

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1050

In the Matter of the Application of)
)
PACIFICORP)
)
Requesting to Initiate an Investigation of)
Multi-Jurisdictional Issues.)
_____)

**REBUTTAL TESTIMONY,
SURREBUTTAL TESTIMONY,
AND TESTIMONY CONCERNING THE STIPULATION
OF
RANDALL J. FALKENBERG
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS
OF NORTHWEST UTILITIES
REDACTED VERSION**

(Shading indicates confidential material)

August 6, 2004

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Randall J. Falkenberg, PMB 362, 8351 Roswell Road, Atlanta, Georgia 30350. I
3 am the same Randall J. Falkenberg who filed direct testimony on behalf of the
4 Industrial Customers of Northwest Utilities (“ICNU”) in this case.

5 **Q WHAT IS THE PURPOSE OF THIS TESTIMONY?**

6 **A.** First, I will respond to the Oregon Public Utility Commission (“OPUC” or the
7 “Commission”) Staff direct testimony. Staff supports ratification of the Second
8 Revised Protocol provided the OPUC obtains further assurances from PacifiCorp
9 (or “the Company”) and other states regarding the permanence of the hydro
10 preferences (the Hydro Endowment and the Mid-C allocation). Second, I will
11 discuss the Stipulation between PacifiCorp, the Citizens’ Utility Board (“CUB”),
12 and Staff (the “Stipulation”), which was filed in this Docket on July 23, 2004.
13 Finally, I will provide surrebuttal to the rebuttal testimony of PacifiCorp and
14 Staff.

15 **I. TESTIMONY CONCERNING STAFF DIRECT TESTIMONY**

16 **Rebuttal To Staff Witness Hellman**

17 **Q. WHAT IS DR. HELLMAN’S RECOMMENDATION IN THIS CASE?**

18 **A.** Dr. Hellman testifies: “[t]he Commission should ratify the [PacifiCorp Revised
19 Protocol (“PRP”)], if there are certain assurances from PacifiCorp (or Company)
20 and the other states that Oregon consumers can count on the permanence of the
21 Protocol’s Hydro Endowment.” Re PacifiCorp, OPUC Docket No. UM 1050,
22 Staff/100, Hellman/2 (July 2, 2004). I disagree with his recommendation to ratify
23 the Second Revised Protocol subject only to this one condition for many reasons.

1 As a number of those reasons have already been discussed in my direct testimony,
2 I will not repeat those arguments in this testimony. However, I will address
3 certain new issues raised by Staff.

4 I agree with Dr. Hellman that the hydro preferences in the Second Revised
5 Protocol are far too precarious for the OPUC to take for granted. A binding
6 guarantee from PacifiCorp and a public endorsement of the concept from the
7 other states would certainly provide an encouraging sign that these hydro
8 preferences will be respected in the years ahead. However, I question whether the
9 parties in the other states are really as committed to the hydro preferences as he
10 suggests.

11 For example, Dr. Hellman testifies that “under the PRP, there is no dispute
12 as to whether the former [Pacific Power and Light (“PP&L”)] states are entitled to
13 the hydro resources. Without the PRP, the states would likely not be in agreement
14 on this issue.” Staff/100, Hellman/23. Unfortunately, Dr. Hellman is reading
15 more into the agreement than it actually says. The parties in other states were
16 unwilling to install language stating that they would not challenge the hydro
17 preferences for the former PP&L states in the future. Utah has been unwilling to
18 include any language in the Protocol regarding the performance of the hydro
19 endowment. While PacifiCorp has secured certain Utah parties’ agreement to the
20 Second Revised Protocol, the Company could only do so by agreeing to absorb
21 some of the costs that would have been imposed on that state. However, this
22 agreement expires around 2010, and the Utah parties are free to devise a new
23 method at that time or earlier. As a result, the acceptance of the Second Revised

1 Protocol may amount to little more than a pragmatic, short-term acceptance of a
2 deal to mitigate an unfavorable litigation result, rather than an agreement on
3 principles. For this reason, one cannot view the hydro preferences as being
4 secured in the future. As a result, I am not as optimistic as Dr. Hellman on this
5 point.

6 **Q. ON WHAT BASIS DOES DR. HELLMAN RECOMMEND THIS**
7 **CONDITIONED RATIFICATION OF THE SECOND REVISED**
8 **PROTOCOL?**

9 **A.** Dr. Hellman argues that the Second Revised Protocol provides five kinds of
10 benefits to Oregon and that it meets the three directives of the Commission in this
11 proceeding and *some* of the goals of the Oregon coalition. I disagree.

12 **Q. WHAT ARE THE BENEFITS OF THE SECOND REVISED PROTOCOL**
13 **CITED BY DR. HELLMAN?**

14 **A.** Dr. Hellman cites five benefits for Oregon: 1) Restoration of the Oregon Hydro
15 Endowment; 2) Institution of the new Mid-C allocation; 3) Recognition of a
16 broader scope of costs in the new hydro preferences; 4) Insulation from
17 unfavorable policies of other states; and 5) Resolution of direct access issues in
18 the multi-state process (“MSP”). Staff/100, Hellman/9-10.

19 **Q. DO YOU AGREE WITH DR. HELLMAN’S CHARACTERIZATION OF**
20 **THESE BENEFITS?**

21 **A.** No. I will address each point listed above. With respect to the Hydro
22 Endowment, this is not a benefit, but rather a cost to Oregon over the period 2006
23 to 2018, as I pointed out in my direct testimony. Re PacifiCorp, OPUC Docket
24 No. UM 1050, ICNU/100, Falkenberg/29-30 (July 19, 2004). Obtaining a Hydro
25 Endowment that *increases* costs for Oregon is not a victory and provides no

1 support for ratifying the Second Revised Protocol. Further, Oregon never really
2 lost the benefit of the Modified Accord fuel credit even when other states no
3 longer accepted it. In fact, all cases filed by PacifiCorp after 1998 in Oregon still
4 used the Modified Accord methodology, which included the fuel credit. The fuel
5 credit is a mechanism to provide hydro benefits to Oregon.

6 Regarding the Mid-C allocation, Dr. Hellman ignores the fact that it came
7 at the cost of a very unfavorable situs allocation of Qualifying Facility (“QF”)
8 costs. Once the QF contracts terminate, there is nothing to assure Oregon that the
9 other states will continue to honor the Mid-C allocation. Indeed, the Utah
10 Stipulation contemplates development of a new methodology around the time
11 when most of the QF contracts begin to terminate.

12 Dr. Hellman’s third point is misleading and inconsequential. The formula
13 used to compute the hydro preferences has changed and now includes all of the
14 costs of hydro. That may mute the criticism that the Modified Accord fuel credit
15 did not reflect all costs of hydro, but it does nothing to ensure the future viability
16 of this approach. Further, the benefits for Oregon for both the Mid-C/QF
17 allocations and the new Hydro Endowment are only [REDACTED] of the value of the
18 Modified Accord fuel credit over the period 2005 to 2018. ([REDACTED] million for
19 Modified Accord vs. [REDACTED] million for Second Revised Protocol). *See Confidential*
20 *Workpapers to the Rebuttal Testimony of Randall J. Falkenberg (Aug. 6, 2004).*

21 Dr. Hellman’s point regarding protection from uneconomic decisions
22 made by other states is also open to debate. Staff/100, Hellman/9-10. The
23 Second Revised Protocol requires situs allocation of certain kinds of uneconomic

1 resources (the so-called State Resources). However, I suspect there will be much
2 debate when it comes time to actually apply this clause in practice. This is a
3 particular problem for Oregon because, as I pointed out in my direct testimony,
4 PacifiCorp has a vested interest in minimizing Utah's allocation of costs under the
5 new agreement.

6 Finally, ICNU does not dispute that there are some limited benefits with
7 respect to the issue of direct access.

8 **Q. SUMMARIZE DR. HELLMAN'S TESTIMONY CONCERNING THE**
9 **COMMISSION'S DIRECTIVES FOR THIS CASE.**

10 **A.** Dr. Hellman identified three major directives of the Commission in this case:

- 11 1. Determine an allocation methodology that will allow
12 PacifiCorp an opportunity to recover its prudently incurred
13 costs associated with its investment in generation resources;
- 14 2. Insure that Oregon's share of PacifiCorp's costs is equitable
15 in relation to other states; and
- 16 3. Meet the public interest standard in Oregon.

17 Staff/100, Hellman/12.

18 **Q. DO YOU AGREE WITH DR. HELLMAN'S ASSESSMENT THAT THE**
19 **SECOND REVISED PROTOCOL MEETS THE COMMISSION'S FIRST**
20 **DIRECTIVE?**

21 **A.** Yes, although *any* allocation method agreed upon by all the states, reasonable or
22 not, would satisfy this directive. I am troubled, however, by Dr. Hellman's
23 interpretation of this directive. Dr. Hellman's testimony seems to view this as
24 meaning that the only methodologies that satisfy the Commission's first directive
25 are those agreeable to Utah:

1 [I]t appears very unlikely that if Utah adopted 'Rolled In' and
2 Oregon adopted 'Hybrid', then PacifiCorp would have the
3 opportunity to recover its prudently incurred costs.

* * *

4 I am aware that it is very likely that Utah will adopt the PRP.
5 Based on discussions in the many workshops I have attended; my
6 understanding is that in the event Utah and Oregon reach
7 agreement on an interstate jurisdictional allocation method,
8 commission staff from Idaho and Wyoming would also support the
9 agreed-to method, as long as it does not result in significant harm
10 to those states. That leaves California and Washington. California
11 was not actively involved in the multistate discussions due perhaps
12 because PacifiCorp's relative size of load in California is small. I
13 am not aware of the PRP's prospects in California. The
14 Washington UTC staff, on the other hand, has not voiced support
15 for the PRP, and hence, ratification from Washington is uncertain.

16 Id. at Hellman/12-13. In the end, Dr. Hellman dismisses the importance of
17 Washington and California, and believes Idaho and Wyoming will follow the lead
18 of Utah and Oregon. Since Utah has already adopted the Second Revised
19 Protocol, satisfaction of the first directive, in Dr. Hellman's view, appears to
20 amount to little more than the observation that it is satisfactory to Utah.

21 **Q. DO YOU AGREE WITH DR. HELLMAN THAT THE SECOND REVISED**
22 **PROTOCOL MEETS THE COMMISSION'S SECOND DIRECTIVE?**

23 **A.** No. Dr. Hellman believes that the Second Revised Protocol results in Oregon
24 obtaining 34% of the benefits of integration of the PacifiCorp system, which he
25 calls "merger savings." Staff/100, Hellman/14. Dr. Hellman's testimony
26 suggests that because Oregon is only 28% of the system load, the Second Revised
27 Protocol is equitable to Oregon. Further, Dr. Hellman cites the assumed benefits
28 of the proposal (■■■ million compared to the Rolled-In Methodology and ■■■
29 million compared to Modified Accord). Id. Based on these savings, and the fact
30 that the Second Revised Protocol (in the absence of the Stipulation) costs Utah

1 more than the Rolled-In Methodology, Dr. Hellman contends that the Second
2 Revised Protocol meets the Commission's second directive.

3 I have already discussed the infirmities of the savings projections relied
4 upon by Dr. Hellman in my direct testimony and have demonstrated that the
5 savings are overstated and quite uncertain. As a result, I will not dwell further on
6 that point. With regard to the benefits of system integration, Dr. Hellman's
7 analysis is fundamentally flawed. As I pointed out in my direct testimony, there
8 is substantial uncertainty surrounding PacifiCorp's estimates of the benefits of
9 integration. ICNU/100, Falkenberg/22. In the 2001 Utah general rate case, the
10 Company contended these benefits were virtually inconsequential. *See Re*
11 PacifiCorp, Utah Public Service Commission ("UPSC") Docket No. 01-035-01,
12 Report and Order at 21 (Sept. 10, 2001). However, in this case, the Company has
13 estimated those savings to be \$200-\$300 million. Re PacifiCorp, OPUC Docket
14 No. UM 1050, PPL/202, Kelly/12 (May 21, 2004).

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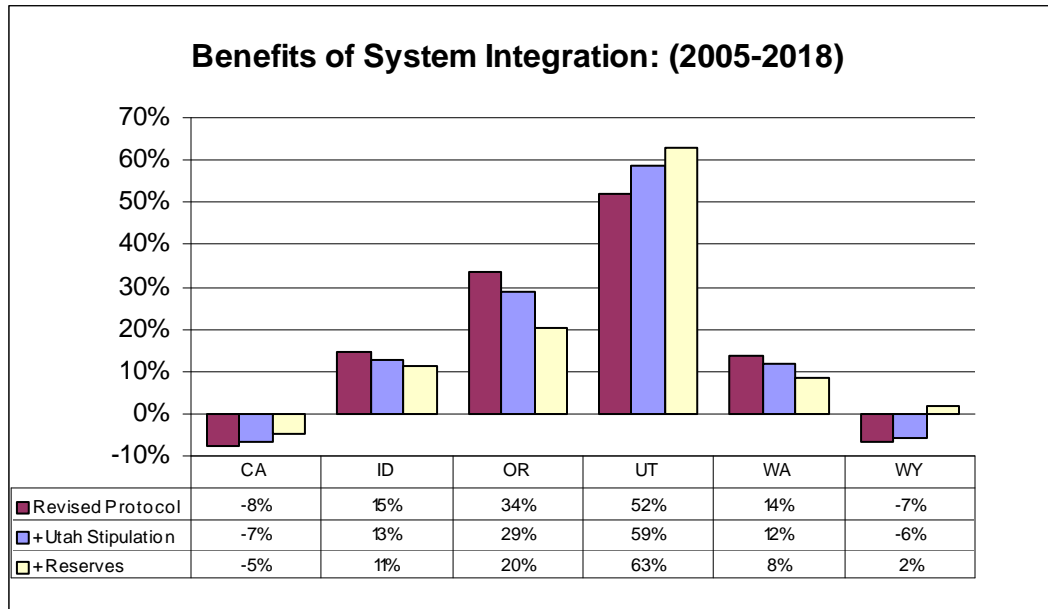
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1 **Q. ASSUMING THE PACIFICORP MSP FIGURES ARE ACCURATE, DOES**
 2 **THE SECOND REVISED PROTOCOL FAIRLY DISTRIBUTE THE**
 3 **BENEFITS OF INTEGRATION?**

4 **A.** No. The figure below shows the merger savings under three scenarios.^{1/}



5 The first scenario shows results for the Second Revised Protocol without the Utah
 6 Stipulation. In the second scenario, the impact of the Utah Stipulation is
 7 considered. In the third scenario, the benefits of reserves (dynamic overlay) are
 8 considered. The figure above shows that, under all three scenarios, Utah is
 9 allocated the majority of the benefits of integration based on a comparison of the
 10 revenue requirements between the two methods. Under the Revised Protocol
 11 without the Stipulation, Utah obtains 52% of the benefits of Integration, and
 12 Oregon only 34%. When the Stipulation is considered, Utah obtains 59% of the
 13 benefits of integration, while Oregon's share is reduced to 29%. Once the reserve
 14 (or dynamic overlay) benefits are considered, Utah obtains 63% of the merger

^{1/} Confidential Workpapers to the Rebuttal Testimony of Randall J. Falkenberg, file Benefits of Integration.xls (Aug. 6, 2004).

1 savings, while Oregon obtains only 20%. Under any scenario, California is
2 actually worse off due to the integration of the system. Wyoming is worse off
3 under the first two scenarios, and barely breaks even under the third.^{2/}

4 **Q. WHY DOES THE UTAH STIPULATION IMPACT THE ANALYSIS OF**
5 **MERGER SAVINGS?**

6 **A.** Because of the Utah Stipulation, Utah has a \$32 million lower revenue
7 requirement under the Second Revised Protocol. Thus, Utah obtains a larger
8 amount of the combined revenue requirements savings under the integrated
9 system case. Effectively, the Company is agreeing to collect a lower rate of return
10 from Utah under the Second Revised Protocol and Utah Stipulation. In terms of
11 the benefits of integration, the Company is agreeing that in combining the system
12 and obtaining an agreement from Utah, it has a lower cost of capital than would
13 otherwise be the case. The Company assigns 100% of this benefit to Utah under
14 the Second Revised Protocol via the Utah Stipulation. This analysis assumes the
15 Company does not attempt to make up this shortfall from other states.

16 **Q. OREGON IS 28% OF THE TOTAL SYSTEM SALES. DOESN'T THAT**
17 **MEAN IT SHOULD OBTAIN ONLY 28% OF THE BENEFITS OF**
18 **INTEGRATION?**

19 **A.** No. That would imply that the benefits of integration are proportional to current
20 system loads. However, this is a poor measure of the contribution of the
21 respective systems to the overall benefits. There is no industry standard practice
22 for this approach, although for many years the “shared savings” method was used
23 for many types of transactions. Under this approach, savings would be allocated

^{2/} Under Section XIII(D) (“Interdependency among Commission Approvals”), Wyoming effectively has veto power on ratification of the agreement. Re PacifiCorp, OPUC Docket No. UM 1050, PPL/203 (Revised), Kelly/15 (June 30, 2004).

1 50/50 between the former PP&L and Utah Power and Light (“UP&L”) states.
2 Other approaches are also possible and have nothing to do with relative loads.
3 For example, I am familiar with a case involving Houston Lighting and Power
4 (“HL&P”) and San Antonio City Public Service Board where benefits from a
5 Joint Operating Agreement between the two were allocated 90/10 in favor of the
6 much smaller of the two utilities (San Antonio).^{3/} Allocation of benefits should
7 not be based on respective loads, but rather the value of the resources in place at
8 the time of the combination and other circumstances. For example, if there was a
9 merger of two systems with equal load, but one had no generating capacity, would
10 it be reasonable to assume the equitable sharing of the merger benefits is 50/50?
11 I think not. Given the lower cost and higher value of the PP&L hydro resources,
12 the western division could certainly argue for a greater allocation of the benefits.

13 Assuming the two systems had equal value and had a reasonable load/
14 resource balance, the relative loads of the respective states at the time of the
15 merger would be a much better measuring stick. I do not have complete 1988
16 load data. However, in 1992, Oregon was 32.9% of system load, while Utah was
17 31.6%. See Re PacifiCorp, OPUC Docket No. UM 1050, PPL/304, Duvall/1
18 (Sept. 30, 2003). This comparison clearly demonstrates the inequity of assigning
19 the majority of the benefits of integration to Utah under the Revised Protocol.

^{3/} There was a dispute concerning that case because the Joint Operating Agreement resulted from litigation over a nuclear plant construction issue. While I advocated a 50/50 sharing, HL&P maintained the 90/10 allocation was fair.

1 **Q. EXPLAIN THE THIRD SCENARIO INVOLVING THE DYNAMIC**
2 **OVERLAY BENEFITS.**

3 **A.** The dynamic overlay, or reserve, benefits are provided by the west to the east.
4 This issue provides a perfect example of why one cannot simply look at relative
5 loads in determining an equitable sharing of merger benefits. Due to the
6 flexibility of the hydro resources, the west provides the east approximately 175
7 MW of spinning reserves. This benefit has a value of [REDACTED] (NPV 2005 to
8 2018) to the east, but has not been included in the MSP studies. This is certainly
9 a benefit of integration that should be considered in these studies. Unfortunately,
10 the Second Revised Protocol simply ignores this issue. Utah obtains 72% of this
11 benefit. Once this value is considered, Oregon obtains only 20% of the merger
12 savings, while Utah obtains 62%. This further indicates the Second Revised
13 Protocol does not meet the standard of equity as suggested by Dr. Hellman.

14 **Q. COMMENT ON THE COMMISSION'S THIRD DIRECTIVE**
15 **CONCERNING THE OREGON PUBLIC INTEREST STANDARD.**

16 **A.** Dr. Hellman's views on this are rather vague. While he believes that the Revised
17 Protocol may meet the Oregon public interest standard, he acknowledges that
18 Hybrid would as well. Dr. Hellman provides no support for his contentions
19 regarding this point.

20 **Q. DR. HELLMAN ACKNOWLEDGES THAT THE REVISED PROTOCOL**
21 **FAILS TO COMPLY WITH ALL OF THE PRINCIPLES OF THE**
22 **OREGON COALITION. DOES THIS CONCERN YOU?**

23 **A.** Absolutely! I believe that one of the reasons Utah was able to obtain a favorable
24 Stipulation was that Utah parties worked together to negotiate with the Company
25 after the Boise meeting. At that meeting, the Utah parties announced they would

1 not negotiate further with the other states, and instead directed their comments to
2 PacifiCorp alone. By presenting a united position to the Company, one must
3 assume the Utah parties met their goals. In the end, PacifiCorp reached an
4 agreement with the Utah parties and now seeks to have that agreement approved
5 by the other states.

6 In contrast, Dr. Hellman appears to have given up on achieving the goals
7 of the Oregon coalition. This naturally means that it would be very unlikely that
8 the final document would reflect all of the Coalition's principles.

9 **Q. WHAT WERE THE PRINCIPLES OF THE OREGON COALITION?**

10 **A.** As discussed by Dr. Hellman, the principles discussed in the Coalition's issues
11 paper are as follows:

- 12 1. Consumers in one state served by PacifiCorp should not face
13 higher rates due to the Company acquiring energy to meet load
14 growth in another state.
- 15 2. Oregon and the Pacific Northwest should retain its historical
16 entitlement to the costs and benefits of the region's low cost
17 hydro resources.
- 18 3. Policy decisions and activities by one state should not affect
19 other states either positively or negatively.
- 20 4. Any adopted jurisdictional allocation method should be
21 sustainable for all parties and sufficiently flexible so that it may
22 be adapted to address emerging issues.

23 Staff/100, Hellman/17; Staff/102, Hellman/53.

24 **Q. DOES THE SECOND REVISED PROTOCOL SATISFY THE FIRST**
25 **PRINCIPLE?**

26 **A.** Dr. Hellman agrees that the Second Revised Protocol fails to satisfy this principle
27 because it does not provide a structural protection against cost shifting. Staff/100,

1 Hellman/17-18. Dr. Hellman testifies that this problem results in additional costs
2 to Oregon of more than \$60 million (NPV 2005-2018). Id. at Hellman/18. Dr.
3 Hellman believes that there are sufficient benefits and other considerations that
4 overcome this defect. Dr. Hellman rests his case heavily on the “lost generation”
5 argument discussed in my direct testimony. This argument holds that due to an
6 expected decline in generation from the system hydro and Mid-C resources, the
7 states in the west are not really paying for all of the costs of the hydro under the
8 Second Revised Protocol. Mr. Wordley estimates Oregon’s potential share of this
9 cost to be \$74 million (NPV 2005-2018). Re PacifiCorp, OPUC Docket No. UM
10 1050, Staff/200, Wordley/12 (July 2, 2004).

11 **Q. DO YOU AGREE WITH MR. WORDLEY’S ESTIMATE?**

12 **A.** No. Even accepting the argument in its entirety, the amount referenced by Mr.
13 Wordley is overstated. The reason is that the PacifiCorp system Hydro
14 Endowment is really a *liability* to Oregon, as I pointed out in my direct testimony.
15 In effect, Oregon is allocated more cost for the PacifiCorp system hydro than
16 benefits under the Second Revised Protocol. If Oregon simply approved the
17 Second Revised Protocol without the Hydro Endowment, but rather allowed the
18 associated costs and benefits to be allocated on a system basis, then there would
19 be no logical basis for arguing Oregon should bear *any* of the associated lost
20 generation costs. Making this adjustment to the Second Revised Protocol would
21 reduce its cost to Oregon by [REDACTED], as I pointed out in my direct testimony.
22 Confidential ICNU/104, Falkenberg/1. By removing this portion of the Hydro
23 Endowment, Oregon would then no longer be responsible for any of the so-called

1 lost generation associated with the system resources. This would remove more
2 than half (52%) of the cost associated with the lost generation from consideration
3 and would reduce the alleged \$74 million to only about \$36 million. It makes no
4 sense to argue that because Oregon is bearing a disproportionate and non-
5 compensatory share of the system's hydro costs, it should also bear a
6 disproportionate share of the lost generation costs as well. As a result, with
7 respect to the proposed PacifiCorp system Hydro Endowment, the lost generation
8 issue is a "red herring."

9 **Q. ARE THERE OTHER PROBLEMS WITH THE LOST GENERATION**
10 **ARGUMENT?**

11 **A.** Yes. The argument fails if the purpose is to suggest the west side of the system is
12 equally responsible for increases in system costs as is the east side, because the
13 costs of unequal load growth is comparable to the cost of lost generation. The
14 reason is that hydro is not the only kind of resource on the system whose output
15 will diminish in the years ahead. Based on Appendix F of PacifiCorp's 2003
16 Integrated Resource Plan ("IRP"), the Company also expects a reduction in
17 capacity from its thermal units in the ten-year period between 2004 and 2013.
18 Exhibit ICNU/201, Falkenberg/1. While capacity reductions are expected for
19 both eastern and western resources, existing western thermal capacity will decline
20 by only 247 MW, while thermal capacity in the east will decline by 548 MW. Id.

21 Further, the coincident peak of the east will increase by 1066 MW, while
22 the coincident peak of the west will decline by 139 MW. Id. Also, long-term
23 sales in the east decline by 358 MW, while those in the west will decline by 581
24 MW. Id. Even though long-term purchases in the west do decline, these are

1 largely due to expiration of QF and Mid-C contracts. All told, the load/capacity
2 balance of the east certainly is causing more of the pressure for system expansion
3 than that of the west, and the lost generation from hydro is only one part of this
4 problem.

5 Of course, adoption of the Hybrid method would assign 100% of the
6 respective cost of load growth to each division, and would also assign 100% of
7 the cost of lost hydro generation to the west. Having rejected the Hybrid
8 proposal, I do not believe it is fair for the proponents of the lost generation
9 argument to persist with this argument. I am puzzled as to why Dr. Hellman is so
10 swayed by it.

11 **Q. RETURN NOW TO THE OTHER PRINCIPLES OF THE OREGON**
12 **COALITION. DO YOU AGREE WITH DR. HELLMAN THAT THE**
13 **SECOND REVISED PROTOCOL IS CONSISTENT WITH THE OTHER**
14 **THREE PRINCIPLES?**

15 **A.** I am not as sanguine as Dr. Hellman about this. The second and fourth principles
16 deal with the hydro endowment and its sustainability. Dr. Hellman tacitly
17 acknowledges that, as currently configured, the Second Revised Protocol does not
18 provide a sustainable hydro endowment. Thus, he seeks additional assurances.
19 As I pointed out earlier in this testimony and in my direct, the value of the hydro
20 preferences contained in the document are less than those projected by the
21 Company, and their ultimate value is uncertain.

22 The third principle, related to the insulation from adverse impacts due to
23 policy decisions of other states, has also been addressed before. In the end, it is
24 unclear whether the Second Revised Protocol will actually provide the necessary
25 protections.

1 Finally, the situs allocation of future QF contracts is troubling from a
2 system perspective. While it would be advantageous for other states to assign the
3 costs of uneconomic QFs to a single state, this aspect of the Second Revised
4 Protocol is also likely to discourage future QF development. Because QF
5 contracts may be “front-loaded,” a single state might be reluctant to approve a
6 new QF contract knowing it will have to absorb all of these initial costs. Thus,
7 there may be “lost opportunities” that result when one state does not approve a
8 new resource proposal.

9 **Q. DR. HELLMAN TESTIFIES THAT GIVEN THE LEVEL OF RATE**
10 **IMPACTS EXPECTED, IT IS UNDERSTANDABLE THAT UTAH**
11 **PARTIES SOUGHT ADDITIONAL MITIGATION IN EXCHANGE FOR**
12 **ADOPTION OF THE SECOND REVISED PROTOCOL. PLEASE**
13 **COMMENT.**

14 **A.** I certainly do not criticize the Utah parties for being sensitive to the best interest
15 of their customers. However, I am baffled as to why Dr. Hellman does not
16 advocate similar protections, in the form of rate credits, for Oregon ratepayers.
17 Without rate credits or an equivalent mechanism, there is no assurance that
18 Oregon will receive any of the benefits projected to occur under the Second
19 Revised Protocol. Given the unresolved issues concerning rate inequities, cost-
20 shifting, lack of sustainability, and the disproportionate allocation of merger
21 benefits, some assurance of the minimal benefits provided under the document are
22 essential if the Commission adopts it.

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1 **Rebuttal To Staff Witness Wordley**

2 **Q. ON PAGE SIX OF HIS TESTIMONY, MR. WORDLEY TESTIFIES THAT**
3 **“SOME PARTIES HAVE SUGGESTED THAT SINCE THE HYDRO**
4 **ENDOWMENT CREDIT BENEFITS SOME STATES, THAT THOSE**
5 **STATES SHOULD PAY FOR THE COST OF POWER TO REPLACE**
6 **THE LOST HYDRO GENERATION.” IS THERE ANYTHING WRONG**
7 **WITH THIS ARGUMENT?**

8 **A.** Yes. Mr. Wordley’s estimate of Oregon’s potential share of additional costs of
9 lost generation (\$74 million) actually exceeds the entire value of the hydro
10 preferences and QF allocation under the Company’s assumptions (\$51 million for
11 the Hydro Endowment, Mid-C and QF allocations). Staff/200, Wordley/12. This
12 illustrates the specious nature of this argument. If these lost generation costs were
13 assigned to Oregon, then the state would actually be *worse off* due to the hydro
14 preferences and QF allocation. For this reason, one must question whether the lost
15 generation argument is a logical one in the first place. Oregon should not be
16 worse off because of the hydro preferences.

17 **Q. ON PAGE ELEVEN, MR. WORDLEY CONTENDS THAT THE**
18 **STRUCTURE OF THE HYDRO PREFERENCES PROVIDES OREGON**
19 **PROTECTION FROM 25% OF THE EFFECTS OF COST SHIFTING.**
20 **PLEASE COMMENT.**

21 **A.** Numerically this may be correct; however, this falls far short of a structural
22 protection from the problem. This minimal protection again is largely a result of
23 coincidence, not due to some underlying grand design to address the cost-shifting
24 problem. Even taken at face value, 25% protection means 75% exposure.

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1 **Q. ON PAGES TWELVE AND FIFTEEN, MR. WORDLEY PRESENTS TWO**
2 **TABLES SHOWING THE IMPACT OF THE SECOND REVISED**
3 **PROTOCOL COMPARED TO THE MODIFIED ACCORD AND THE**
4 **VALUE OF UNRESOLVED ISSUES. PLEASE COMMENT.**

5 **A.** Mr. Wordley largely relies on figures presented by the Company in its MSP
6 studies. I have already commented on these in my direct and will not repeat my
7 earlier comments. *See* Confidential ICNU/104, Falkenberg/1. Suffice it to say
8 that the figures used are too optimistic in my view.

9 Mr. Wordley concludes that the net effect of the unresolved issues (load
10 shaping, reserves, cost shifting, and lost generation) amount to -\$50 million.
11 According to Mr. Wordley, if these issues were successfully addressed in the
12 document, then Oregon would gain additional benefits of \$50 million. Staff/200,
13 Wordley/12.

14 Mr. Wordley also reports a PacifiCorp analysis showing that the Second
15 Revised Protocol produces a benefit of \$45 million compared to the Modified
16 Accord. *Id.* at Wordley/15. This value is also overstated and misleading because
17 the current status quo in Oregon is Modified Accord Plus Seasonal. Again, this
18 was an issue I discussed on direct.

19 Finally, I do not believe it was Mr. Wordley's intention, but the
20 Commission should not assume there is some sort of "cost/benefit" equivalence
21 between the -\$50 million and \$45 million figures he presents. It would be
22 incorrect to interpret those figures as part of a "cost/benefit" analysis. Rather, the
23 -\$50 million is the value of issues not successfully addressed by the document,
24 while the \$45 million is a projected (albeit overstated) benefit. If the document

1 did address the unresolved issues, then the projected benefit of \$45 million would
2 be \$95 million, based on Mr. Wordley's figures.

3 **Q. EARLIER YOU INDICATED THE LOST GENERATION FIGURES**
4 **WERE OVERSTATED. USING THE MORE CORRECT FIGURES,**
5 **WHAT WOULD BE THE VALUE OF UNRESOLVED ISSUES?**

6 **A.** As I discussed above, there is no justification for applying the lost generation to
7 the Hydro Endowment because it is a cost rather than a benefit under the Second
8 Revised Protocol. Making this adjustment to the table Mr. Wordley presents on
9 page twelve, the value of unresolved issues is -\$88 million, as shown in the table
10 below.

	\$Millions
Value of Reserves	-49
Value of Hydro Shaping Flexibility	-13
Cost of Lost Hydro Generation	36
Cost Shift due to High Utah Load Growth	<u>-62</u>
Net Impact on Oregon	-88

11 **Q. DO YOU HAVE ANY FINAL OBSERVATIONS ABOUT STAFF'S**
12 **TESTIMONY?**

13 **A.** Yes, nothing in Staff's testimony alleviates the need for the conditions I proposed
14 in my direct testimony. Staff seems to believe that we should move forward with
15 this Second Revised Protocol and hope that issues like the permanence of the
16 hydro and load growth will work out all right for Oregon. The Commission is
17 being asked to adopt long-term solutions that are critical to all PacifiCorp Oregon
18 ratepayers. While it is true that these issues can be revisited in the future, in order
19 for the Second Revised Protocol to be in the public interest for Oregon ratepayers,
20 these issues must be resolved now.

1 **II. TESTIMONY CONCERNING THE STIPULATION**

2 **Q. BRIEFLY DESCRIBE THE KEY ELEMENTS OF THE STIPULATION**
3 **BETWEEN PACIFICORP, STAFF, AND CUB.**

4 **A.** This agreement has four basic elements:

- 5
- 6 1. An agreement to accept and support the Second Revised Protocol;
 - 7 2. Language ostensibly intended to provide some additional
8 assurance about the permanence of the hydro preferences and the
9 QF allocation;
 - 10 3. Language preserving the rights of the stipulating parties to propose
11 to change the Second Revised Protocol; and
 - 12 4. An agreement to use a temporary tariff rider to reduce rates if the
13 Load-Based Dynamic Allocation Factors are forecast to decline
14 and PacifiCorp is over-earning by 200 basis points (ROE) or more.

15 Stipulation ¶¶ 4, 5, 7-9, and 11.

16 **Q. DOES THE STIPULATION REALLY PROVIDE ADDITIONAL**
17 **ASSURANCES REGARDING THE PERMANENCE OF THE HYDRO**
18 **PREFERENCES AND QF ALLOCATION?**

19 **A.** No. First, the language intended to bolster the hydro preferences is quite vague.

20 Paragraph nine of the Stipulation states:

- 21 9. Notwithstanding the status of the Revised Protocol as an inter-
22 jurisdictional cost allocation method, if any party to this
23 Stipulation proposes a material change to the allocation
24 methodology for Hydro-Electric Resources, Mid-Columbia
25 Contracts or Existing QF Contracts as specified in the Revised
26 Protocol, the proposed change *should* be consistent with the
27 trade-off between near-term negative impacts of Existing QF
28 Contracts and long-term positive impacts of Mid-Columbia
29 Contracts and the potential near-term costs and long-term benefits
30 of Hydro-Electric resources as described in Sections 4 and 5 of
31 this Stipulation. (emphasis added).

32 Paragraphs four and five state:

- 33 4. Throughout this proceeding, Oregon Parties have made clear the
34 importance of maintaining the Hydro-Electric Resources and Mid-

1 Columbia Contracts for Northwest citizens. An allocation of these
2 Resources to Oregon that is less than that contemplated by the
3 Revised Protocol is not acceptable to Oregon Parties. In order to
4 secure the allocation of the Mid-Columbia Contracts that is
5 contemplated in the Revised Protocol, Oregon Parties have
6 accepted the allocation of the costs of Existing QF Contracts that is
7 contemplated in the Revised Protocol.

- 8 5. The parties to this Stipulation recognize that there is uncertainty
9 regarding the future value of the Mid-Columbia Contracts and
10 that it is possible that, during the remaining term of the Existing
11 QF Contracts, the costs to Oregon customers associated with the
12 contemplated allocation of Existing QF Contracts will exceed the
13 benefits of the contemplated allocation of Mid-Columbia
14 Contracts. However, the Oregon Parties are prepared to assume
15 this risk because they expect that the contemplated allocation of
16 Mid-Columbia Contracts will continue to provide long-term
17 benefits to Oregon customers after the expiration of the Existing
18 QF Contracts For the foregoing reasons, it is critical to
19 Oregon Parties that their entitlement to Hydro-Electric Resources
20 and Mid-Columbia Contracts not be abridged at any time in the
21 future.

22 The choice of the words “*should* be consistent with the trade-off” between the
23 near-term costs of the QF contracts and long-term benefits of the hydro
24 preferences is very open-ended and vague. Stipulation ¶ 9 (emphasis added). It is
25 significant that the word “should” was used instead of “must.” I hesitate to
26 imagine how this might be interpreted in the future. In addition, the language
27 reflects Dr. Hellman’s optimism, but does little to ensure that Oregon ratepayers
28 are protected. This falls far short of providing any assurance that the long-term
29 benefits of hydro will actually be preserved after the near-term costs of the QFs
30 and hydro relicensing have been paid.

31 The second problem is that an agreement between PacifiCorp and some of
32 the Oregon parties is unlikely to be of consequence. Oregon parties are unlikely
33 to propose disadvantageous changes to the Second Revised Protocol. The real

1 problem is that other states may not respect these allocations in the future, not that
2 CUB or Staff will seek to alter them. It is quite significant that comparable
3 language related to the hydro preferences is conspicuously absent from the Utah
4 Stipulation. Thus, Utah parties are free to propose changes to the Second Revised
5 Protocol that are inconsistent with preservation of the hydro preferences and QF
6 allocation. In the end, this language merely provides some assurance that the
7 Oregon parties will not propose to change the Second Revised Protocol.

8 **Q. DOES THIS LANGUAGE ALSO PROVIDE ADDITIONAL ASSURANCE**
9 **THAT PACIFICORP WILL NOT PROPOSE TO CHANGE THE HYDRO**
10 **PREFERENCES AND QF ALLOCATION?**

11 **A.** No. The language in the Second Revised Protocol document itself (Section
12 IV(B)(1)(c)) differs little in its effect on PacifiCorp from the language of
13 Paragraph nine of the Stipulation. At best, the Stipulation provides a vague
14 clarification regarding the hydro preferences and QF allocation and what “should”
15 be done in the future.

16 Although there is some prohibition against PacifiCorp proposing to
17 change these allocations in the Second Revised Protocol, in practice this has little
18 significance. Assuming hypothetically that parties in Utah persuaded their
19 commission to abandon the hydro preferences at some time in the future,
20 PacifiCorp would be free to attempt to bring Utah back “into the fold” by
21 proposing some other off-setting benefit to that state. For example, the Company
22 could propose to end the Seasonal Allocation as an inducement to get Utah to
23 reinstate the hydro preferences. The Company would be free to propose such
24 changes in Oregon.

1 Further, while PacifiCorp might violate the terms of the Stipulation by
2 proposing to change the hydro preferences in the future, there is nothing to
3 prevent the Company from attempting to persuade parties or even the
4 Commission to waive this requirement. Recall that the Company also indicated it
5 would bear the risk of any failure to reach agreement on jurisdictional allocation
6 when the Merger was approved in 1988. That assumption of risk did not stop the
7 Company from spending the last five years working to persuade parties to accept
8 a new method. In the end, PacifiCorp benefits from the resolution of this issue
9 more than any other party. Even if the Company or other states fail to obtain a
10 change to the hydro preferences in the future, it may take a lot of time and effort
11 for the Commission and parties to have to deal with these issues.

12 Finally, PacifiCorp might simply ignore the language prohibiting it from
13 proposing adverse changes to hydro preferences. This could be done under the
14 guise of a “hardship,” as in PacifiCorp’s recent initiative to reopen its five-year
15 Rate Plan in Washington, or the Company might find some new, novel
16 justification. In any case, it is unclear what penalties would exist for departing
17 from the terms of the Stipulation. In all likelihood, it would amount to little more
18 than reducing the Company’s chances of success in obtaining the change.
19 PacifiCorp could always argue that the Stipulation merely indicated what
20 “should” be done in the future, and that it was not a binding requirement.

21 In the end, the “assurances from PacifiCorp (or Company) and the other
22 states that Oregon consumers can count on the permanence of the Protocol's
23 Hydro Endowment” sought by Dr. Hellman in his direct testimony are simply

1 absent from this Stipulation, unless he was concerned that Staff or CUB might
2 propose some adverse change in the future. Staff/100, Hellman/2. There are no
3 additional assurances from either PacifiCorp or the other states contained in the
4 Stipulation or elsewhere that are sufficient to satisfy Dr. Hellman's originally
5 stated requirement.

6 **Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THIS ASPECT**
7 **OF THE STIPULATION?**

8 **A.** Yes. The language in Paragraphs four, five, and nine connects the hydro
9 preferences and the QF allocation. I am concerned that in the (albeit unlikely)
10 event that a QF contract might terminate early, or be favorably renegotiated, this
11 language could provide impetus for an adverse change to the hydro preferences in
12 order to "restore the balance" resulting from the "long-term tradeoffs."
13 Alternatively, a more favorable outcome of the relicensing efforts, or Mid-C
14 renegotiations might also result in the same. While connection of the unfavorable
15 QF allocation and the hydro preferences is something ICNU would support, the
16 Stipulation should also have foreclosed the possibility of disturbing the Second
17 Revised Protocol in the event that the future turns out better for the former PP&L
18 states than is now hoped for.

19 **Q. COMMENT ON THE SIGNIFICANCE OF THE LANGUAGE IN**
20 **PARAGRAPH EIGHT.**

21 **A.** This language preserves the rights of the parties, including PacifiCorp, to propose
22 changes to the methodology if it "no longer produce[s] results that are just,
23 reasonable and in the public interest" Stipulation ¶ 8. Similar language is
24 contained in the Utah Stipulation. This provides an almost unlimited opportunity

1 for PacifiCorp or others to simply back away from the agreement. In light of this,
2 I am left to wonder if *anything* of lasting substance has been accomplished by all
3 of this. At best, it seems there is an agreement by parties in Utah and Oregon to
4 give the Second Revised Protocol a try for a while.

5 **Q. DOES THE STIPULATION ADDRESS THE PROBLEMS RELATED TO**
6 **THE LOAD FOLLOWING OR RESERVE BENEFITS OF HYDRO?**

7 **A.** No. Despite the fact that Mr. Wordley agreed in his direct testimony that these
8 benefits are left out of the Second Revised Protocol, they are not addressed in the
9 Stipulation. *See* Staff/200, Wordley/4-6.

10 **Q. DOES THE STIPULATION ADDRESS THE PROBLEM OF COST-**
11 **SHIFTING?**

12 **A.** Based on the testimony supporting the Stipulation, the agreement provides
13 “further clarification” of the issue. Re PacifiCorp, OPUC Docket No. UM 1050,
14 Staff-CUB-PacifiCorp/100, Hellman, Jenks, Kelly/2 (July 26, 2004). While this
15 may or may not be true, the Stipulation doesn’t really provide a realistic remedy
16 for the problem. All the Stipulation provides for is a temporary rate credit that
17 could be implemented if the Company is over-earning by more than two hundred
18 basis points on equity and Oregon’s Load-Based Dynamic Allocation Factors are
19 projected to decline. I consider this to be little better than nothing.

20 **Q. PLEASE EXPLAIN.**

21 **A.** First, PacifiCorp has been in a perpetual cycle of nearly annual rate cases for
22 many years now. As long as this pattern persists, over-earnings are unlikely. If
23 the Company’s rate filings are justified, then they will need increases to avoid
24 under-earning. If the rate filings are not justified, then it stands to reason these
25 rate filings would actually lead to rate reductions to eliminate over-earnings. In

1 either case, substantial over-earning seems unlikely when the Company is in a
2 mode of filing frequent rate cases, particularly when the Company has forecasted
3 significant cost increases associated with its coal generating resources and hydro
4 re-licensing.

5 Second, two hundred basis points is a very large amount of over-earnings.
6 Based on PacifiCorp's UE 147 rate filing, one hundred basis points on equity
7 equates to \$98.7 million on a total system basis. Re PacifiCorp, OPUC Docket
8 No. UE 147, PPL/601, Page 2.2 (Mar. 19, 2003). Oregon's share of a two
9 hundred basis point overage would then equate to approximately \$30.6 million.
10 This is a very large amount of over-earnings, and one that is unlikely to be
11 reached quickly. It is very unlikely that such a substantial amount of over-
12 earnings would occur overnight. Rather, it seems much more likely that such
13 over-earnings, if they ever occur, will gradually develop over a period of many
14 months or even years. Presuming Staff and other parties are diligent, I think it is
15 very unlikely they would ever allow over-earnings to reach such levels before
16 initiating a rate reduction case. It is well worth considering that the last time
17 PacifiCorp over-earned in Oregon by more than two hundred basis points was
18 December 31, 1989. Re PacifiCorp, OPUC Docket No. UM 1050, PacifiCorp
19 Response to ICNU Data Request ("DR") 7.7 (Aug. 2, 2004). As a result, this
20 aspect of the Stipulation is very unlikely to ever be necessary or prove to be
21 beneficial.

22 Finally, the over-earning determination is based on the Company's annual
23 report filing. The Stipulation has no provision for parties to audit this report to

1 verify that it provides accurate results. Even if the report is eventually audited by
2 Staff or other parties, it may take substantial time and effort to develop an
3 accurate estimate of over-earnings.

4 **III. SURREBUTTAL CONCERNING STAFF AND PACIFICORP REBUTTAL**
5 **TESTIMONY**

6 **Surrebuttal to Staff Witness Hellman and PacifiCorp Witness Taylor**

7 **Q. THE COMPANY AND STAFF BOTH DISPUTE YOUR RATE TREND**
8 **ANALYSIS. DO YOU HAVE ANY COMMENTS?**

9 **A.** Yes. While neither party disputes my figures, both parties seem to have missed
10 the most important points concerning this analysis. While both the Staff and
11 Company offer various explanations as to why current rates may be higher in
12 Oregon than Utah, their explanations only look at recent rates and fail to deal with
13 the issue of why Oregon's rates have increased more rapidly than any state on the
14 system. They ignore the question of why Oregon's rates were much lower than
15 Utah's in 1988, but higher in 2002. As a result, I believe one can largely dismiss
16 their comments because they fail to provide any analysis of those issues. Further,
17 while both the Company and Staff contend that the comparison of average
18 revenues is too simple, they do not really offer any alternative. In fact, there is no
19 alternative because only a universally accepted jurisdictional allocation method
20 would provide a benchmark for comparison. Lacking that, an average rate
21 comparison is the best and only tool for such an analysis.

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1 **Q. DR. HELLMAN CONTENDS THAT EXHIBIT STAFF/301 SHOWS**
2 **OREGON'S RATES ARE HIGHER THAN UTAH'S FOR A NUMBER OF**
3 **REASONS UNRELATED TO JURISDICTIONAL ALLOCATIONS.**
4 **PLEASE COMMENT.**

5 **A.** First of all, I did not intend to imply that all of this rate disparity had to do with
6 allocations. Nonetheless, Exhibit Staff/301 itself undermines Dr. Hellman's
7 conclusion. The exhibit identifies four elements that are directly related to
8 jurisdictional allocation issues:

- 9 • Utah's use of Rolled-In rather than Modified Accord saved the
10 state \$32 million;
- 11 • The system wide allocation of special contracts helped Utah
12 more than Oregon as it had more special contracts;
- 13 • Oregon had \$66 million more ratebase due to weatherization
14 loans; and
- 15 • PacifiCorp classifies a substantial amount of Utah plant on a
16 transmission basis. Reclassification of this plant on a
17 distribution basis in accordance with FERC guidelines would
18 reduce Oregon revenue requirements by \$6-8 million, while
19 increasing Utah's by \$15-\$20 million.

20 Re PacifiCorp, OPUC Docket No. UM 1050, Staff/301, Hellman/1-2 (July 27,
21 2004). All of these items are directly, or indirectly related to the issue of
22 jurisdictional allocations and were legitimate topics for consideration in the MSP.

23 **Q. EXPLAIN HOW WEATHERIZATION LOANS ARE RELATED TO**
24 **JURISDICTIONAL ALLOCATIONS.**

25 **A.** To the extent that Oregon has invested more heavily in this type of conservation
26 effort, the situs allocation of these costs works against the state. The reason is
27 that the only benefit of such costs is to reduce its share of embedded production
28 and transmission costs, while the system benefits from avoidance of higher
29 incremental costs. It is interesting that this fact was not discussed by Staff or

1 PacifiCorp as it pertains to the “lost generation” argument. However, it is really
2 the same concept, and should be considered in the same context as the cost
3 shifting and lost generation issues.

4 **Q. ON PAGE TWO, DR. HELLMAN TESTIFIES THAT THE INVESTMENT**
5 **IN CONSERVATION CAN INCREASE RATES, WHILE LOWERING**
6 **OVERALL COSTS OF ENERGY SERVICES. PLEASE COMMENT.**

7 **A.** In this discussion, Dr. Hellman seems to be suggesting that for this reason the
8 higher rates in Oregon are not a concern. However, his optimism on this point
9 seems misplaced. Exhibit ICNU/202 demonstrates that in 1988, Oregon
10 residential customers had lower electric bills than Utah, while in 2002 they had
11 higher electric bills. This does not show that lower bills have resulted from
12 higher rates.

13 **Q. DR. HELLMAN’S EXHIBIT STAFF/301 INDICATES THAT A MAJOR**
14 **REASON FOR THE DIFFERENCE IN RATES BETWEEN OREGON**
15 **AND UTAH IS DUE TO HIGHER DISTRIBUTION COSTS IN OREGON.**
16 **PLEASE COMMENT.**

17 **A.** What is interesting is that no explanation is given for these assumed facts. Rather,
18 the Staff merely accepted the Company’s data. What is difficult to understand is
19 why Oregon’s rates would have been so much lower in 1988, yet higher by 2002.
20 Oregon’s residential customer and sales growth has only been about 40% of
21 Utah’s, but Oregon’s total residential revenue increased. Because Oregon has
22 added far fewer customers than Utah, it is counterintuitive that its distribution
23 expense has substantially increased.

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1 **Q. MR. TAYLOR PRESENTS SOME SIMILAR COMMENTS**
2 **CONCERNING THE RATE COMPARISONS. PLEASE COMMENT.**

3 **A.** Mr. Taylor also suggests that average rate comparisons fail to provide a complete
4 analysis. Yet he provides nothing more definitive. Even his Exhibit PPL/415
5 undermines his arguments. Mr. Taylor contends that recent price reductions in
6 Oregon and price increases in Utah have improved Oregon's relative position.
7 However, he fails to point out that even in his projected 2004 data, Oregon has
8 higher average rates for all customers, higher average industrial rates, and higher
9 average commercial rates. Further, the exhibit further demonstrates that since the
10 merger, Oregon's average rates have increased by 6.08% to 18.15%, while Utah's
11 average rates have declined by 16.1% to 25.55%. Re PacifiCorp, OPUC Docket
12 No. UM 1050, PPL/415, Taylor/1 (July 27, 2004). Mr. Taylor provides no
13 explanation for this trend.

14 **Q. ARE PACIFICORP'S CURRENT RESIDENTIAL RATES LOWER IN**
15 **OREGON THAN IN UTAH?**

16 **A.** Exhibit PPL/415 indicates that they are; however, the Oregon residential rates are
17 reduced by the BPA credit (1.587 cents per kWh for the first 500 kWh, and
18 .6 cents per kWh for all other kWh). Without the BPA credit, the Oregon rates
19 reflected in Exhibit PPL/415 would be higher than Utah's. Thus, Mr. Taylor's
20 exhibit doesn't tell the whole story.

21 **Q. COMMENT ON MR. TAYLOR'S EXHIBIT PPL/416.**

22 **A.** This exhibit purports to show that Oregon has lower industrial rates than Utah
23 once voltage level and load factor are considered. However, he acknowledges
24 that for the largest, and highest load factor customers at transmission voltage, the

1 reverse is true. This is significant because a customer with a high load factor and
2 transmission level voltage should provide the best measure of allocated
3 production costs for each state. The fact that Oregon's rate is higher indicates that
4 Oregon's allocation of production costs may be higher as well.

5 Finally, Mr. Taylor's average rate comparisons are not really meaningful,
6 unless there is a comparable distribution of customers on each rate and voltage
7 level. As discussed in the reference to Exhibit Staff/301 above, many of the
8 customers taking service at transmission voltage in Utah would be classified as
9 distribution customers based on FERC guidelines. Thus, the comparison of rate
10 schedules is hypothetical and unpersuasive.

11 **Surrebuttal to PacifiCorp Witness Kelly**

12 **Q. ON PAGE THREE OF HER REBUTTAL TESTIMONY, MS. KELLY**
13 **TESTIFIES THAT IDENTICAL VERSIONS OF THE SECOND REVISED**
14 **PROTOCOL HAVE BEEN FILED IN FIVE STATES, INCLUDING**
15 **WASHINGTON. PLEASE COMMENT.**

16 **A.** That's true. However, in Washington, PacifiCorp filed the Second Revised
17 Protocol as an option for the Washington Utilities and Transportation
18 Commission ("WUTC") and parties to consider in the rate case that is pending
19 before the WUTC. The Company's original filing in the rate case was based on
20 the original Protocol document and PacifiCorp has not updated its filing in
21 Washington to reflect the provisions of the Second Revised Protocol. This
22 underscores the comments in my direct testimony about the Company's lack of
23 commitment to the new document.

1 **Q. MS. KELLY INDICATES ON PAGE THREE THAT THE COMPANY IS**
2 **SEEKING TO AVOID THE PROBLEM OF DIFFERENT STIPULATIONS**
3 **IN DIFFERENT STATES CREATING MISUNDERSTANDINGS ABOUT**
4 **THE INTENT OF THE SECOND REVISED PROTOCOL. DO YOU**
5 **AGREE?**

6 **A.** In this regard, the lack of any discussion of the connection between the QF
7 allocation and the hydro preferences in the Utah Stipulation is troubling. If the
8 Company was really trying to avoid misunderstandings, I believe it would have
9 insisted on comparable language in the Utah and Oregon stipulations. The
10 Company did not, however, and I am left with the troubling impression that the
11 Company is “taking the easy way out” by allowing parties in the two states to
12 continue to harbor conflicting interpretations of the basic elements of the
13 agreement.

14 **Q. MS. KELLY SUGGESTS THAT ICNU DID NOT UNDERSTAND THE**
15 **UTAH STIPULATION. DO YOU AGREE?**

16 **A.** No. Her characterization of the agreement is what ICNU understood. She
17 contends that I testified that “any under-recovery resulting from the Utah
18 Stipulation will be allocated to other states.” Re PacifiCorp, OPUC Docket No.
19 UM 1050, PPL/204, Kelly/6 (July 27, 2004). This is not an accurate
20 representation of my testimony. In my direct testimony I testified that “[i]n all
21 likelihood, any cost not allocated to Utah will be allocated to other states.”
22 Confidential ICNU/100, Falkenberg/14. This was not to suggest that the Utah
23 under-recoveries (which are not a cost in the usual sense) would be allocated
24 directly to other states. Rather, this comment came in the midst of my discussion
25 about PacifiCorp’s incentive to “game” the allocation of cost in Utah’s favor and
26 to steer the MSP Standing Committee in Utah’s direction.

1 **Q. ON PAGE NINE, MS. KELLY COMPLAINS THAT YOUR PROPOSED**
2 **RATE CREDITS AMOUNT TO A “ONE ITEM RATE CASE.” PLEASE**
3 **COMMENT.**

4 **A.** This is a rather ironic comment to be coming from PacifiCorp. PacifiCorp has
5 never refrained from proposing one-issue rate cases when it saw an advantage to
6 do so. The Company currently is amortizing in rates more than \$130 million
7 stemming from the excess power costs approved for recovery in UM 995. This
8 was a one-issue rate case related to power cost recovery shortfall. Further, in
9 2001, the Company proposed a power cost adjustment mechanism (“PCA”) in
10 Oregon, and the Company has proposed a PCA in Wyoming in 2001, 2003, and
11 2004. A PCA is little more than a one-issue rate case dealing with power costs.
12 Finally, in recent cases in Wyoming, Utah, and Washington, the Company
13 proposed a one-issue rider related to its Aquila Hydro Hedge.

14 One-issue rate riders permeate PacifiCorp’s Oregon rate structure. As of
15 September 1, 2003, PacifiCorp’s Oregon rates contain the following additional
16 riders and surcharges:

- 17 Schedule 94 Deferred Accounting Adjustment
- 18 Schedule 96 Y2K Deferral Adjustment
- 19 Schedule 97 Sale of Centralia Adjustment
- 20 Schedule 191 Systems Benefit Charge Adjustment
- 21 Schedule 198 Trail Mountain Mine Closure Costs Surcharge
- 22 Schedule 199 Sale of Halsey Property Surcredit
- 23 Schedule 200 Cost-Based Supply Service
- 24 Schedule 291 Residential Consumer SB 1149 Adjustment
- 25 Schedule 292 Small Non Residential Consumer SB 1149 Adjustment
- 26 Schedule 293 Large Non Residential Consumer SB 1149 Adjustment
- 27 Schedule 299 Rate Mitigation Adjustment

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1 Most, if not all, of the added schedules appear to deal with various kinds of one-
2 issue situations. I see no reason why Ms. Kelly should be troubled by another
3 one-issue rate schedule.

4 **Q. ON PAGES ELEVEN AND TWELVE, MS. KELLY COMMENTS THAT**
5 **YOUR RATE CREDIT PROPOSAL WOULD PLACE ADDITIONAL**
6 **RISKS ON THE COMPANY. PLEASE COMMENT.**

7 **A.** Ms. Kelly contends it would be unfair to put the Company at risk for its MSP
8 projections. Ironically, the same could be said of the Utah Stipulation rate caps.
9 However, the Company was willing to accept that risk. Her subsequent testimony
10 on the same page tries to justify this but it provides a distinction without a
11 difference. PPL/204, Kelly/12.

12 **Surrebuttal to PacifiCorp Witness Duvall**

13 **Q. COMMENT ON MR. DUVALL'S TESTIMONY THAT DOWNPLAYS**
14 **THE LIKELIHOOD OF "GAMING" THE ALLOCATION PROCESS.**

15 **A.** To explain why "gaming" will not occur, Mr. Duvall concentrates on the idea that
16 commissions can disallow imprudent costs. Re PacifiCorp, OPUC Docket No.
17 UM 1050, PPL/311, Duvall/2 (July 27, 2004). However, Mr. Duvall missed my
18 main point that many of the problems that might arise stem from relatively
19 innocuous decisions related to analysis and interpretation of data and
20 classification of contracts. It might be impossible to tell, for example, if
21 PacifiCorp simply added a few months of deliveries to a contract to remove it
22 from the Seasonal category. It is unlikely a commission would contend a contract
23 was imprudent simply because the Company arranged to take deliveries for six
24 months instead of five. In any case, the Second Revised Protocol and Utah

1 Stipulation create the need for even more detailed audits of the Company's rate
2 filings.

3 **Q. ON PAGE FOUR, MR. DUVALL DISPUTES YOUR CLAIM THAT MORE**
4 **RECENT LOAD FORECASTS HAVE INCREASED THE NEED FOR**
5 **POWER IN UTAH. PLEASE COMMENT.**

6 **A.** Mr. Duvall is apparently ignoring the testimony given by the Company in the
7 Currant Creek Certificate of Convenience and Necessity case in Utah:

8 Furthermore, since the filing of the IRP, PacifiCorp revised its load
9 forecast. The revised load forecast, in conjunction with updated
10 inputs and assumptions, result in a substantially larger load and
11 resource gap for the East (and Utah in particular) than that
12 projected in the 2003 IRP. This larger resource gap necessitates
13 acquiring a greater amount of flexible resources sooner than
14 identified in the IRP. The Currant Creek Project, in conjunction
15 with other actions by the Company, is anticipated to meet that
16 need.

17 Re PacifiCorp, UPSC Docket No. 03-035-29, Direct Testimony of Jon Cassity at
18 8 (Nov. 3, 2003). In any case, my original comment contended that the Company
19 was not including all of the new capacity it has coming on line in the MSP
20 studies. Irrespective of the question of load forecasts, my original comment is
21 correct. The MSP study workpapers show only one new combined cycle
22 combustion turbine plant on line in FY 2007 and FY 2008. However, the
23 Company plans to bring Currant Creek on line by March 2006 (FY 2006) and the
24 new Lakeside project by summer of 2007 (FY 2008). Thus, it appears that the
25 MSP studies are "missing" one plant. The late 2003 increase in the Utah load
26 forecast is the reason more capacity is now needed.

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1 **Q. ON PAGE FIVE, MR. DUVALL SUGGESTS THAT THE 2.5%**
2 **REDUCTION IN HYDRO ENERGY DISCUSSED IN YOUR DIRECT**
3 **TESTIMONY WAS ANTICIPATED IN THE MSP FORECASTS. DO YOU**
4 **AGREE?**

5 **A.** No. Mr. Duvall is either confused or his testimony is misleading. There are three
6 problems related to reductions in hydro energy, and the MSP studies did not
7 capture all of them. First, there is the reduction due to the Mid-C renegotiations
8 and relicensing effect. I agree that these have been reflected in PacifiCorp's
9 studies. Second, there is an additional reduction in the amount of energy
10 forecasted to come from the Company-owned hydro because the Company plans
11 to begin using a new model to prepare the forecasts. This reduction (2.5%) was
12 never included in the MSP studies and it could not have been. The reason is that
13 the Company is using a new model to forecast hydro for rate case purposes that
14 was not in use when the MSP studies were performed. The 2.5% difference is the
15 difference in the expected amount of hydro energy from the new model as
16 compared to the MSP studies for the first study year.

17 Finally, the Company admitted in a data response that it had over-
18 estimated the amount of energy available from the Mid-C contracts in the MSP
19 studies. Re PacifiCorp, OPUC Docket No. UM 1050, PacifiCorp Response to
20 CUB DR No. 19 (June 24, 2004). This amount of energy was also discussed in
21 my direct testimony. ICNU/100, Falkenberg/32. Mr. Duvall cannot dispute this
22 issue unless he is now contending that the Company's data response answers are
23 inaccurate.

1 **Q. ON PAGE FIVE, MR. DUVALL CONTENDS THE LOAD FOLLOWING**
2 **AND RESERVE BENEFITS OF HYDRO ARE A “FICTION.” DO YOU**
3 **AGREE?**

4 **A.** No. If Mr. Duvall’s testimony is accurate, then he is indicting the Company’s
5 data response answers and GRID model. The reserve value of hydro was taken
6 directly from the Company’s response to OPUC DR No. 61. The value of load
7 following and shaping was computed directly from the GRID model. In any case,
8 Staff witness Wordley also acknowledged in his direct testimony that these issues
9 represented benefits of hydro not captured in the Second Revised Protocol.

10 **Q. PLEASE SUMMARIZE ICNU’S POSITION ON THE SECOND REVISED**
11 **PROTOCOL AND THE OREGON STIPULATION.**

12 **A.** ICNU spent a great deal of time and effort working on a solution to the MSP
13 issues and desires to achieve a solution. The Second Revised Protocol and the
14 Oregon Stipulation falls short of achieving an acceptable result. As a result, it
15 would be in the best interest of Oregon customers if the Commission were to
16 adopt the conditions I discussed in my direct testimony and identified in
17 Confidential Exhibit ICNU/109.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 **A.** Yes.