BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 216

In the Matter of	)
PACIFICORP, dba PACIFIC POWER,	)
2011 Transition Adjustment Mechanism	)

REPLY TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

May 12, 2010

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 216

In the Matter of PACIFICORP, dba PACIFIC POWER, 2011 Transition Adjustment Mechanism	REPLY TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON

My name is Gordon Feighner, and my qualifications are listed in CUB Exhibit 101.

I. Introduction

The Transition Adjustment Mechanism [TAM] was established in 2006 to set the annual transition adjustment for direct access customers[1]. Because this adjustment requires updating power costs, PacifiCorp ("the Company") and the Commission have also applied this update to classes of customers who are not eligible for direct access[2]. PacifiCorp's 2011 TAM proposes to increase its power costs by $56.6 million and to increase rates through an update of its load forecast which, with declining loads, creates an additional increase of $12.5 million. The Company's total proposed revenue increase

[1] Commission Order No. 04-516.
[2] *Ibid.*

in this docket is $69.2 million, which would result in an average overall rate increase of 7.0 percent[3].

CUB understands that PacifiCorp is in a position where the bulk of its increased power costs are the result of expiring or changing power purchase contracts. These changes are straightforward and, while it would be CUB's preference that the new contract terms be more favorable to customers, at this time we are not disputing their prudence. However, this is an ongoing case, and issues related to these contracts might develop as further evidence is discovered. In light of the foregoing, CUB's testimony will focus on the following:

- *PacifiCorp's changes to the treatment of wind integration costs*
- *The need to change the current schedule of annual dockets to more evenly spread the workload of intervenors and Commission Staff throughout the year*

II. Wind Integration Costs

PacifiCorp's new cost estimate methodology generates a wind integration cost estimate of $6.97 / MWh for resources located within the Company's control area. This is a significant increase from the $5.10 / MWh cost estimate arrived at using PacifiCorp's previous methodology. CUB strongly recommends that PacifiCorp be ordered to revert to its 2007 IRP [LC 42] cost estimate methodology for the duration of the current wind integration cost study (results are expected by Aug 2, 2010). This is because the methodology put forth by the Company in the 2008 Integrated Resource Plan [LC 47] was rejected by the Commission, and the resulting rate from that study should not be

[3] UE 216 / PPL / 100 / Duvall / 3.

utilized during the current TAM or general rate case. This, therefore, necessitates a reversion to a rate of $5.10 / MWh, the rate agreed to in the Company's 2007 IRP [LC 42]. It is possible that the new study will recommend an increase in estimated wind integration costs; however, until that evidence is provided, reviewed by Staff and intervenors, and adopted by the Commission, PacifiCorp should refrain from passing these increased costs on to customers.

Further refinement is needed for the methodology used by PacifiCorp to determine its systemwide wind integration costs on its own system. There will be issues with any forward-looking estimate of wind integration costs, as it is very difficult to separate the costs that are strictly dedicated to wind integration from those that are otherwise necessary to balance the general system load. The burden of proof is on PacifiCorp to show that all of the costs associated with wind integration are properly accounted for and are not duplicated elsewhere in the system. It may be that the only reliable and fair way to assess the Company's wind integration costs is by using a backward-looking methodology that calculates the actual costs at year end and uses this to forecast future rates. CUB encourages PacifiCorp to develop a more reliable forward-looking methodology or to consider using verified historic costs as the basis for the charge.

PacifiCorp pays BPA for wind integration for resources that are located in BPA's control area. The actual integration costs charged by BPA ($5.70 / MWh) are considerably lower than the Company's new cost estimate. BPA integration costs are firm costs to the Company, as they are paid out directly to BPA rather than derived from internal accounting methods. While adopting this rate for all of the Company's wind integration costs would be a preferable fallback option to the Company's current cost estimate proposal, even this methodology is still more expensive than the Company's LC 42 methodology. CUB therefore reiterates a preference for reverting to the Company's LC 42 methodology until the results of the current cost study are made available.

III. Issues with the Structure of the TAM

The Transition Adjustment Mechanism [TAM] is intended to allow PacifiCorp to update its net variable power costs and set the transition adjustment for direct access rates for the upcoming calendar year. This mechanism is therefore intended to be a straightforward accounting adjustment, lending itself to a fairly simple docket that should require verification of costs by intervenors and Commission Staff, but should also avoid larger disagreements. Since its inception, however, the TAM has grown to include numerous issues that were originally intended to be resolved either in general rate cases or in issue-specific dockets. It is time to return to a more parsimonious approach regarding the scope of the TAM.

A. The TAM's scope and scale have been expanded beyond its intended purpose

In the six years since the TAM was introduced, the filing has gone from being a small segment of the general rate case to its own, increasingly larger docket. In 2008, the first year in which the TAM was diverted to its own docket [UE 191], the Company's initial filing and attachments totaled 72 pages. The initial filing in this docket is 160 pages, and is accompanied by numerous large sets of workpapers. While there are undoubtedly legitimate reasons that the docket could grow in complexity, the major cause of this growth has been the incorporation of issues into the TAM that should be settled elsewhere. Wind integration costs are a major component of this docket, and heat rates and forced outage rates at thermal plants comprised the bulk of the arguments in the 2010 TAM [UE 207]. These issues warrant discussion and resolution, but oftentimes the TAM is utilized by parties as a venue to revisit an issue from another docket. CUB respectfully requests that the Commission adopt a more rigorous limitation of the scope of TAM proceedings going forward.

There are two kinds of updates that affect rates in the TAM. The first update comprises the information that the TAM was originally supposed to provide: changes in the prices of fuel and purchased power and updates to load. While these items can be large and can be controversial, they are straightforward attempts to update elements of power costs. For example, when forecasting fuel costs, parties can look at the previous year's costs and estimate the expected amount of change. After the test year is over, parties can look back at what was done and determine whether further adjustments are needed.

The second update type consists of items that now seem to consume the TAM proceeding each year: items like wind integration, heat rates, forced outage rates, and hydro modeling. These matters are anything but straightforward. Parties cannot look at the Company's books and identify a discrete cost associated with these issues. This is because the Company's forecasts are more driven by methodology than by the accuracy of their results.

In the wind integration arena, costs grow out of modeling and assumptions rather than markets and real data, and these models and assumptions have become the primary issues of the TAM. Because these issues are based on modeling and assumptions, there is not a single "right" answer, so the theories and assumptions get litigated again each year.

For example, Docket UM 1355 was opened in late 2007 with the goal of resolving the methodology issue for the calculation of forced outage rates. But, after two and a half years of proceedings, it still is not clear when that docket will be resolved, or whether its resolution will actually help us simplify the TAM.

B. The current schedule for annual dockets needs improvement

The TAM is just one of many annually recurring dockets that must be handled and reviewed by the Commission, Staff, and numerous intervenors. Whereas in decades past the dockets opened in any given year were often limited to annual general rate cases and occasional merger dockets, several utilities have each added a number of annual dockets to address accounting, power costs, and tax issues, among others. This trend has resulted in a significantly increased workload for intervenors, Commission Staff and the Commissioners.

i. There are a large number of annually recurring dockets

The following is a sampling (but not necessarily a complete listing) of annually recurring dockets for electric and natural gas utilities in Oregon:

- Portland General Electric
  - Power Cost Adjustment Mechanism [PCAM]
  - Annual Power Cost Update Tariff [AUT]
  - Renewable Resource Adjustment Clause [RRAC]
  - SB 408 Tax Adjustment

- PacifiCorp
  - Transition Adjustment Mechanism [TAM]
  - Renewable Resource Adjustment Clause [RRAC]
  - SB 408 Tax Adjustment

- Idaho Power
  - Power Cost Adjustment Mechanism [PCAM]
    (this docket has 3 separate parts: forecast, update, and true-up)

- Northwest Natural

  - SB 408 Tax Adjustment
  - Purchased Gas Adjustment [PGA]

- Avista
  - SB 408 Tax Adjustment
  - Purchased Gas Adjustment [PGA]

Each of these dockets requires a significant investment of time and effort on the part of intervenors and Staff, who must investigate the issues raised and submit testimony and/or settlement proposals. In addition to these other dockets, utilities file integrated resource plans [IRPs] and renewable energy standards [RES] plans on two-year cycles and are also trending towards the filing of annual or biannual general rate cases. All of these dockets combine, along with mergers, deferrals, and other one-off dockets, to yield a massive amount of work for Staff and intervenors. While CUB is of the opinion that all parties involved have been doing a commendable job of keeping up with this heavy workload, we would like to propose a change that could help to spread the docket load more evenly throughout the year.

ii. PacifiCorp and PGE should submit dockets on different schedules

The two largest electric utilities in Oregon, PacifiCorp and PGE, both operate using rate schedules that conform to the calendar year (January 1 – December 31). The TAM and the AUT both require rate changes on January 1, so both companies attempt to adjust all of their rate elements on that date, yielding a single rate change each year. While limiting utilities to one rate change per year is good for customers who have to pay those rates and need to be able to budget in advance, the coincidental filing of these dockets creates a significant burden on intervenors, Staff and the Commission.

Having both of these companies submit rate cases and other dockets on the same timeline makes for some impossibly busy weeks and months for all of the parties involved. For CUB and other intervenors, this compressed schedule forces workshops, testimony, settlement conferences, briefs, and hearings to be conducted simultaneously in many dockets without respite. For the Commission, this means that there are a large number of cases that must be ruled upon between Thanksgiving and New Years Day. This workload is compounded by the addition of the TAM and other adjustments that are filed on the same schedule as general rate cases.

iii. CUB's proposed schedule change

CUB would like to propose that PacifiCorp shift its rate schedule away from the calendar year, so that it runs from July 1 through June 30. PGE would continue to target January 1 for its rate changes. CUB is requesting that PacifiCorp make this shift because it has historically had fewer direct access customers than PGE[4]. CUB's hope is that by splitting the schedules of the two largest electric companies, the "coincidental peak" in workload for intervenors, Staff and the Commission can be reduced (though we understand that it cannot be entirely eliminated).

CUB's proposal is that the current TAM apply to the period from January 1, 2011 to June 30, 2012. This structure would allow the intervening parties to space out their anticipated workload throughout the calendar year, rather than face a daunting workload throughout the spring and summer months, as has been the experience of the past several years.

CUB anticipates that PacifiCorp will object to keeping the rates for the current TAM in place from December 31, 2011 to June 30, 2012. The Company would lose six

[4] http://www.puc.state.or.us/PUC/electric_restruc/statrpt/2010/012010_status_report.pdf.

months of higher rates (as we can no longer even pretend that the TAM works in both directions and can both increase and decrease rates). While this is true, we note that it would be difficult to forecast power costs out for more than one year, as contracts are not in place, the market is not very liquid, and forward price curves are not very accurate. This is one reason that 12 month test years are the general rule for forecasting rates, even when rates are expected to be in effect for more than 12 months, as we are proposing here.

The rates coming out of this docket will be set at a level that the Commission finds to be fair, just and reasonable for charges to customers for power used through the last half of December, 2011. There is no reason to believe that that rate will suddenly become unfair, unjust, and/or unreasonable during the first half of January 2012. Finally, we note that when PacifiCorp proposed the TAM, the Company was proposing a "straightforward" mechanism that updated a handful of costs that were necessary to update for the purposes of direct access. Because the TAM has not lived up to the Company's promises, it is reasonable to ask them to delay the filing of the next TAM by 6 months in order to relieve regulatory burdens.

IV. Other Issues

A. Forced Outage Rates

CUB supports the resolution of the issue of forced outage rate calculations that has been discussed in docket UM 1355 since late 2007. This issue has lingered far too long without a final order from the Commission. PacifiCorp's most recent request to file additional testimony on this issue in UM 1355 was denied by the Commission[5], an indication that the Commissioners also feel that the issue has been explored as much as it possibly can be. CUB fully supports the adoption of Staff's proposed "collar" approach using NERC data, as well as the Commission's proposal to adjust forced outage outliers to the median of a plant's historical performance as outlined in the Commission's Order of April 26, 2010. This methodology should be incorporated into the current TAM before rates go into effect in January.

B. Rate shock from the combined effects of the TAM, the GRC and the Klamath surcharge

One consequence of adjusting rates though all kinds of automatic adjustment clauses rather than general rate cases is that this process hides the true impact of the rate changes. Rather than having a docket which focuses the parties on the impact of the total change in rates, there are a series of dockets with smaller increases. A cost that might be considered discretionary and a candidate for delay in the face of a 20% increase may not get the same scrutiny when the utility has an 8% increase. However, that 8% increase might be accompanied by increases of 10% and 5% in other dockets. The total price change coming from a series of smaller dockets might therefore be greater than that which would emanate from a single large docket.

PacifiCorp is looking for a large increase in net power costs in this docket to go along with a large rate increase in the general rate case [UE 217] and the customer surcharge for the decommissioning of the Klamath River dams [UE 219]. The combined rate effect of these three dockets exceeds 20% for some rate classes. The Company had a

[5] Commission Order No. 10-157.

general rate case approved last year. This year, the economy is in recession and power prices and fuel costs are not increasing. CUB is concerned that the Company is not effectively managing its costs, and is instead using general rate cases as an alternative to managing its costs.

When the Commission sets rates, it is not approving costs, but is instead looking at a sample year of costs to set a rate level. Costs will invariably be different than the forecast, and the utility is expected to manage its business in light of the existing rates. In this case, by stacking a lot of new rate base additions in a year when several contracts are expiring and new rates have just taken effect, the Company has failed to manage its costs to its rates.

Current market conditions are actually quite moderate. PacifiCorp had a general rate case last year, which realigned its costs with its rates. For the Company to come back again this year and ask for a 20% increase through a combination of dockets is really quite extraordinary.

V. Conclusion

While updating fuel prices, power purchase costs, and loads on an annual basis is generally reasonable (though with annual or biannual rate cases, it is unnecessary), CUB reiterates its concerns that mechanisms such as the TAM allow creative utilities to manufacture "costs" that have little to do with actual increases in power costs, and respectfully requests that the Commission keep this in mind when reviewing this and other dockets.

- The wind integration costs that PacifiCorp proposes ($6.97 / MWh) are insufficiently supported. Until a new wind integration study is approved, CUB recommends adopting the rate arrived at by the Company's previous methodology ($5.10 / MWh) or using the rate charged by BPA ($5.70 / MWh).

- The scope and scale of the TAM have expanded greatly since its inception, resulting in another burdensome docket that increases the workload for intervenors, Staff, and the Commission and invariably raises rates for customers. CUB encourages the Commission to steer utilities towards a simpler approach to the TAM and similar dockets that focuses on updating power costs and load updates.
- CUB proposes that PacifiCorp's rate year schedule be changed from January 1 – December 31 to July 1 – June 30. This will help to ease the burden on intervenors, Staff, and the Commission that often results from numerous large dockets being argued simultaneously.
- CUB supports the resolution of the forced outage rate issue in UM 1355 by adopting the modified "collar" proposal put forth by the Commission in its Order of April 26, 2010.
- There are currently two other dockets in which PacifiCorp is seeking significant rate increases, resulting in an overall proposed increase of over 20%. CUB encourages the Commission to take current economic conditions into account when considering the combined impact of these three individual dockets on residential customers in Oregon.

WITNESS QUALIFICATION STATEMENT

NAME:	Gordon Feighner
EMPLOYER:	Citizens' Utility Board of Oregon (CUB)
TITLE:	Utility Analyst
ADDRESS:	610 SW Broadway, Suite 308 Portland, OR 97205
EDUCATION:	Master of Environmental Management, 2005 Duke University, Durham, NC Bachelor of Arts, Economics, 2002 Reed College, Portland, OR
WORK EXPERIENCE:	I have previously provided testimony in dockets UE 196, UE 204, UE 207, UE 210, UE 213, UM 1355 and UM 1431. 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 November 2008 I joined the Citizens' Utility Board of Oregon as a Utility Analyst and began conducting research and analysis on behalf of CUB.

UE 216 – CERTIFICATE OF SERVICE

I hereby certify that, on this 12th day of May, 2010, I served the foregoing **REPLY TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UE 216 upon each party listed in the UE 216 OPUC 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 the 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)

W **MCDOWELL RACKNER & GIBSON PC**
KATHERINE A MCDOWELL
520 SW SIXTH AVE - SUITE 830
PORTLAND OR 97204
katherine@mcd-law.com

W **PACIFICORP OREGON DOCKETS**
825 NE MULTNOMAH ST
STE 2000
PORTLAND OR 97232
oregondockets@pacificorp.com

W C **PACIFIC POWER & LIGHT**
JOELLE STEWARD
REGULATORY MANAGER
825 NE MULTNOMAH STE 2000
PORTLAND OR 97232
joelle.steward@pacificorp.com

C **PUBLIC UTILITY COMMISSION OF OREGON**
KELCEY BROWN
PO BOX 2148
SALEM OR 97301
kelcey.brown@state.or.us

W JORDAN A WHITE
SENIOR COUNSEL
1407 W. NORTH TEMPLE, STE 320
SALT LAKE CITY UT 84116
jordan.white@pacificorp.com

C **DAVISON VAN CLEVE**
IRION A SANGER
ASSOCIATE ATTORNEY
333 SW TAYLOR - STE 400
PORTLAND OR 97204
ias@dvclaw.com

C **DEPARTMENT OF JUSTICE**
JASON W JONES, AAG
REGULATED UTILITY & BUSINESS SECTION
1162 COURT ST NE
SALEM OR 97301-4096
jason.w.jones@state.or.us

W C **ENERGY STRATEGIES LLC**
KEVIN HIGGINS
PRINCIPLE
215 STATE ST - STE 200
SALT LAKE UT 84111-2322
khiggins@energystrat.com

C **RFI CONSULTING INC**
RANDALL J FALKENBERG
PMB 362
8343 ROSWELL RD
SANDY SPRINGS GA 30350
consultrfi@aol.com

W C **RICHARDSON & O'LEARY PLLC**
PETER J RICHARDSON
PO BOX 7218
BOISE ID 83707
peter@richardsonandoleary.com

W C **MCDOWELL RACKNER & GIBSON PC**
AMIE JAMIESON
ATTORNEY
520 SW SIXTH AVE - STE 830
PORTLAND OR 97204
amie@mcd-law.com

W C **RICHARDSON & O'LEARY**
GREGORY MARSHALL ADAMS
PO BOX 7218
BOISE ID 83702
greg@richardsonandoleary.com

W **SEMPRA ENERGY SOLUTIONS LLC**
GREG BASS
401 WEST A STREET SUITE 500
SAN DIEGO CA 92101
gbass@semprasolutions.com

Respectfully submitted,

G. Catriona McCracken
Staff Attorney
The Citizens' Utility Board of Oregon
610 SW Broadway, Ste. 308
Portland, OR 97205
(503)227-1984
Catriona@oregoncub.org