recommends that the Commission require the
21 Company to file a complete 40 water year study in its next TAM or
22 general rate case; otherwise the Company should use median hydro only.
23 This adjustment lowers modeled NPC \$2.3 million on a total company
24 basis.

25 *UE 199/106/24.*

26
27 PacifiCorp opposed adopting the median hydro method when such a change
28 would have lowered power costs and benefited customers. This year, when the change
29 does not “significantly” change costs and therefore benefits the Company, PacifiCorp
30 proposes changing to median hydro.

1 CUB has expressed concerns in the past with the ability of utilities to change
2 methodologies from year-to-year based on the favorability of the outcome of that change.
3 CUB respectfully requests that if the Commission accepts this modeling change, the
4 Commission should order the Company to retain this new methodology until the next
5 general rate case. CUB takes this position because the TAM is supposed to be designed
6 to update costs, not to effectuate rate changes through changes in modeling methodology.
7 If using the median was not acceptable to the Company last year because the adjustment
8 favored the interests of customers, then the Company should not be able to change its
9 hydro modeling methodology each year based on the anticipated results.

10 **III. Issues exported from UE 1355 regarding forced outage calculations.**

11 Docket UM 1355, which concerns a number of issues that will affect calculations
12 in this filing, has yet to be litigated to completion or settled. CUB thinks it is necessary at
13 this time to introduce for the record in this docket some of the arguments that CUB has
14 made in its UM 1355 testimony. CUB respectfully requests that the Commission take
15 note of CUB's positions when considering this docket.

16 First and foremost, CUB reaffirms its support for adopting the four-year rolling
17 average methodology for calculating forced outage rates for base load thermal plants. The
18 details of this methodology can be found in CUB's Opening and Reply Testimony for
19 UM 1355 (Exhibits 100 and 200).

20 CUB also supports using the EFOR-d methodology for calculating forced outage
21 rates for peak generation plants.

22 For thermal plants CUB supports the use of the NERC collar that was proposed
23 by Staff in UM 1355 as a way to define and exclude extreme outage events that unlikely

1 to reoccur in the future.³ For new thermal generation facilities, CUB recommends using
2 performance data from the manufacturer during the first two years of operation, then
3 incorporating historical operating data on a rolling basis as the plant ages.

4 For hydro generation facilities, forecasts should be made based on historical data.
5 CUB's position is that only outages that result in spillage should be included in future
6 forecasts.

7 For wind resources, CUB reiterates the call for improved data reporting that is
8 described in UM 1355 testimony.

9 **IV. Conclusion**

10 While updating fuel prices, power purchase costs, and loads on an annual basis is
11 generally reasonable, CUB reiterates its concerns that mechanisms such as the TAM
12 allow creative utilities to manufacture "costs" that have little to do with actual increases
13 in power costs, and respectfully requests that the Commission keep this in mind when
14 reviewing this and other dockets.

- 15 • It is downright unfair of PacifiCorp to keep charging customers for the
16 expiration of a license that is continually extended.
- 17 • CUB has expressed concerns in the past with the ability of utilities to
18 change methodologies from year-to-year based on the favorability of the
19 outcome of that change. If the Commission accepts PacifiCorp's
20 requested modeling change in this docket, the Commission should order
21 the Company to retain this new methodology until the next general rate
22 case. CUB takes this position because the TAM is supposed to be

³ See UM 1355 / CUB / Exhibit 100 / 3.

1 designed to update costs, not to effectuate rate changes through changes in
2 modeling methodology.

3 • PacifiCorp is proposing an increase in net power costs related to hydro by
4 \$4.75 million. It is CUB's position, as set forth above, that net power
5 costs related to hydro will instead decline by \$5 million. CUB
6 respectfully requests that the Commission deny PacifiCorp the Oregon
7 portion of its power cost increase request.

8 • In addition, CUB also encourages the Commission to adopt a number of
9 sound policy ideas emerging from the docket in UM 1355. Of particular
10 note is Staff's proposal to use the collar approach to identify outlying
11 events for the purposes of forecasting forced plant outages.⁴ CUB fully
12 supports Staff in this proposal.

⁴ UM 1355 / Staff / Exhibit 100 / 19.

WITNESS QUALIFICATION STATEMENT

NAME: Bob Jenks

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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, UE 208, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, UM 1209, and UM 1355. 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
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WITNESS QUALIFICATION STATEMENT

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Duke University, Durham, NC

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EXPERIENCE: I have previously provided testimony in OPUC Docket Nos. UM 1355, UE 196, UE 204, and UE 208. Between 2004 and 2008, I worked for the US Environmental Protection Agency and the City of Portland Bureau of Environmental Services, conducting economic and environmental analyses on a number of projects. In January 2009 I joined the Citizens' Utility Board of Oregon as a Utility Analyst and began conducting research and analysis on behalf of CUB.

CONFIDENTIAL EXHIBIT

CUB CONFIDENTIAL EXHIBIT 102

REDACTED

CONFIDENTIAL EXHIBIT

CUB CONFIDENTIAL EXHIBIT 103

REDACTED

UE 207 – CERTIFICATE OF SERVICE

I hereby certify that, on this 14th day of July, 2009, I served the foregoing **REPLY TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UE 207 upon each party listed in the UE 207 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending an original and 5 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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