

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UE 245**

In the Matter of )

PACIFICORP, dba PACIFIC POWER )

2013 Transition Adjustment Mechanism )

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REDACTED

OPENING TESTIMONY OF THE  
CITIZENS' UTILITY BOARD OF OREGON

June 6, 2012



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OF OREGON**

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	)	CITIZENS' UTILITY BOARD OF
2013 Transition Adjustment Mechanism	)	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           PacifiCorp's 2013 TAM filing projects a 0.7% increase for residential  
5   customers. While this is a minor increase on its own, the combined effect of this filing  
6   and PacifiCorp's General Rate Case filing (UE 246) would be a 4.2% increase for  
7   residential customers. This follows a 3.8% increase for residential customers that was  
8   agreed upon in the stipulation that settled PacifiCorp's 2012 TAM filing and became  
9   effective on January 1, 2012.<sup>1</sup> CUB is concerned about the cumulative effect of these  
10   rate hikes on customers' bills. If both of these rate increase requests are approved as  
11   filed by the Company, PacifiCorp's residential rates will be nearly 66% higher than  
12   before the MEHC merger.

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<sup>1</sup> OPUC Order No. 11-435, page 28.

CUB understands that the primary drivers of the rate increase in this TAM filing are decreasing load forecasts and expiring contracts for wholesale sales. As such, the only issue that CUB needs to address at this point in the proceeding is the Company's modeling of wholesale sales. There are, however, substantial issues concerning the structure of the TAM, and of PacifiCorp's modeling methodologies and financial activities, that CUB intends to address in UE 246.

## **II. Wholesale Sales Issue**

In PacifiCorp's 2008 TAM filing (UE 191), Staff raised the issue that the GRID model greatly underestimates the Company's short-term wholesale sales volumes. The Commission subsequently ruled in Order No. 07-446 that GRID should be adjusted to include revenues associated with those sales that are not included in GRID forecasts. This adjustment included an Oregon allocation of roughly \$800,000 to account for PacifiCorp's margin on short-term arbitrage sales.

Today the GRID model greatly overestimates wholesale sales volumes rather underestimating them. Table 5 of PacifiCorp/100 demonstrates this overestimation phenomenon. It shows that GRID forecasts wholesale sales volumes that are significantly higher than the actual sales executed.

Now that the GRID results no longer flow in PacifiCorp's favor, the Company is arguing that the adjustment in Order No. 07-446 is no longer necessary. CUB believes, however, that this adjustment is a safeguard that would protect customers in the event that the Company is able to take advantage of arbitrage opportunities in a way that is not otherwise included in the TAM estimate of net power costs. The fact that a rule does not apply under certain prevailing circumstances does not automatically mean

1 that that rule is irrelevant. In fact, removing the adjustment results in an increase in  
2 PacifiCorp's net power costs of over \$[REDACTED].<sup>2</sup> CUB encourages the Commission  
3 to maintain the adjustment set forth in Order No. 07-446.

4 While CUB acknowledges that it is difficult to accurately forecast market  
5 conditions, market sales, and arbitrage opportunities, it is CUB's position that going  
6 back to the days of under-forecasting off-system sales to the benefit of shareholders is  
7 not the appropriate decision. If PacifiCorp retains the ability to use ratepayer-financed  
8 assets to sell power on the wholesale market, customers should be the beneficiary. In  
9 addition, CUB notes that since the TAM was introduced in 2005, power costs always  
10 seem to move up, not down. Power costs increase whether coal costs increase or  
11 decrease, whether hydro conditions are good or bad, whether natural gas costs increase  
12 or decrease, and whether retail loads increase or decrease. Making a change to the  
13 TAM that will allow for off-system sales to be under-forecast will only make a bad  
14 situation worse.

### 15 **III. Conclusion**

16 The TAM was not established as a mechanism to remove the incentive for the  
17 Company to manage its power costs based on least cost/least risk principles; it was  
18 established in order to allow direct access. The very name of this proceeding—  
19 Transition Adjustment Mechanism—makes this clear. It was established to identify the  
20 transition adjustment payments and credits associated with direct access customers.  
21 However, not once since its inception has the TAM resulted in a decrease in customer

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<sup>2</sup> See CUB CONFIDENTIAL Exhibit 102.

1 rates due to a decline in net power costs. Instead, every year since it was introduced,  
2 regardless of the actual movement of power costs, customer rates have increased.<sup>3</sup>

3 CUB has argued before that PacifiCorp needs to do a better job of managing its  
4 power costs.<sup>4</sup> We realize this argument becomes tiresome, so we will not repeat it in  
5 detail here, and will simply save it for testimony in the General Rate Case. However, it  
6 is time to consider the elimination of the TAM. Put simply, there is no better way to  
7 create an incentive for PacifiCorp to better manage its power costs than to eliminate the  
8 TAM. .

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<sup>3</sup> See CUB Exhibit 103.

<sup>4</sup> See UE 227 / CUB / 100 / Jenks-Feighner / pages 2-6.

### WITNESS QUALIFICATION STATEMENT

**NAME:** Bob Jenks

**EMPLOYER:** Citizens' Utility Board of Oregon

**TITLE:** Executive Director

**ADDRESS:** 610 SW Broadway, Suite 400  
Portland, OR 97205

**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 207, UE 208, UE 210, 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  
Board of Directors, OSPIRG Citizen Lobby  
Telecommunications Policy Committee, Consumer Federation of America  
Electricity Policy Committee, Consumer Federation of America

### **WITNESS QUALIFICATION STATEMENT**

**NAME:** Gordon Feighner

**EMPLOYER:** Citizens' Utility Board of Oregon (CUB)

**TITLE:** Senior Utility Analyst

**ADDRESS:** 610 SW Broadway, Suite 400  
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 including UE 196, UE 204, UE 207, UE 208, UE 210, UE 213, UE 214, UE 216, UE 217, UE 219, UE 227, UE 228, UM 1355, UM 1431, and UM 1484. I have also completed the Annual Regulatory Studies Program at the Institute of Public Utilities at Michigan State University in 2010.

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.

**CUB EXHIBIT 102 IS CONFIDENTIAL  
SUBJECT TO PROTECTIVE ORDER NO. 10-069**



OR UE 245  
ICNU 5.1

Attachment ICNU 5.1

Pacific Power  
State of Oregon  
UE 245 TAM

Docket		UE 170 <sup>(1)</sup>	UE 179 <sup>(1) (2)</sup>	UE 191	UE 199	UE 207	UE 216	UE 227
Final Rates Effective			1/1/2007	1/1/2008	1/1/2009	1/1/2010	1/1/2011	1/1/2012
<b>Initial filing</b>								
Total NPC	\$ Millions	\$813.9	\$863.1	\$1,004.1	\$1,128.5	\$1,100.5	\$1,278.2	\$1,557.7
Overall Rate Change	(\$000)	Not	Not	\$35,851	\$41,161	\$20,571	\$69,169	\$61,645
	Base %	tracked	tracked	4.0%	4.5%	2.2%	7.2%	5.3%
	Net %	separately	separately	3.9%	4.4%	2.1%	7.0%	5.2%
Large General Service Rate Change (Sch 48)	(\$000)	from GRC	from GRC	\$7,755	\$8,904	\$3,823	\$12,230	\$13,359
	Base %			5.5%	6.1%	3.0%	9.6%	6.9%
	Net %			5.5%	6.2%	2.9%	9.8%	7.3%
<b>Final November Update <sup>(3)</sup></b>								
Total NPC prior to settlement adjustments	\$ Millions	\$ 796.5	\$875.0	\$987.8	\$1,134.6	\$1,092.3	\$1,288.7	\$1,496.9
Impact of Settlement Adjustments	\$ Millions		(42.1)	(7.6)	(91.2)	(63.6)	(44.8)	(32.3)
Total NPC, Final November Update	\$ Millions	\$796.5	\$832.8	\$980.2	\$1,043.3	\$1,028.8	\$1,243.9	\$1,464.5
Overall Rate Change	(\$000)	\$2,912	\$10,000	\$22,422	\$9,198	\$3,743	\$60,881	\$51,261
	Base %	0.4%	1.2%	2.5%	1.0%	0.4%	6.3%	4.4%
	Net %	0.4%	1.2%	2.5%	0.9%	0.4%	6.1%	4.4%
Large General Service Rate Change (Sch 48)	(\$000)	\$690	\$2,163	\$4,850	\$2,106	\$696	\$10,749	\$10,643
	Base %	0.5%	1.7%	3.5%	1.3%	0.5%	8.4%	5.8%
	Net %	0.5%	1.7%	3.5%	1.3%	0.5%	8.6%	6.1%
<b>Final Rate Change <sup>(4)</sup></b>								
Total NPC	\$ Millions	\$796.5	\$832.8	\$980.2	\$1,043.3	\$1,028.8	\$1,237.0	\$1,463.1
Overall Rate Change	(\$000)	No Change	No Change	No Change	No Change	No Change	\$59,758	\$50,959
	Base %	from Final	from Final	from Final	from Final	from Final	6.2%	4.4%
	Net %	Update	Update	Update	Update	Update	6.0%	4.4%
Large General Service Rate Change (Sch 48)	(\$000)						\$10,541	\$10,569
	Base %						8.3%	5.7%
	Net %						8.4%	6.1%
<b>Changes made between final update and actual rate increase:</b>								
Total NPC	\$ Millions						\$ (6.9)	\$ (1.4)
Apply provisions of UM1355							\$ (2.6)	
Kennecott price change per new contract							\$ (4.3)	
Hourly price scalar updates								\$ (1.4)

(1) Prior to 2006, net power cost increases were requested as part of a GRC when a GRC was filed. The TAM adjustment made in November reflects the incremental change only

(2) Final Net Variable Power Costs and final TAM increase were capped as part of an approved settlement.

(3) Final November Update total NPC does not include settlement adjustments.

(4) Final November Rate Change total NPC includes settlement adjustments.

## UE 245 – CERTIFICATE OF SERVICE

I hereby certify that, on this 6<sup>th</sup> day of June, 2012, I served the foregoing **OPENING TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UE 245 upon each party listed in the UE 245 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 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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Respectfully submitted,

A handwritten signature in black ink, appearing to read "Sommer Templet". The signature is fluid and cursive, with the first name "Sommer" being more prominent than the last name "Templet".

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