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June 21, 2010

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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**RE: Docket No. UE 215 – In the Matter of PORTLAND GENERAL ELECTRIC
COMPANY Request for a General Rate Revision.**

Enclosed for electronic filing in the above-captioned docket is the Public Utility
Commission Staff's Opening Testimony.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

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c: UE 215 Service List (parties)

CASE: UE 215 AUT
WITNESS: Ed Durrenberger

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1300

**Net Variable Power Cost
Opening Testimony**

June 21, 2010

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Ed Durrenberger. I am a Utility Analyst for the Public Utility Commission of Oregon. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/501 contained in my opening testimony regarding the general rate revision portion of this docket.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this testimony is to discuss the adjustments that I propose for the net variable power cost (NVPC) portion of the Portland General Electric Company (PGE or company) general rate case and explain Staff's position on methodology changes that PGE has proposed for the power cost adjustment mechanisms.

Q. WHAT DO YOU MEAN BY METHODOLOGY CHANGES?

A. In a general rate case such as this, the company may propose changes to power cost adjustment mechanisms established by the Commission and used annually to adjust rates for changes in variable power supply expenses such as fuel costs and wholesale power prices. PGE has proposed some changes to the Commission-prescribed methodologies for the forecast of expected power costs in the Annual Update Tariff and in the

true-up to actual power in the Power Cost Adjustment Mechanism. My testimony will describe the proposed changes and how I recommend they be treated.

Q. PLEASE DESCRIBE THE POWER COST ADJUSTMENT PROCESS AND WHY IT IS DIFFERENT THAN GENERAL RATE CASE ADJUSTMENTS.

A. PGE has a two part power cost adjustment mechanism. The first part is called the Annual Update Tariff (AUT) and it updates expected power costs for an upcoming year based on forward fuel and power prices, expected loads and a host of other factors. The second part is a true-up that compares PGE's actual costs to generate and acquire power in the preceding year to the amount of money PGE collected from customers in retail rates, and requires PGE to refund overcollections to customer and allows PGE to surcharge for undercollections, subject to certain conditions. The company makes annual power cost adjustment filings that include these two features every year according to a standard method adopted by the Commission, regardless of whether or not PGE has requested a general rate revision such as it now has filed in UE 215. Each year Staff and other parties review the power cost filings and propose adjustments as may be necessary. As stated above, neither the AUT nor the PCAM methodology may change unless the change is approved by the Commission as part of a general rate case proceeding.

Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?

A. Yes. I have included Staff data request 412 and PGE's non-confidential response as Exhibit Staff/1301 Durrenberger/1 and 2.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. I first summarize all the issues that I raise and my proposed resolution. Then I discuss each item in detail to more fully develop my position.

Q. WHAT ARE THE ISSUES?

A. The first few issues are of a general nature. The change in net variable power costs for these issues may not be entirely known without incorporating the changes into the Monet power cost model inputs and running the model.

1. The projected energy savings that PGE agreed to for the Advanced Metering Infrastructure (AMI) implementation agreement have not been modeled in the load forecast for the AUT and should be.
2. Forecasted expense of \$0.45 million associated with an anticipated BPA transmission rate change for the PGE wind plant in the last three months of 2011 should be excluded because it is not known and measurable.
3. Forecasted expense associated with BPA transmission charges for the Biglow wind plant, for the first nine Forecasted months of 2011, are based on a higher rate than the existing BPA transmission tariff rate and are overstated by \$1.2 million.

4. Forecasted expense for BPA imbalancing charges is not supported by historical evidence and should be reduced by \$0.5 million.
5. Any decision in the UM 1355 docket that affects forced outage rates for PGE and occurs before the AUT rate change take place, should be incorporated in the calculation of NVPC.

Q. ARE THESE ALL OF THE ISSUES YOU INTEND TO DISCUSS?

A. No, there are a number of additional issues related to changes that PGE has proposed for the Monet power cost model. These changes would change the NVPC adjustment mechanisms and are what I am calling methodology adjustments:

6. PGE's proposed update to Harriet Lake Base Flow in the power cost model for FERC Relicensing requirements should be denied.
7. PGE's proposal to reclassify costs for emission control chemicals from operating costs to NVPC for Boardman, Coyote Springs, Port Westward and Colstrip should be denied.
8. PGE's proposal to reclassify broker fees from general expenses to power costs should be denied.

9. PGE's proposal to include revolving credit facility costs associated with collateral deposits as a NVPC should be denied.
10. PGE's request to classify Boardman fly ash disposal costs as a NVPC rather than a general operating expense should be denied.
11. PGE's proposed Pelton/ Round Butte hydro plant de-rate due to modeled head loss calculations from the Selective Water Withdrawal (SWW) should be rejected.
12. PGE should not include Western Electricity Coordinating Council (WECC) proposed operating reserve costs in modeled power costs until such time as the Federal Energy Regulatory Commission (FERC) approves the change.
13. The PGE proposal to do away with the requirement to freeze thermal plant variable O&M costs modeled in Monet, between rate cases, should be rejected.

Q. PLEASE EXPLAIN YOUR FIRST ISSUE.

- A. PGE received Commission authorization to initiate an advanced metering infrastructure program for its customers in Order No. 08-245. Part of the justification for the program was that the AMI infrastructure would reduce system loads through increased accuracy of the meters and the remote start and stop capability. PGE did not include in this filing the AMI-associated load reduction in the 2011 forecast. The company should adjust

the load to reflect this AMI benefit and reflect that change in the power cost
AUT.

Q. DO YOU KNOW HOW MUCH THIS WILL AFFECT POWER COSTS?

A. No, not precisely. The company will need to reduce the load forecast for 2011 and then run the Monet power cost model to determine the power cost affect.

Q. WHAT IS THE NEXT ISSUE?

A. The next issue is that PGE appears to have overstated wind integration costs for the Bigelow Canyon wind plant.

Q. WHAT IS THE SIZE OF THE OVERSTATEMENT?

A. The error is overall about \$1.65 million. Approximately \$450,000 of the overstated costs is associated with a BPA transmission rate increase forecasted for the final three months of 2011. The balance of the wind integration cost adjustment is due to PGE calculating wind plant transmission costs for the first nine month in 2011 using a higher tariff rate than the present BPA tariff rates of \$1.29/MW month.

Q. WHAT DO YOU PROPOSE?

A. I propose that the modeled wind output for the Biglow Canyon wind plant be calculated using the current BPA transmission tariff and that power supply expenses be reduced accordingly. Although Staff does not dispute that the BPA tariff may be updated in October 2011, the nature of any tariff change is not known and measurable and should not be modeled into PGE's retail rates. Furthermore, there is no justification for the higher than tariff

transmission costs for the Biglow Canyon wind plant to be included in the AUT for the nine months prior to October 1, 2011.

Q. WHAT IS THE NEXT ISSUE?

A. The next issue is regarding PGE's estimation of the magnitude of the premium they will be paying BPA for balancing their wind plant load. This imbalancing premium appears over stated by about \$500,000 considering the historical trend of PGE paying BPA wind plant imbalancing costs. Although the overall output of the Biglow Canyon wind plant has increased dramatically over the last few years, and is expected to increase more with the startup of Biglow III, the imbalancing costs forecasts are rising at a rate that doesn't appear to be supported by the recent actual experience where, despite a larger wind load, the actual balancing costs have remained relatively flat. The non-confidential response to Staff data request 411 included as Staff Exhibit /1301 Durrenberger/1 and 2 indicates that a doubling of load doesn't warrant doubling of imbalancing costs. It appears that PGE has progressively improved its forecasting the Biglow plant output resulting in less imbalancing premiums than were initially required. I have arrived at my adjustment estimate by assuming that the imbalancing costs per unit output will remain constant with the addition of the Biglow III wind plant.

Q. WHAT IS PGE'S RESPONSE TO THIS ADJUSTMENT?

A. This adjustment was only recently uncovered and I have yet to bring it up to the company for their comment.

Q. WHAT IS THE NEXT ISSUE?

- A. My next issue is a place holder for the Forced Outage Rate Investigation, docket UM 1355, that may result in an order prior to rates taking effect in January 2011. The outcome of this docket could affect PGE power costs and I am putting parties on notice that Staff intends to ask the Commission to apply the UM 1355 order in this docket, should the Commission issue it prior to the time these power cost rates go into effect, January 1, 2011.

Q. THE REMAINING ISSUES CONCERN WHAT YOU HAVE CLASSIFIED AS METHODOLOGY ADJUSTMENTS. PLEASE EXPLAIN THE FIRST OF THESE ADJUSTMENTS.

- A. The first methodology adjustment is to eliminate PGE's modification to the hydro output of the Oak Grove facility that PGE proposed in anticipation of a requirement from a, as yet to be issued, license for the Clackamas hydro project to maintain some minimum water flow at Harriet Lake. My opposition to the PGE modification is that the requirement is not certain, wouldn't begin until the fall of 2011, and the power cost consequence in the test year is suspect considering it is slated to begin at the same time as the fall rains.

Q. WHAT IS THE ADJUSTMENT THAT YOU PROPOSE FOR THIS ISSUE?

- A. I propose that the Harriet Lake adjustment not be included in the modeling of power costs for the AUT.

Q. PLEASE EXPLAIN THE NEXT ADJUSTMENT.

A. The next several issues are all similar in nature. PGE is proposing to shift general operating expense items into the net variable power cost evaluation: environmental control chemical costs, broker fees, revolving credit costs from collateral deposits, and fly ash disposal costs. All of these items have a few things in common: they have traditionally been general expenses that are updated, if at all, in a general rate case, they have something to do with power, they have tended to increase over time, and finally, they are relatively low value items.

Q. DO YOU AGREE WITH PGE'S PROPOSED TREATMENT OF THESE EXPENSES?

A. No, the power cost adjustment mechanism is narrowly focused and intended to update only a limited number of items. The time line for analyzing power cost updates is relatively short. Expanding the number of issues requiring review will make it more difficult for parties to perform the necessary analysis to arrive at the appropriate power costs. This increased difficulty is not warranted for the relatively low-cost items that PGE has proposed to add. I propose that these costs for operating chemicals, broker fees, revolving credit hedges, and fly ash disposal be left as general expense and not be added to the list of things to be reviewed and analyzed as part of the net variable power cost update mechanisms.

Q. WHAT IS THE NEXT ISSUE?

A. PGE has proposed a modest adjustment to the output at the Pelton/ Round Butte hydro facilities because of the modeled head loss PGE expects will

happen due to the SWW installation. The company has not offered any actual proof that the power output has been reduced or that the company will not be able to operate the facility in a way that the output will not be affected. I find the proposed derate to be insufficiently known and measurable and recommend that it be rejected.

Q. ARE THERE ANY OTHER ISSUES?

A. Yes, there are two more issues. The first is a request by the company to include WECC operating reserves in the computation of net variable power costs in the AUT. Although PGE expects FERC to make this a requirement soon, the facts remain that FERC has not done so yet and any cost increase from changing the reserve requirement is currently unwarranted. The final issue is a change proposed in modeling operating O&M expenses. Currently these costs are established during a general rate case and frozen thereafter. Normally O&M doesn't factor in to net variable power costs but in this case, operating O&M becomes a part of the decision on when to dispatch a plant. If the operating O&M is not fixed between rate cases but is allowed to change, based on actual costs, for instance, I could imagine a situation where a more expensive unit might dispatch first due to anomalous expenses resulting in unintended higher costs for customers. I propose that this request, to not freeze operating O&M costs between rate cases, be rejected.

Q. IS THERE ANY OTHER ADJUSTMENT TO POWER COSTS THAT YOU WOULD LIKE TO DISCUSS?

A. Yes. PGE's overall load forecast that is the basis of the net variable power cost forecast appears reasonable however I find the breakdown of the loads, by customer class, to be not well supported. I anticipate that in the next update of power costs to occur on July, PGE will provide greater detail and support for the load forecast by customer class. It is my intent, by bringing this issue forward in my opening power cost testimony, to hold open the possibility of further discussion and possible power cost adjustments.

Q. DO YOU HAVE ANYTHING FURTHER TO DISCUSS?

A. No, this concludes my testimony.

CASE: UE 215
WITNESS: Ed Durrenberger

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1301

June 21, 2010

UE 215

Staff Exhibit/ 1301
Durrenberger/1

June 14, 2010

TO: Vikie Bailey-Goggins
Oregon Public Utility Commission

FROM: Randy Dahlgren
Director, Regulatory Policy & Affairs

**PORTLAND GENERAL ELECTRIC
UE 215
PGE Response to OPUC Data Request
Dated May 28, 2010
Question No. 411**

Request:

With regard to the "Imbalance premium" expenses for Biglow Canyon 1 and 2, please provide an excel spreadsheet which shows actual billed imbalance energy charges from BPA by month since the facilities started operations, and the associated kWh, in an Excel spreadsheet.

Response:

Attachment 411-A is the requested information summarized by month. PGE and BPA do not distinguish between Phases 1 and 2 of Biglow Canyon for purposes of imbalance charges. Attachment 411-B contains BPA invoices supporting the summary information in Attachment 411-A. Attachment 411-B is confidential and subject to Protective Order No. 10-056.

Biglow Canyon Imbalance Premiums

Source: BPA final invoices

	2007		2008		2009	
	kWh	Dollars	kWh	Dollars	kWh	Dollars
Jan			(765,900)	\$ 7,841	536,900	\$ 45,675
Feb			(157,800)	33,459	588,300	33,950
Mar			445,600	92,069	127,000	29,352
Apr			263,200	82,016	132,200	14,281
May			1,213,400	56,092	675,000	27,321
Jun			4,998,600	134,575	1,758,500	41,570
Jul			673,600	57,356	497,800	38,579
Aug			(94,800)	30,719	1,634,000	90,758
Sep			573,100	48,553	777,000	55,551
Oct	(114,700)	\$ (4,297)	(61,900)	28,864	1,551,100	123,572
Nov	(240,600)	5,031	184,900	37,195	2,463,300	120,174
Dec	(21,900)	(39,003)	111,700	44,062	1,977,200	126,821
Total	(377,200)	\$ (38,269)	7,383,700	\$ 652,801	12,718,300	\$ 747,604

CERTIFICATE OF SERVICE

UE 215

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 21st day of June, 2010.



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UE 215
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