



August 13, 2012

**Via Electronic Filing and USPS**

Public Utility Commission of Oregon  
Attn: Filing Center  
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Salem, OR 97308-2148

Re: OR Docket No. UE-246 - Sierra Club Surrebuttal Testimony of William Steinhurst

Please find enclosed the original and five (5) copies of Sierra Club's Surrebuttal Testimony of William Steinhurst in the above-referenced docket.

Please let me know if you require any additional documents or if you have any questions. Thank you.

Sincerely,

/s/ Derek Nelson

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## CERTIFICATE OF SERVICE

I hereby certify that on this 13<sup>th</sup> day of August, 2012, I caused to be served the foregoing Sierra Club Surrebuttal Testimony of William Steinhurst on all party representatives on the official service list for this proceeding via electronic mail.

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Dated this 13<sup>th</sup> day of August, 2012 at San Francisco, CA.

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**STATE OF OREGON**

**Public Utility Commission**

In the Matter of PacifiCorp's Filing of Revised  
Tariff Schedules for Electric Service in Oregon

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Docket No. UE 246

**Surrebutal Testimony of  
William Steinhurst, Ph.D.**

**On Behalf of  
Sierra Club**

**August 13, 2012**

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## **Table of Contents**

1. INTRODUCTION AND QUALIFICATIONS .....	1
2. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS .....	1
3. PRUDENCE AND THE COMPANY'S PROPOSAL .....	3
4. RECOMMENDATIONS .....	6

1     **1.     INTRODUCTION**

2     **Q.     Please state your name and occupation.**

3     A.     My name is William Steinhurst, and I am a Senior Consultant with Synapse  
4             Energy Economics (Synapse). My business address is 32 Main Street, #394,  
5             Montpelier, Vermont 05602.

6     **Q.     Are you the same William Steinhurst who prefiled Direct Testimony in this**  
7             **proceeding?**

8     A.     Yes, I am.

9     **Q.     On whose behalf are you submitting this surrebutal testimony?**

10    A.     I am testifying on behalf of the Sierra Club.

11    **Q.     What is the purpose of your testimony?**

12    A.     The purpose of my testimony is to respond to certain points raised in the Rebuttal  
13             Testimony of Pacificorp witness Woolums.

14    **2.     FLEET REPLACEMENT ISSUES**

15    **Q.     What was witness Woolums' rebuttal testimony regarding fleet replacement?**

16    A.     On page 5, lines 4-8, Ms. Woolums states:

1                   **Q. Can the Company prudently base its investment decisions on a**  
2                               **stakeholder policy-driven transition away from coal-fueled**  
3                               **generation?**

4                   A. No. The Company cannot prudently and effectively re-invent its entire  
5                               fleet based upon certain stakeholders' environmental policies and  
6                               goals. Such significant policy decisions are properly made by  
7                               legislative authorities.

8                   On page 37, line 23, Ms. Woolums states, in reference to PGE's Boardman plant:

9                   A.     It is far easier for PGE to replace less than 400 megawatts of coal-  
10                            fueled generation from one plant located in the only state that it  
11                            serves than it is for the Company to replace more than 15 times  
12                            that amount of generation from 26 plants.

13   **Q.     Are those rebuttal points directed at Sierra Club direct testimony?**

14   A.     The latter point appears to be directed at CUB testimony, but it is related to the  
15             former point which could, from its context, be directed at either CUB or Sierra  
16             Club.

17   **Q.     In any event, how do you respond to those points?**

18   A.     First, I am not aware of any reason why the Company may not choose to "re-  
19             invent its entire fleet" for whatever reasons its management chooses, subject to  
20             the supervision of the various Commissions by which it is regulated, of course. It  
21             is not clear to me whether or why any given state's legislature would or could  
22             reserve to itself management decisions regarding generation plants.

1 Second, and more to the point, neither Sierra Club witness Fisher nor myself have  
2 made any such suggestion. Our conclusion is that the Company's decision to  
3 invest in environmental retrofits of four specific units was imprudent, and that the  
4 associated costs should not be recovered in rates. That is a far cry from  
5 "reinvent[ing] its entire fleet."

6 For both of these reasons and to the extent that Ms. Woolums intends to rebut  
7 Sierra Club witnesses in the quoted passages, the Commission should not accord  
8 the quoted rebuttal any weight.

9 **3. REANALYZING INVESTMENTS**

10 **Q. What was witness Woolums' rebuttal testimony regarding rate making?**

11 A. On page 26, line 22 through page 27, line 20, Ms. Woolums states:

12 **Q. Are there other potential consequences if CUB's interpretation**  
13 **of the used and useful standard is adopted?**

14 A. Yes. As demonstrated in Mr. Teply's reply testimony, planning,  
15 engineering, and installing emissions control equipment is a  
16 lengthy and costly process. If the Company is required to  
17 continually re-analyze its investment decisions, or if investments  
18 are not considered used and useful until some amorphous final  
19 compliance date, then the Company is at significant risk for  
20 incurring costs that are not recoverable in rates. This risk is  
21 particularly acute in Oregon, where the used and useful standard is



1 strictly interpreted to prevent recovery of costs incurred for  
2 projects that are deemed not presently used to serve customers.  
3 Examples of such costs at risk for non-recovery include the costs  
4 associated with studying alternatives that are not ultimately  
5 pursued and the prudent abandonment of an on-going project after  
6 another alternative proves to be more cost effective. This strict  
7 Oregon interpretation can create a disincentive to study alternatives  
8 and to abandon projects once significant costs are incurred.

9 CUB and Sierra Club are attempting to use the existing regulatory  
10 framework in Oregon to promote a particular policy goal—  
11 reduction/elimination of coal-fueled generation prior to the end of  
12 current ratemaking depreciation lives. But Oregon's existing  
13 regulatory framework does not support continued reanalysis and  
14 abandonment of projects that are in process. The appropriate forum  
15 to pursue CUB and Sierra Club's policy goal is the legislature, not  
16 this Commission. At the very least, a change to Oregon's used and  
17 useful statute, 18 ORS 757.355, is necessary to avoid creating a  
18 disincentive for a utility to act in the customers' long-term interests  
19 by converting coal-fired plants to natural gas where economic.

20  
21 **Q. Are those rebuttal points directed at Sierra Club direct testimony?**

22 A. The question and answer are confusing on this point. Sierra Club witnesses have  
23 not raised used and useful issues relative to the Naughton or Hunter units in this

1 proceeding, yet the Company charges both CUB and Sierra Club with doing so.  
2 Moreover, the answer bundles together the questions of treatment of non-used and  
3 useful costs, “prudent abandonment of an on-going project,” and demanding  
4 “continued reanalysis and abandonment of projects that are in process.” In any  
5 event, the plain language of the answer implicates Sierra Club in its charges.

6 **Q. How, then, do you respond to that question and answer?**

7 A. First, Sierra Club witness Fisher and I testify about the prudence of certain  
8 specific Company decisions made at certain specific points in time. Dr. Fisher’s  
9 testimony sets out those specific decisions, the supporting analyses and the dates  
10 on which those analyses were or should have been done. While I do believe that  
11 the Company and any public utility has an obligation to monitor its proposed and  
12 ongoing investments and correctly analyze their economics as it does so, Sierra  
13 Club witnesses have spoken only to specific and logical points in time when it is  
14 inarguable that the Company should review its commitments and act accordingly  
15 as part of its fundamental duty to provide service at a just and reasonable cost.

16 Second, my testimony and recommendations concerning prudence and  
17 disallowances are fully in keeping with traditional rate making concerning  
18 prudence and the rebuttal is wholly irrelevant to that point.

19 Third, my testimony and that of Dr. Fisher do not relate to either CUB’s or Sierra  
20 Club’s policy positions outside of this proceeding. Our analysis, conclusions and  
21 recommendations address solely matters of sound utility management decision  
22 making and traditional prudence reviews. Any suggestion to the contrary is  
23 wrong.

1    **4.    TREATMENT OF SUNK COSTS**

2    **Q.    What was witness Woolums' rebuttal testimony regarding treatment of sunk**  
3    **costs?**

4    A.    On page 35, lines 16-20, Ms. Woolums states:

5                    **Q. Why is the depreciable life of a facility one of the factors**  
6                    **considered when the Company assesses its compliance**  
7                    **strategy?**

8                    A. There are significant rate and regulatory implications to early closure of  
9                    a plant that is not fully depreciated. Effectively, it leaves the  
10                    Company and its customers exposed to unrecovered or stranded  
11                    costs.

12   **Q.    What is your understanding of where depreciable life is relevant in a cost-**  
13   **benefit decision?**

14   A.    I understand that certain environmental regulations require consideration of the  
15           cost effectiveness of retrofits over a unit's depreciable life but solely for the  
16           purpose of deciding whether that retrofit is or is not required by that regulation.

17   **Q.    Is depreciable life relevant to least-cost planning decisions and the provision**  
18   **of service at least cost?**

19   A.    No, that would be economic nonsense. There may be "significant rate and  
20           regulatory implications to early closure of a plant that is not fully depreciated,"

1 but those implications have nothing to do with whether closure is the least-cost  
2 resource option.

3 I do not agree that, in the event of a coal unit retirement, the unamortized values  
4 would be recoverable in rates under traditional ratemaking. However, from a  
5 least-cost planning perspective it is irrelevant whether the unamortized costs of  
6 those plants are recoverable in rates. That is because, whether or not those costs  
7 would be recoverable from ratepayers, they would neither be incurred nor be  
8 avoided by choosing to or not to pursue upgrades that would control emissions  
9 that comply with EPA regulations. Rather, those costs are sunk and are  
10 completely unaffected by any decision regarding the environmental retrofits.

11 The following example should clarify this point. Assume for the sake of argument  
12 that (1) the current, unamortized cost of a coal plant, including the present value  
13 of any carrying charges, is \$1 billion, (2) the life cycle cost of retrofitting and  
14 operating those plants is \$3 billion, (3) the life cycle cost of retiring those plants  
15 and replacing them with NGCC plants is \$2.5 billion, and (4) nothing else in the  
16 cost of service will change between those two strategies. Then the cost of service  
17 difference (NPVRR) will be:

Strategy	Build Case (Install Environmental Retrofits)	Alternative Case (retire existing plants and replace with NGCC)	Difference
Amortization of existing rate base and carrying costs	\$1 Billion	\$1 Billion	\$0
Capital and operating costs of strategy	\$3 Billion	\$2.5 Billion	\$0.5 Billion
Total	\$4 Billion	\$3.5 Billion	\$0.5 Billion

1       Clearly, whether we assume the existing rate base would, in fact, be recoverable from  
2       customers under the Alternative Case, the amount of that existing rate base cancels  
3       out and makes no difference in which strategy is least cost.

4       **Q.     Does this conclude your surrebuttal testimony?**

5       A.     Yes, it does.