

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UE 227**

In the Matter of )  
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 )  
PACIFICORP, dba PACIFIC POWER )  
 )  
2012 Transition Adjustment Mechanism )  

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 )

**REDACTED**

**REBUTTAL TESTIMONY OF THE  
CITIZENS' UTILITY BOARD OF OREGON**

August 16, 2011



**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

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PACIFICORP, dba PACIFIC POWER	)	REBUTTAL TESTIMONY OF THE
	)	CITIZENS' UTILITY BOARD OF
2012 Transition Adjustment Mechanism	)	OREGON
_____	)	

1           Our names are Bob Jenks and Gordon Feighner, and our qualifications are listed  
2 in CUB Exhibit 101.

3 **I. Introduction**

4           CUB filed Opening Testimony in this docket (CUB / 100) on June 24, 2011. In  
5 this testimony CUB proposed adjustments on three issues—wind integration, liquidated  
6 damages, and natural gas hedging. CUB also raised the general issue of the  
7 affordability of PacifiCorp's rates and the Company's efforts to control its costs.  
8 PacifiCorp filed Rebuttal (Reply) Testimony (PacifiCorp / 400, 500, and 600) on July  
9 29, 2011.

10 **II. Rate Affordability**

11 **A. PacifiCorp Did Not Address Rates or Cost Control In Its Rebuttal Testimony**

12           CUB argued in pages 2-6 of its Opening Testimony in this docket that  
13 PacifiCorp has not done enough to control its costs in the years since MEHC acquired

1 the Company. CUB's argument was, and is, that rates have increased dramatically  
2 since the MEHC deal closed in 2005, despite MEHC's claims that rates would remain  
3 more stable under its management than they had been under PacifiCorp's previous  
4 parent company, ScottishPower. CUB is deeply disappointed that PacifiCorp did not  
5 even attempt to address the issues of cost control and rate shock in its Rebuttal (Reply)  
6 Testimony in this docket.

7 CUB believes that PacifiCorp's lack of response to CUB's raising of these cost  
8 control issues is evidence that controlling Net Power Costs (NPC) is not a priority for  
9 the Company. In fact, PacifiCorp's Rebuttal Testimony includes an increase of \$5  
10 million in NPC for 2012 over the Company's already exorbitant Initial Filing. This  
11 additional increase, if allowed, would result in a rate increase of 5.6 percent, up 0.4  
12 percent from the initial proposal of 5.2 percent. While CUB is aware that the impetus  
13 for the most recent NPC adjustments was exogenous, it is still frustrating that  
14 PacifiCorp decided not to engage CUB in a discussion of rates and cost control and did  
15 not attempt to find a way to control these additional costs.

16 **B. Rate Increases Have Real Impacts on Customers**

17 CUB has conducted discovery on the impacts of PacifiCorp's rate increases on  
18 customer accounts in a separate docket, UM 1415. After reviewing the Company's  
19 responses regarding customer disconnections and account arrearages, it is evident that  
20 this information can be used to illustrate CUB's point about the impact of increasing  
21 rates on customers in this docket as well.

22 CUB Data Request 7 to PacifiCorp in UM 1415 asked for monthly data on the  
23 number of customer disconnections, arrearage amounts, and other statistics that indicate

1 customers are having a difficult time paying their electric bills. The Company's  
 2 responses are included with this testimony as CUB Exhibit 201.

3 CUB Table 1 shows the number of disconnection notices issued each month by  
 4 PacifiCorp to Oregon customers. Since the most recent rate increase went into effect in  
 5 January 2011, the average number of disconnection notices has increased by over 10  
 6 percent from previous years. This is a strong indication that PacifiCorp's increasing  
 7 rates are making it more difficult for customers to pay their bills, as greater numbers of  
 8 customers are falling behind on their payments. In fact, nearly 9 percent of the  
 9 Company's Oregon customers are receiving a disconnection notice each month.

10 **Table 1: PacifiCorp Response to CUB DR 7(a) in UM 1415**

**Number of disconnection notices issued**

State	Month	Year			
		2008	2009	2010	2011
OR	1	46,146	44,581	42,380	48,182
OR	2	45,147	43,390	43,390	44,421
OR	3	45,095	44,449	46,964	49,343
OR	4	45,573	45,403	44,850	47,351
OR	5	43,225	41,677	41,955	46,390
OR	6	42,742	45,018	45,648	49,004
OR	7	40,358	41,053	39,987	
OR	8	40,088	40,526	42,276	
OR	9	41,867	41,695	41,653	
OR	10	44,664	42,039	42,455	
OR	11	33,884	34,216	36,177	
OR	12	42,007	42,194	41,933	
Monthly Average		42,566	42,187	42,472	47,449

Note: Disconnect notices above are limited to final notice letters. Past due notices are not included.

11

12 CUB Table 2 shows the total cumulative amount of arrearage for PacifiCorp's

13 Oregon residential customers. This amount has increased significantly since the

1 Company's 2011 rate hike. The average monthly arrearage amount for the January-June  
 2 period of 2011 is nearly 25% higher than the same period in any year from 2008-2010.  
 3 Again, CUB submits this statistic as evidence that PacifiCorp's rates are becoming  
 4 increasingly unaffordable and are having a seriously harmful impact on the finances of  
 5 the Company's customers.

6 **CUB Table 2: PacifiCorp Response to CUB DR 7(j) in UM 1415**

**Total cumulative arrearage for residential customers**

State	Month	Year			
		2008	2009	2010	2011
OR	1	\$ 12,197,763	\$ 13,415,287	\$ 15,031,336	\$ 15,141,607
OR	2	\$ 14,401,621	\$ 15,939,584	\$ 15,823,297	\$ 17,353,681
OR	3	\$ 17,351,588	\$ 16,639,749	\$ 15,485,878	\$ 19,303,208
OR	4	\$ 16,850,575	\$ 16,892,202	\$ 15,772,064	\$ 21,792,262
OR	5	\$ 17,218,428	\$ 17,048,440	\$ 16,290,793	\$ 22,839,202
OR	6	\$ 15,975,992	\$ 15,909,662	\$ 16,266,022	\$ 21,787,745
OR	7	\$ 15,108,594	\$ 14,331,336	\$ 15,296,121	
OR	8	\$ 13,802,502	\$ 12,777,072	\$ 14,385,008	
OR	9	\$ 13,924,051	\$ 13,029,292	\$ 13,517,352	
OR	10	\$ 12,111,837	\$ 11,224,635	\$ 12,510,093	
OR	11	\$ 12,574,813	\$ 11,861,196	\$ 11,019,612	
OR	12	\$ 14,684,777	\$ 11,804,368	\$ 14,353,086	
Monthly Average		\$ 14,683,545	\$ 14,239,402	\$ 15,680,673	\$ 19,702,951

Note: Includes arrearage from both active and inactive residential agreements.

7

8 Considering that Oregon's economy is slowly recovering from the recession,  
 9 one would expect that arrearages and disconnection notices would be declining as the  
 10 finances of Oregonians become more stable. Sadly, both of these statistics are  
 11 considerably worse now than they were during the bottom of the recession in late 2009.  
 12 The bottom line is that PacifiCorp's rate increases are outpacing the rate of recovery in  
 13 Oregon, making it harder for families to get back on their feet in a time of potential  
 14 economic recovery. When families and businesses across Oregon are struggling to

1 make ends meet and turn their fortunes around, PacifiCorp must do a better job of  
2 controlling its costs and ensuring that its rates are not posing an unfair, unjust, and  
3 unreasonable financial burden on its customers. Minimizing net power costs is a key  
4 strategy to keeping rates at a fair, just, and reasonable level. PacifiCorp has failed to  
5 make this a priority and should not be rewarded for its lack of diligence or the  
6 imprudence of its choices.

### 7 **III. CUB Issues**

8 CUB proposed three adjustments to PacifiCorp's Net Power Costs in Opening  
9 Testimony, and PacifiCorp responded to all three.

#### 10 **A. Wind Integration Study**

11 PacifiCorp further explained the Company's wind integration costs in its  
12 Rebuttal (Reply) Testimony (PPL / 105 / Duvall / 29). Upon review of this testimony,  
13 CUB is satisfied that the Company's proposed wind integration charge, which includes  
14 intra-hour charges that are not incorporated into the BPA rate that was proposed for  
15 adoption by CUB, is a reasonable rate. However, CUB still does not see eye to eye with  
16 PacifiCorp regarding the execution of the 2010 Wind Integration Study. CUB therefore  
17 encourages the Company to continue to work with stakeholders to fully and fairly  
18 incorporate stakeholder views into the study and to reach an equitable solution on the  
19 calculation of wind integration costs that is less contentious than the current proposal.

#### 20 **B. Liquidated Damages**

21 CUB proposed that a four-year rolling average of settlements for liquidated  
22 damages be included as an adjustment to PacifiCorp's forced outage rate (FOR)

1 calculation to account for these settlements on a forward-looking basis.<sup>1</sup> PacifiCorp did  
2 not object to this adjustment, but suggested that CUB should recommend that it be  
3 incorporated during a TAM proceeding that is concurrent with a general rate case.<sup>2</sup>  
4 CUB respectfully disagrees that this issue is off limits in a standalone TAM filing. The  
5 FOR incorporates damages in its four-year rolling average to accommodate plant  
6 shutdowns, including those for which the Company has received payments for  
7 liquidated damages. This inclusion amounts, therefore, to a double counting of the  
8 damages, as PacifiCorp receives both the cash payment of liquidated damages and the  
9 inclusion of the dates on which these damages were incurred in the FOR calculation,  
10 which in turn allows the Company to account for lost plant productivity. As such, the  
11 adjustment should be incorporated in the current docket as an adjustment to FOR in  
12 order to avoid double counting.

### 13 **C. Natural Gas Hedging Costs**

14 CUB's Opening Testimony focused largely on the excessive risk associated  
15 with the high percentage of PacifiCorp's natural gas hedging contracts that were for  
16 periods of greater than 36 months ahead.<sup>3</sup> CUB asserted that the markets for natural gas  
17 futures become significantly less liquid in periods greater than 36 months, making these  
18 contracts a riskier proposition for the Company. Furthermore, documents provided to  
19 CUB and other parties during discovery indicate that PacifiCorp's risk management  
20 policy stated that natural gas hedges should not be for greater than 36 months.<sup>4</sup>

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<sup>1</sup> CUB / 100 / Jenks-Feighner / 9-10.

<sup>2</sup> PPL / 105 / Duvall / 32.

<sup>3</sup> CUB / 100 / Jenks-Feighner / 10-15.

<sup>4</sup> PPL / 400 / Bird / 8 / lines 20-23.

1 PacifiCorp's Rebuttal (Reply) Testimony, filed in response to CUB's Opening  
2 Testimony, states that the Company's October 2006 update to its risk management  
3 policy included an amendment to reflect a 48 month maximum tenor for natural gas  
4 hedges, since the Company believes the market for hedges in the 37-48 month range is  
5 now more liquid than it was a few years ago.<sup>5</sup> CUB acknowledges this change in  
6 market conditions, and concedes that it is prudent for the Company to contract for  
7 hedges going forward that are up to 48 months out.

8 BEGIN CONFIDENTIAL

9 Notwithstanding the above, in the same passage of testimony, PacifiCorp admits that it  
10 "purchased certain natural gas swaps in late 2007 and 2008 which extended beyond 48  
11 months forward."<sup>6</sup> PacifiCorp did not provide details on these transactions in its  
12 testimony, but the Company's response to ICNU Data Request 13.2<sup>7</sup> indicates that  
13 hedges totaling ████████ MMBtu per day were made in the 49-60 month range for  
14 2012. The amounts of these hedges are quantified in ICNU Confidential Exhibit 103.  
15 The total amount of hedges that occurred during calendar year 2007 is \$██████, or  
16 \$██████ on an Oregon basis.

17 END CONFIDENTIAL

18 ICNU Data Request 13.14<sup>8</sup> sought PacifiCorp's internal documentation  
19 authorizing the execution of hedges greater than 48 months. The Company's response  
20 indicates that there is no formal documentation for this authorization and refers back to  
21 Mr. Bird's testimony. This testimony only states that the Company "made an exception

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<sup>5</sup> PPL / 400 / Bird / 8 / lines 14-19.

<sup>6</sup> PPL / 400 / Bird / 9 / lines 6-15.

<sup>7</sup> CUB Exhibit 202.

<sup>8</sup> CUB Exhibit 203.



1 to its normal policy for these transactions” due to favorable market conditions.<sup>9</sup> These  
2 hedges were purchased outside of the Company’s risk management policy and the  
3 Company did not retain documentation that demonstrates that this violation of the risk  
4 management policy was reasonable. CUB therefore encourages the Commission to  
5 conclude that these hedges were imprudent and that their costs should be disallowed.

#### 6 **IV. Conclusion**

7 CUB is disappointed with the trend in recent PacifiCorp rate proceedings. Over  
8 the past six years, PacifiCorp’s rates have risen at a rate that has far outpaced the rate of  
9 inflation. These rate increases, as demonstrated by the charts and other evidence  
10 submitted in this testimony, clearly delineate PacifiCorp’s inability to control its costs.  
11 This failure to control costs is, on a daily basis, harming Oregon customers. PacifiCorp  
12 needs to make greater efforts to control and cut costs wherever it can, and the  
13 Commission needs to send a clear message to the Company that encourages it to do so.

14 CUB recommends two adjustments to the 2012 PacifiCorp TAM filing—the  
15 inclusion of a four-year rolling average for liquidated damages in the FOR calculation,  
16 and the disallowance of the Company’s imprudent hedges—hedges that are further than  
17 48 months out. These adjustments do not represent a large amount of money, but do  
18 somewhat stem the rate increase proposed by PacifiCorp. CUB urges the Commission  
19 to take any and all measures at its disposal to reduce the rate of growth in PacifiCorp’s  
20 rates, starting with adopting CUB’s recommended adjustments in this docket.

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<sup>9</sup> PPL / 400 / Bird / 9 / lines 7-9.

July 2011 data is through July 13.

**Number of disconnection notices issued**

		Year			
7(a) State	Month	2008	2009	2010	2011
OR	1	46,146	44,581	42,380	48,182
OR	2	45,147	43,390	43,390	44,421
OR	3	45,095	44,449	46,964	49,343
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Monthly Average		42,566	42,187	42,472	47,449

Note: Disconnect notices above are limited to final notice letters. Past due notices are not included.

**Total cumulative arrearage for residential customers**

		Year			
7(j) State	Month	2008	2009	2010	2011
OR	1	\$ 12,197,763	\$ 13,415,287	\$ 15,031,336	\$ 15,141,607
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Monthly Average		\$ 14,683,545	\$ 14,239,402	\$ 14,645,889	\$ 19,702,951

Note: Includes arrearage from both active and inactive residential agreements.

**CUB EXHIBIT 202 IS CONFIDENTIAL  
SUBJECT TO PROTECTIVE ORDER NO. 10-069**

UE-227/PacifiCorp  
August 10, 2011  
ICNU Data Request 13.14

**ICNU Data Request 13.14**

With regard to the prefiled rebuttal testimony of Mr. Stefan Bird (Exhibit No. PPL/400), Bird/9, lines 4 through 15, please provide a copy of all documents and analysis the Company considered in its review to execution each of the non-standard transaction.

**Response to ICNU Data Request 13.14**

There are no documents or analyses responsive to this request. Please refer to Bird/9, lines 4 through 15 for the explanation of the Company's decision-making.

## UE 227 – CERTIFICATE OF SERVICE

I hereby certify that, on this 16<sup>th</sup> day of August, 2011, I served the foregoing **REBUTTAL TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UE 227 upon each party listed in the UE 227 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 one original and five 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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