



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

550 Capitol St NE, Suite 215

Mailing Address: PO Box 2148

Salem, OR 97308-2148

Consumer Services

1-800-522-2404

Local: (503) 378-6600

Administrative Services

(503) 373-7394

April 18, 2005

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: **OPUC Docket No. UM 1187** - In the Matter of PORTLAND GENERAL ELECTRIC
COMPANY Application for Deferral of Costs and Benefits Due to Hydro Generation
Variance

Enclosed for filing in the above-captioned docket is the Public Utility Commission's Direct
Testimony in support of the UM 1187 stipulation. This document is being filed by electronic
mail with the PUC Filing Center.

Judy Ogilvie

Judy Ogilvie
Regulatory Operations Division
Filing on Behalf of Public Utility Commission Staff
(503) 378-5763
Email: judy.ogilvie@state.or.us

**PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1187

STAFF DIRECT TESTIMONY

OF

MAURY GALBRAITH

**Testimony in Support of a
System Dispatch Power Cost
Adjustment Mechanism**

April 18, 2005

CASE: UM 1187
WITNESS: Maury Galbraith

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Testimony in Support of Stipulation

April 18, 2005

1 **Q. PLEASE STATE YOUR NAME AND POSITION.**

2 A. My name is Maury Galbraith. I am employed by the Public Utility Commission of
3 Oregon as a Senior Economist. My witness qualifications are shown on Staff
4 Exhibit/101.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. In Order 04-108, dated March 2, 2004, the Commission denied Portland General
7 Electric Company's (PGE's) application for a one-time deferral of costs
8 associated with below normal hydro conditions. The Commission stated,
9 "[A]lthough we do not find that this case is appropriate for deferred accounting,
10 we encourage the parties to this docket or other interested persons to present
11 alternatives to deal with hydro variability. For instance, parties might present a
12 PCA proposal similar to the one Staff has outlined here. For the reasons that
13 Staff provides, and that CUB has cited as well, we believe a PCA may be an
14 appropriate way of permanently allocating risks and benefits of hydro variability
15 between shareholders and ratepayers." Order 04-108, pages 10-11.

16 On May 18, 2004, PGE filed an Application for a Hydro Generation Power
17 Cost Adjustment Mechanism. The application was assigned docket number UE
18 165. On November 17, 2004, PGE filed direct testimony in docket UE 165.

19 On December 30, 2004, PGE filed an Application for Deferral of Costs and
20 Benefits Due to Hydro Generation Variance. The deferral application was
21 assigned docket number UM 1187.

22 On April 11, 2005, PGE filed Stipulations in dockets UE 165 and UM 1187,
23 indicating that PGE and staff have agreed on a temporary power cost adjustment
24 mechanism for calendar years 2005 and 2006. The purpose of this testimony is
25 to provide staff's reasons for supporting PGE's UM 1187 deferral application.
26 Staff supports approval of the deferral application in order to implement a System
27 Dispatch Power Cost Adjustment Mechanism (SD-PCAM) for 2005-2006.

1 **Q. DID STAFF FILE JOINT TESTIMONY WITH PGE DESCRIBING THE**
2 **STIPULATIONS AND THE SD-PCAM?**

3 A. Yes. Staff and PGE filed joint testimony in which we explain the provisions of the
4 stipulations. See UM 1187 Staff-PGE/100. Further, the stipulations have been
5 filed as joint PGE-Staff Exhibits. See UM 1187 Staff-PGE/101 and UM 1187
6 Staff-PGE/102.

7 **Q. HAS STAFF FILED TESTIMONY IN DOCKET UE 165 DESCRIBING ITS**
8 **REASONS FOR SUPPORTING THE SD-PCAM?**

9 A. Yes. Staff Exhibit/102 is a copy of this testimony.

10 **Q. DOES STAFF CONTINUE TO BELIEVE THAT AN ON-GOING AUTOMATIC**
11 **ADJUSTMENT CLAUSE IS AN APPROPRIATE WAY OF PERMANENTLY**
12 **ALLOCATING RISKS AND BENEFITS OF HYDRO VARIABILITY BETWEEN**
13 **SHAREHOLDERS AND RATEPAYERS?**

14 A. Yes. An automatic adjustment clause is preferable to the periodic use of deferred
15 accounting.

16 **Q. DOES STAFF RECOMMEND THE COMMISSION APPROVE PGE'S UM 1187**
17 **DEFERRAL APPLICATION?**

18 A. Yes. PGE's deferral application should be approved in order to implement the
19 SD-PCAM on a calendar year basis.

20 **Q. GIVEN THAT STAFF'S RECOMMENDATION IN DOCKET UM 1187 IS**
21 **CONTINGENT UPON APPROVAL OF THE SD-PCAM IN DOCKET UE 165,**
22 **ARE STAFF'S REASONS FOR SUPPORTING PGE'S DEFERRAL**
23 **APPLICATION THE SAME REASONS UNDERLYING STAFF'S SUPPORT OF**
24 **THE SD-PCAM?**

1 A. Yes. Staff Exhibit/102 provides those reasons.

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

3 A. Yes.

CASE: UM 1187
WITNESS: Maury Galbraith

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualifications Statement

April 18, 2005

WITNESS QUALIFICATION STATEMENT

NAME: Maury Galbraith

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Economist, Energy Division

ADDRESS: 550 Capitol Street NE Suite 215
Salem, Oregon 97301-2551

EDUCATION: Graduate Student in Environmental Studies Program (1995 – 1997)
University of Montana
Missoula, Montana

Master of Arts in Economics (1992)
Washington State University
Pullman, Washington

Bachelor of Science in Economics (1989)
University of Oregon
Eugene, Oregon

EXPERIENCE: The Public Utility Commission of Oregon has employed me since April 2000. My primary responsibility is to provide expert analysis of issues related to power supply in the regulation of electric utility rates.

From April 1998 through March 2000 I was a Research Specialist with the State of Washington Office of the Administrator for the Courts in Olympia, Washington.

From April 1993 through August 1995 I was a Safety Economist with the Pacific Institute for Research and Evaluation in Bethesda, Maryland.

CASE: UM 1187
WITNESS: Maury Galbraith

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 102

**Testimony in Support of a
System Dispatch Power Cost
Adjustment Mechanism**

April 18, 2005

1 **Q. PLEASE STATE YOUR NAME AND POSITION.**

2 A. My name is Maury Galbraith. I am employed by the Public Utility Commission of
3 Oregon as a Senior Economist.

4 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

5 A. Yes. My direct testimony was filed as Staff Exhibit/100. My witness qualifications
6 are shown on Staff Exhibit/101.

7

8 **I. Introduction and Summary**

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. My testimony has two purposes: (1) To present staff's reasons for entering into
11 two stipulations with Portland General Electric Company (PGE) which would
12 establish a System Dispatch Power Cost Adjustment Mechanism (SD-PCAM) for
13 2005-2006; and (2) To address comments made by Industrial Customers of
14 Northwest Utilities (ICNU) in their March 15, 2005 rebuttal testimony.

15 **Q. DID STAFF FILE JOINT TESTIMONY WITH PGE DESCRIBING THE
16 STIPULATIONS AND THE SD-PCAM?**

17 A. Yes. Staff and PGE filed joint testimony in which we explain the provisions of the
18 stipulations. See Staff-PGE/100. Further, the stipulations have been filed as joint
19 PGE-Staff Exhibits. See Staff-PGE/101 and Staff-PGE/102.

20 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE SD-PCAM
21 RECOMMENDED BY STAFF AND PGE IN THIS CASE?**

22 A. The SD-PCAM would be an automatic adjustment clause under ORS 757.210
23 and has the following attributes:

- 24 1. The SD-PCAM is a temporary mechanism for calendar years 2005 and
25 2006.

- 1 2. The SD-PCAM tracks changes in system resource dispatch due to
2 deviations in hydro conditions, wholesale electricity prices, and natural gas
3 prices. All other variables impacting net variable power cost are held
4 constant. For example, unit outage rates and system loads are held
5 constant.
- 6 3. The SD-PCAM values changes in system dispatch using a MONET update
7 methodology. Base Power Costs are defined as the costs included in
8 PGE's final RVM MONET run each year. Updated Power Costs are
9 calculated by making three adjustments to the final MONET run. The
10 adjustments substitute actual values for the forecasted values of hourly
11 hydro generation, hourly electricity prices, and daily natural gas prices.
12 The difference between the Updated Power Costs and Base Power Costs
13 is defined as the System Dispatch Cost Variance (SDCV).
- 14 4. The SD-PCAM applies an asymmetric deadband of minus \$7.5 million and
15 plus \$15.0 million to the SDCV. If the SDCV falls within the deadband,
16 those costs will not be deferred and thus, will not be subject to recovery, or
17 refund, under the SD-PCAM.
- 18 5. The SD-PCAM allows PGE to defer 80 percent of the SDCV that falls
19 outside the deadband. For example, with a positive SDCV of \$20 million,
20 the deadband would absorb \$15 million, and 80 percent of the remaining
21 \$5 million (or \$4 million) would be deferred for potential recovery in rates.
22 With a negative SDCV of \$20 million, the deadband would absorb \$7.5
23 million, and 80 percent of the remaining \$12.5 million (or \$10 million) would
24 be deferred for potential refund to customers.

1 6. The SD-PCAM uses an earnings test to constrain amortization of the
2 deferral balance. Amortization of positive balances would be limited to
3 amounts that result in PGE earning no greater than its authorized return on
4 equity (ROE). Amortization of negative balances would be limited to
5 amounts that result in PGE earning no less than its authorized ROE.

6 7. The SD-PCAM contemplates the Commission setting amortization rates for
7 the 2005 balance prior to setting amortization rates for the 2006 balance.

8 **Q. PLEASE SUMMARIZE STAFF’S REASONS FOR SUPPORTING THE SD-**
9 **PCAM.**

10 A. Staff supports the SD-PCAM for the following reasons:

- 11 1. The SD-PCAM strikes a reasonable balance between tracking a narrow
12 subset of NVPC and capturing the broad interactions that occur when PGE
13 adjusts its supply portfolio to changing conditions.
- 14 2. The SD-PCAM provides a reasonable sharing of the cost variance
15 associated with deviations in hydro conditions, wholesale electricity prices
16 and natural gas prices.
- 17 3. The SD-PCAM earnings test ensures that final rates charged to customers
18 are fair and reasonable.
- 19 4. The UE 165 Stipulation secures a commitment from PGE to hire a
20 consultant to study the statistical distribution of power costs. Staff believes
21 this work will inform the development of a fair adjustment mechanism for
22 2007 and beyond.

23 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

1 A. First, I elaborate on staff's reasons for supporting the SD-PCAM. I then rebut
2 ICNU's assertions regarding the recommendations made by staff in its direct
3 testimony.

4 **II. Reasons for Supporting the SD- PCAM**

5 **A. The Scope of SD-PCAM**

6 **Q. DOES THE SD-PCAM TRACK A SUBSET OF NVPC?**

7 A. Yes. The SD-PCAM tracks changes in NVPC associated with deviations in hydro
8 conditions, wholesale electricity prices, and natural gas prices.

9 **Q. WHAT COMPONENTS OF NVPC DOES THE SD-PCAM NOT TRACK?**

10 A. Significant components of NVPC that the SD-PCAM does not track include
11 deviations in system load and thermal generating unit availability.

12 **Q. HOW DOES THE SD-PCAM ISOLATE THE IMPACT OF DEVIATIONS IN
13 HYDRO GENERATION AND MARKET ENERGY PRICES ON NVPC?**

14 A. The SD-PCAM uses a MONET update methodology to isolate these impacts. In
15 PGE's annual RVM process, the Commission authorizes a final MONET run in
16 mid-November. The final MONET run is a projection of the following calendar
17 year's NVPC.¹ By necessity, this *ex ante* projection incorporates assumed values
18 for hydroelectric generation, wholesale electricity and natural gas market prices,
19 planned and forced thermal unit outages, and system loads. In the Stipulation
20 terminology, this final MONET projection is called the Base Power Costs.
21

¹ It is important to recognize the distinction between a projection and a forecast (See Caswell, H., Matrix Population Models, Sinauer, Sunderland, MA, 1989, pp. 19-20). A forecast is an attempt to predict what *will* happen. A projection is an attempt to describe what *would* happen, given certain conditions or events. The final MONET run is a projection of PGE's test period NVPC, given normal hydro conditions, weather normalized loads, and average forced outage rates.

1 Another type of projection is an *ex post* projection. An *ex post* projection is
2 often performed to test the accuracy of a simulation model. For example, at the
3 end of the following calendar year, the final MONET run could be updated with
4 actual values of hydroelectric generation, wholesale electricity and natural gas
5 market prices, planned and forced thermal unit outages, and system loads. To
6 gauge the accuracy of the MONET model, one could compare the *ex post*
7 projection of NVPC to actual NVPC.

8 *Ex post* projection is not only useful for testing the accuracy of simulation
9 models, but can also be used for impact and policy analysis. By changing the
10 values of selected variables, one can examine what the projection would have
11 been had there been better knowledge of the time path of key variables. For
12 example, one could examine what the projection of NVPC would have been with
13 perfect knowledge of hydro generation.

14 The SD-PCAM uses an *ex post* MONET projection to determine what
15 projected NVPC would have been, had PGE and the other RVM parties had, all
16 other things held constant, perfect knowledge of hydro conditions and market
17 energy prices. In the Stipulation terminology, this *ex post* MONET projection is
18 called the Updated Power Costs.

19 The SDCV is calculated by comparing the *ex post* projection of NVPC (i.e.,
20 the Updated Power Costs) to the *ex ante* projection of NVPC (i.e., the Base
21 Power Costs) from each year's RVM proceeding.

22 **Q. WHY DOES THE MONET UPDATE INCLUDE ACTUAL HYDRO**
23 **GENERATION?**

24 A. Actual hydro generation is used to simulate what the system dispatch would have
25 been, had we had perfect knowledge of hydro conditions. With low hydro

1 conditions, reduced hydro generation is likely replaced by a combination of
2 increased thermal dispatch and increased market purchases. With high hydro
3 conditions, increased hydro generation likely results in a combination of
4 decreased thermal dispatch and increased market sales.

5 The substitution of actual hourly hydro generation is made to reflect any
6 shift in PGE's energy supply curve. Lower than expected hydro conditions reduce
7 supply. Higher than expected hydro conditions increase supply.

8 **Q. WHY DOES THE MONET UPDATE INCLUDE ACTUAL WHOLESALE**
9 **ELECTRICITY AND NATURAL GAS MARKET PRICES?**

10 A. Actual wholesale electricity and natural gas market prices are used to simulate
11 what the projected dispatch of Beaver, Coyote Springs, as well as PGE's capacity
12 tolling agreements, would have been, had we had perfect knowledge of market
13 energy prices. Importantly, this methodology holds thermal unit outages constant
14 at the levels used to set PGE's base energy rates.

15 The substitution of actual market prices for electricity and natural gas is
16 made to reflect the actual prices that affected the dispatch of PGE's thermal units.
17 All other variables are held constant at expected or normalized levels (e.g.,
18 planned outages, forced outages, etc.). Lower than expected spark-spreads may
19 reduce thermal unit supply. Higher than expected spark-spreads may increase
20 thermal unit supply.

21 **Q. CAN THE MONET UPDATE METHODOLOGY RESULT IN A COST VARIANCE**
22 **EVEN IF ACTUAL HYDRO CONDITIONS TURN OUT TO BE NORMAL?**

23 A. Yes. Even if normal hydro conditions were to actually occur, the MONET update
24 methodology could still produce a positive, or negative, SDCV due to changes in
25 market energy prices.

1 **Q. WHY DOES STAFF SUPPORT THIS PARTICULAR SET OF MONET**
2 **UPDATES?**

3 A. This combination of adjustments isolates the financial impact of deviations in
4 PGE's hydro generation from other impacts such as load deviations or plant
5 outages, while explicitly recognizing that the cost of replacing lost hydro is tied to
6 the economic dispatch of PGE's Beaver and Coyote Springs units and capacity
7 tolling agreements. This combination of adjustments strikes a reasonable
8 balance between a mechanism that tracks a narrow subset of NVPC and a
9 mechanism that accurately reflects the complex interactions that occur when PGE
10 adjusts its supply portfolio to changing conditions.

11 **Q. IN DIRECT TESTIMONY IN THIS DOCKET, DID STAFF EMPHASIZE THE**
12 **IMPORTANCE OF DESIGNING A PCA MECHANISM TO CAPTURE THE**
13 **ECONOMIC DISPATCH OF PGE'S NATURAL GAS-FIRED ASSETS?**

14 A. Yes. I indicated that PGE is likely to adjust its supply portfolio to changing hydro
15 conditions in a broad and interrelated manner. Reduced hydro generation is likely
16 to be replaced with a combination of increased thermal dispatch and increased
17 (decreased) market purchases (sales). As I indicated in my direct testimony, it is
18 important to capture these complex adjustments to PGE's supply portfolio when
19 setting supplemental adjustment rates. See Staff Exhibit/ 100, Galbraith/16
20 (Lines 7-20). One way to do this is to use an adjustment mechanism that tracks
21 all of the components of NVPC.

22 **Q. IS AN ADJUSTMENT MECHANISM THAT BROADLY TRACKS DEVIATIONS IN**
23 **NVPC IN-LINE WITH THE STATED PREFERENCES OF THE PARTIES IN THIS**
24 **PROCEEDING?**

1 A. No. PGE's original HGA mechanism was designed to be a hydro-only adjustment
2 mechanism. The Citizens' Utility Board (CUB), citing the risk mitigation provided
3 by PGE's annual RVM process, has stated a preference for a narrow PCA. See
4 CUB/100 Jenks-Brown/21. ICNU has stated that an "extreme event" hydro-only
5 adjustment mechanism is preferable to comprehensive "all encompassing"
6 mechanism. See ICNU/200 Falkenberg/3.

7 **Q. IN DOCKET UM 1071, DID STAFF INDICATED A WILLINGNESS TO**
8 **INCORPORATE MONET MODELING WITHIN A PCA MECHANISM TO TRACK**
9 **A NARROW SUBSET OF NVPC?**

10 A. Yes. Staff outlined a hydro-only adjustment mechanism that incorporated a
11 MONET backcast methodology (See Commission Order 04-108 pp. 5-6).

12 **Q. IS STAFF'S SUPPORT OF THE SD-PCAM, WHICH TRACKS A NARROW**
13 **SUBSET OF NVPC, CONSISTENT WITH ITS PREVIOUS PCA POSITIONS?**

14 A. Yes. Given the relatively high level of wholesale electricity and natural gas prices,
15 the economic impact of varying hydro conditions on PGE can be significant. It is
16 reasonable to mitigate this risk, if it is accomplished in a manner that is fair to
17 customers and the company. The SD-PCAM strikes a reasonable balance
18 between a mechanism that tracks a narrow subset of NVPC and a mechanism
19 that tracks the broad and complex interactions that occur when PGE adjusts its
20 supply portfolio to changing conditions.

21

22

B. The SD-PCAM Deadband

23 **Q. DOES THE SD-PCAM HAVE AN ASYMMETRIC DEADBAND?**

24 A. Yes. The SD-PCAM has a deadband set at minus \$7.5 million and plus \$15
25 million.

1 **Q. IN DIRECT TESTIMONY IN THIS DOCKET, DID STAFF EMPHASIZE THE**
2 **IMPORTANCE OF DESIGNING A PCA DEADBAND TO REFLECT ANY**
3 **ASYMMETRIES IN THE STATISTICAL DISTRIBUTION OF NVPC?**

4 A. Yes. I indicated that any PCA mechanism should satisfy a neutral cost recovery
5 criterion. See Staff/100 Galbraith/12. I indicated that a symmetrically designed
6 adjustment mechanism that tracks the asymmetric financial impacts of hydro
7 variability can be expected to produce a deferral balance that favors the utility. In
8 addition, Staff recommended that PGE switch to Expected Value Power Cost
9 modeling in its next general rate case, in part, to establish the statistical
10 distribution of NVPC and inform the design of a fair deadband. Staff/100
11 Galbraith/15.

12 **Q. IS AN ADJUSTMENT MECHANISM WITH AN ASYMMETRIC DEADBAND IN-**
13 **LINE WITH THE STATED PREFERENCES OF THE PARTIES IN THIS**
14 **PROCEEDING?**

15 A. Yes. CUB has stated a preference for an adjustment mechanism with an
16 asymmetric deadband. See CUB/100 Jenks-Brown/20. ICNU has indicated that
17 revenue neutrality is an important design criterion and stated a preference for a
18 revenue-neutral hydro hedge. ICNU/100 Falkenberg/30.

19 **Q. IN DIRECT TESTIMONY STAFF PROPOSED AN INTERIM PCA WITH A**
20 **DEADBAND SET AT PLUS AND MINUS 250 BASIS POINT OF RETURN ON**
21 **EQUITY (APPROXIMATELY \$40 MILLION), WHY DOES STAFF NOW**
22 **SUPPORT THE SD-PCAM WITH A DEADBAND SET AT MINUS \$7.5 MILLION**
23 **AND PLUS \$15 MILLION?**

1 A. In direct testimony staff proposed an interim PCA mechanism that tracked all of
2 the components of NVPC. See Staff Exhibit/100, Galbraith/26. As I indicated in
3 my direct testimony, the Commission established the same deadband in Dockets
4 UM 995, UM 1008/1009, and UM 1007. Each of these Commission-approved
5 mechanisms also tracked all of the components of NVPC. In contrast, the SD-
6 PCAM tracks changes in NVPC associated only with deviations in hydro
7 conditions, wholesale electricity prices, and natural gas prices. Staff believes the
8 narrower asymmetric deadband of the SD-PCAM is justified because: (1) the SD-
9 PCAM tracks a narrower set of costs; and (2) the financial impact of hydro
10 variability is likely to be asymmetric. The SD-PCAM provides a reasonable
11 sharing of the cost variance associated with deviations in hydro conditions,
12 wholesale electricity prices and natural gas prices.

13
14 C. The SD-PCAM Earnings Test

15 **Q. IS USING AN EARNINGS TEST TO LIMIT THE RECOVERY OF ANY**
16 **DEFERRED AMOUNTS IN-LINE WITH THE STATED PREFERENCES OF THE**
17 **PARTIES IN THIS PROCEEDING?**

18 A. Yes. CUB has emphasized the important protection provided by an earnings test.
19 See CUB/100 Jenks-Brown/22. Similarly, ICNU has stated the importance of
20 protecting ratepayers from “unbounded risk.” See ICNU/100 Falkenberg/32.

21 **Q. WHY DOES STAFF SUPPORT THE USE OF AN EARNINGS TEST TO LIMIT**
22 **THE RECOVERY OF ANY DEFERRED AMOUNTS?**

23 A. An earnings test ensures that any surcharge does not allow PGE to earn more
24 than its authorized return. The earnings test ensures that final rates charged to
25 customers are fair and reasonable.

1

2

D. Other Key Considerations

3

Q. IS THE SD-PCAM A TEMPORARY MECHANISM FOR CALENDAR YEARS

4

2005 AND 2006?

5

A. Yes. Staff believes that improved power cost modeling can lead to a more informed PCA mechanism. Therefore, it is important that the SD-PCAM be a temporary mechanism.

6

7

8

Q. DOES THE UE 165 STIPULATION SECURE A COMMITMENT FROM PGE TO

9

HIRE A CONSULTANT TO STUDY THE STATISTICAL DISTRIBUTION OF NET

10

VARIABLE POWER COSTS?

11

A. Yes. As I indicated in direct testimony, Staff recommends the use of Expected Value Power Cost modeling for two reasons: (1) to provide a more realistic simulation of PGE's system operations, and (2) to provide a statistical distribution of NVPC that can be used to design a PCA mechanism that satisfies the reasonable risk reduction and revenue neutral criteria. Staff/100 Galbraith/15. This study will provide valuable information regarding the distribution of PGE's NVPC and could inform the development of an on-going adjustment mechanism for calendar year 2007 and beyond.

12

13

14

15

16

17

18

19

Q. DOES THE SD-PCAM ESTABLISH ANY PRECEDENT FOR PACIFICORP'S

20

AND IDAHO POWER'S 2005 HYDRO DEFERRAL APPLICATIONS (DOCKETS

21

UM 1193 AND UM 1198, RESPECTIVELY)?

22

A. No. Paragraph 7 of the Stipulation indicates that the Stipulation is not admissible as evidence in any other proceeding. Nevertheless, Staff notes that neither PacifiCorp nor Idaho Power had a 2005 RVM that established a Commission-

23

24

25

1 SD-PCAM approach proposed in this docket is inapplicable in the PacifiCorp and
2 Idaho Power dockets.

3

4

II. Staff's Reply to ICNU's Rebuttal Testimony

5

**Q. WHAT ARE THE SPECIFIC ARGUMENTS MADE BY ICNU THAT YOU REBUT
6 IN THIS TESTIMONY?**

7

A. In its March 15, 2005 rebuttal testimony, ICNU asserts that the staff
8 recommendations are flawed because staff prematurely broadened the scope of
9 Docket UE 165 and retroactively modified the scope of Docket UM 1187. I will
10 rebut each of these assertions.

11

12

A. The Scope of Docket UE 165

13

Q. PLEASE RECAP ICNU'S BROADENED-SCOPE ARGUMENT.

14

A. ICNU stated,

15

"...neither PGE, nor CUB, nor ICNU has presented testimony recommending a
16 comprehensive PCA in this case. Thus, Staff is out of step with the rest of the
17 participants in this docket... the HGA was a proposal with a much more limited
18 scope, and this docket was established to investigate that proposal, not to deal
19 with the issue of a full PCA." ICNU/200, Falkenberg/4, Lines 11-13, 24-26.

20

21

Q. HOW SHOULD THE SCOPE OF DOCKET UE 165 BE DELINEATED?

22

A. PGE filed the HGA mechanism as an automatic adjustment clause under ORS
23 757.210. The scope of this proceeding should largely be determined by that
24 statute. Staff's direct testimony clearly falls within parameters of what is allowed
25 under ORS 757.210.

26

**Q. WHY DID STAFF RECOMMEND A NVPC PCA INSTEAD OF A HYDRO-ONLY
27 ADJUSTMENT MECHANISM?**

1 A. Staff indicated that it is important to capture the complex interaction of the
2 resources in PGE's supply portfolio when setting supplemental adjustment rates.

3 Staff stated:

4 "Ignoring thermal plant optionality in the design of a hydro-only adjustment
5 mechanism produces an economic windfall to the utility. The best way to
6 address this issue is to use a PCA that tracks all the components of NVPC."
7 Staff Exhibit 100, Galbraith/16.
8

9 Notice that we did not indicate that a comprehensive PCA was the only way to
10 address the complex interaction of resources. The SD-PCAM addresses this
11 issue by using a MONET update methodology.

12 **Q. IS A COMPREHENSIVE NVPC PCA JUSTIFIED ON THE BASIS OF THE**
13 **RECORD IN THIS PROCEEDING?**

14 A. Yes. As I indicated in my direct testimony, Staff agrees with PGE witness
15 Lobdell's conclusion that the wholesale power market is higher priced and more
16 volatile than in the past. See Staff/100 Galbraith/7 and PGE/200 Lobdell/16-21.
17 Given the relatively high level of wholesale electricity and natural gas prices, the
18 economic impact of varying hydro conditions on PGE can be significant. A PCA
19 mechanism that is fair to both customers and the company is warranted.

20 **Q. HAS STAFF PREMATURELY BROADENED THE SCOPE OF UE 165?**

21 A. No.

22

23

B. The Scope of Docket UM 1187

24 **Q. PLEASE RECAP ICNU'S RETROACTIVE MODIFICATION OF SCOPE**
25 **ARGUMENT.**

26 A. ICNU stated,

1 "I believe that Mr. Galbraith is recommending that the Commission engage in
2 retroactive ratemaking, which is ill-advised from a regulatory policy standpoint...
3 In effect, Mr. Galbraith argues that an application for deferral of one type of cost
4 is sufficient to allow deferral of a whole range of loosely-defined "related" costs...
5 If the Commission adopts the Staff proposal, it will "let the genie of retroactive
6 ratemaking out of the bottle of deferred accounting" and greatly complicate the
7 regulatory treatment of deferred costs in future cases." ICNU Exhibit/200,
8 Falkenberg/10-11.
9

10 **Q. HOW SHOULD THE SCOPE OF DOCKET UM 1187 BE DELINEATED?**

11 A. The delineation of the scope of Docket UM 1187 should largely be determined by
12 the underlying cause of the deferral application -- the economic impact of
13 variation in hydro generation. On December 30, 2004, PGE filed a deferral
14 application pursuant to ORS 757.259(2)(e) and OAR 860-027-0300(3). PGE
15 requested deferral of the costs and benefits due to variation in PGE's owned and
16 contracted hydro generation resources. PGE stated that the deferral would
17 appropriately match the costs borne by and benefits received by customers. PGE
18 asserted that variation in hydro generation from the level assumed in rates, and
19 the consequent economic impact, was the source of a potential mismatch
20 between customer costs and benefits. In its January 21, 2005, supplemental
21 application PGE identified a region-wide multiyear drought, and the high variable
22 power cost of replacement resources, as a reason for the deferral.

23 **Q. WHY DID STAFF RECOMMEND A COMPREHENSIVE NVPC MECHANISM**
24 **INSTEAD OF A HYDRO-ONLY MECHANISM FOR RESOLUTION OF UM 1187?**

25 A. The impact of hydro variation on PGE system operations, and therefore on the
26 match between customer costs and benefits, is much more complex, and
27 therefore broader, than simply tracking the megawatt-hour variation in
28 hydroelectric generation. Region-wide drought can affect the wholesale market
29 price of electricity; and in-turn, PGE's dispatch of the Beaver and Coyote Springs

1 natural gas-fired plants. Staff originally recommended a comprehensive NVPC
2 mechanism as a resolution to UM 1187 as a way to capture thermal plant
3 optionality and the complex interaction of the resources in PGE's supply portfolio
4 when deferring the costs associated with the low hydro conditions of 2005.

5 **Q. IS IT ACCURATE TO SUGGEST THAT NVPC ARE A LOOSELY DEFINED SET**
6 **OF RELATED COSTS?**

7 A. No. It is more accurate to say that NVPC are a well defined set of interrelated
8 costs. PGE has provided staff with monthly reports of NVPC by specific ledger
9 account since March of 2001. PGE has filed an RVM case to update NVPC each
10 year since 2002 (Docket UE 139, UE 149, and UE 161). PGE filed testimony
11 supporting the prudence of its NVPC in UM 1039. PGE, Staff, and other
12 intervenors are very familiar with the category of NVPC.

13 **Q. DOES THE COMMISSION HAVE THE ABILITY TO CONDITION THE GRANT**
14 **OF A DEFERRAL APPLICATION SO AS TO MORE ACCURATELY CAPTURE**
15 **THE COSTS AND BENEFITS OF THE UNDERLYING EVENT?**

16 A. Yes. As I indicated in my direct testimony, Staff believes the Commission has the
17 discretion to authorize PGE to defer costs related to variation in its hydro
18 generation in a manner that will most accurately capture the costs and benefits
19 associated with that variation. The Commission is not obligated to accept PGE's
20 proposed method for capturing those costs, which is the Hydro Adjustment Tariff
21 originally proposed by PGE. Rather, it has the discretion to select an alternate
22 method for determining the costs and benefits associated with hydro generation
23 variation.

24 **Q. DID STAFF RECOMMEND THAT THE COMMISSION ENGAGE IN**
25 **RETROACTIVE RATEMAKING IN DOCKET UM 1187?**

1 A. No. Staff indicated that the UM 1187 application provides the Commission
2 options with respect to the date at which benefits and costs associated with
3 PGE's proposed HGA mechanism are eligible for deferral. See Staff Exhibit 100,
4 Galbraith/27. The risk of the retroactive ratemaking genie escaping from the
5 deferred accounting bottle has been greatly exaggerated.

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

7 A. Yes.

UM 1187
Service List (Parties)

<p>LOWREY R BROWN CITIZENS' UTILITY BOARD OF OREGON 610 SW BROADWAY, SUITE 308 PORTLAND OR 97205 lowrey@oregoncub.org</p>	<p>JASON EISDORFER CITIZENS' UTILITY BOARD OF OREGON 610 SW BROADWAY STE 308 PORTLAND OR 97205 jason@oregoncub.org</p>
<p>RANDALL J FALKENBERG RFI CONSULTING INC PMB 362 8351 ROSWELL RD ATLANTA GA 30350 consultrfi@aol.com</p>	<p>PATRICK G HAGER PORTLAND GENERAL ELECTRIC 121 SW SALMON ST 1WTC0702 PORTLAND OR 97204 patrick.hager@pgn.com</p>
<p>PAMELA G LESH PORTLAND GENERAL ELECTRIC 121 SW SALMON ST 1 WTC 1703 PORTLAND OR 97204 pamela.lesh@pgn.com</p>	<p>S BRADLEY VAN CLEVE DAVISON VAN CLEVE PC 333 SW TAYLOR, STE 400 PORTLAND OR 97204 mail@dvclaw.com</p>

CERTIFICATE OF SERVICE

UM 1187

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to all parties or attorneys of parties.

Dated at Salem, Oregon, this 18th day of April, 2005.



Stephanie S. Andrus
Assistant Attorney General
Of Attorneys for Public Utility Commission's Staff
1162 Court Street NE
Salem, Oregon 97301-4096
Telephone: (503) 378-6322