



Oregon

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Public Utility Commission

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September 28, 2007

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
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RE: **Docket No. UM 1330** - In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation of Automatic Adjustment Clause pursuant to SB 838.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Direct Testimony.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

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c: UM 1330 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1330

STAFF DIRECT TESTIMONY OF

Judy Johnson

**In the Matter of
PUBLIC UTILITY COMMISSION OF OREGON
Investigation of Automatic Adjustment Clause
Pursuant to SB 838.**

September 28, 2007

CASE: UM 1330
WITNESS: Judy Johnson

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Direct Testimony

September 28, 2007

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Judy Johnson. I am Program Manager of the Rates and Tariffs
4 Section in the Electric and Natural Gas Division at the Public Utility
5 Commission of Oregon. My business address is 550 Capitol Street NE Suite
6 215, Salem, Oregon 97301-2551.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
8 **EXPERIENCE.**

9 A. My Witness Qualification Statement is found in Exhibit Staff/101.

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

11 A. I am sponsoring staff's position on the Automatic Adjustment Clause (AAC)
12 that will be used to implement, in part, Senate Bill 838. The background of the
13 AAC is discussed fully in testimony presented by Portland General Electric
14 (PGE) and PacifiCorp and staff will not repeat those discussions here. The two
15 companies have presented comprehensive proposals in their testimony on how
16 an AAC would work.

17 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

18 A. I will discuss each proposal and then present staff's recommendation.

19 **Q. PLEASE SUMMARIZE PACIFICORP'S AND PGE'S PROPOSALS.**

20 A. PacifiCorp proposes to make an annual rate change on January 1 in
21 conjunction with any rate adjustment that may result from the Transition
22 Adjustment Mechanism (TAM). They propose to adjust rates to add the return
23 on rate base for the investments associated with qualifying renewable projects,

1 as well as the associated expense for operations and maintenance,
2 depreciation, property taxes, and renewable energy credits. The company also
3 proposes to add the dispatch benefits associated with the new resources which
4 would be added to the TAM. Additionally, the company proposes to use
5 deferred accounting for the non-NVPC revenue requirement of certain
6 renewable resources through the end of 2008 in conjunction with its proposed
7 supply service surcharge.

8 PGE proposes to begin deferring the revenue requirement impact of
9 each turbine (or turbine segments) based on the actual on-line date of the
10 turbine (or turbine segments) on a pro-rated basis. The company proposes to
11 include the dispatch benefits associated with the finalized portions of the
12 projects into the deferred account as well.¹ PGE's proposal would require that
13 rates change each time a project is completed reflecting the revenue
14 requirement for the entire project. Amounts deferred for individual segments
15 prior to the project's in-service date would be recovered over a one-year
16 period. PGE's proposal could result in several rate changes within one year.

17 **Q. WHAT IS STAFF'S RECOMMENDATION CONCERNING THESE TWO**
18 **PROPOSALS?**

19 A. Staff recommends a proposal that incorporates aspects from both the
20 PacifiCorp and PGE proposals. Staff recommends the utilities be allowed to
21 use deferred accounting to capture all the costs and benefits of the renewable
22 resources and any associated transmission that is put into service in any one

¹ Dispatch benefits would be removed from the AAC when they are included in PGE's Annual Update, Schedule 125, beginning the year after the resource is placed in service.

1 year. Staff further proposes that the utility implement a single annual rate
2 change, including amortization of deferred amounts, effective January 1
3 coincident with each utility's annual power cost changes. Staff's approach
4 better matches costs with benefits and limits the rate fluctuations for
5 customers. Staff's proposal is also less administratively burdensome than one
6 that requires multiple review periods and rate changes during each calendar
7 year.

8 **Q. WHEN WOULD THE PRUDENCE OF THE RESOURCE BE REVIEWED?**

9 A. PGE states in its testimony that it would submit a request to change rates six
10 months before the scheduled on-line date for the resource. PGE proposes that
11 at the time of the filing the Commission would then open a proceeding and
12 establish a schedule to provide the parties with an opportunity to develop an
13 evidentiary record. The company's proposal further requests that a
14 Commission decision be made 45 days prior to the on-line date of the
15 resource.

16 PacifiCorp proposes to file information on resources scheduled to go
17 on-line during the year each April coincident with its TAM filing.

18 Staff prefers PacifiCorp's approach to the timing needed for a review of
19 the prudence of the proposed additions to rate base. Syncing up all the rate
20 changes would simplify the prudence review of all the costs and benefits
21 associated with the resources. In addition, PacifiCorp's approach allows staff
22 and other parties more time for review than PGE's approach.

23 **Q. SHOULD FIXED COSTS BE UPDATED ON AN ANNUAL BASIS?**

1 A. PGE's position is that capital additions tend to offset the impact of depreciation
2 when overall rate base is considered. PGE further states that performing an
3 update of the fixed costs associated with resources being recovered through its
4 AAC tariff, in isolation of other changes in costs, would likely produce
5 unreasonable results and would be inappropriate. PGE offers to file a rate
6 case at least every five years to bring costs and benefits into alignment.

7 PacifiCorp states that it is willing to recalculate the revenue
8 requirement of any resources which have already been approved for recovery
9 in rates on an annual basis through the AAC. PacifiCorp asserts that this
10 approach will ensure that customers' rates reflect the reduction in rate base
11 due to depreciation and that this approach is just and reasonable.

12 Staff supports PacifiCorp's proposal to update revenue requirement of
13 resources annually, although staff would also not oppose a utility offering to file
14 a general rate case at least every five years. Because individual project costs
15 are identified in individual filings, it would be a fairly simple matter to update the
16 fixed costs on an annual basis. Moreover, requiring an annual update of fixed
17 costs for resources subject to the AAC appropriately recognizes that, unlike
18 most other rate base additions, these investments receive unique treatment
19 because the utility is granted rate recovery between general rate cases. Staff
20 disagrees with PGE's proposal to leave first-year costs in place for up to five
21 years until the next general rate case because it allows the company to get
22 (typically higher) first year cost recovery on the investment for five years.

23 **Q. WHAT RATE DESIGNS ARE PROPOSED BY THE UTILITIES?**

1 A. PacifiCorp proposes to collect the AAC through an equal-cents-per-kilowatt
2 hour surcharge applicable to all customers served under the company's cost-
3 based supply service (Schedule 200), standard offer supply service (Schedule
4 220), and emergency supply service (Schedule 230).

5 PGE also proposes to collect the AAC through an equal-cents-per-
6 kilowatt-hour (unlike PacifiCorp, PGE will adjust for line losses) surcharge to all
7 bills for electricity service except for those customers served under Schedule
8 76, Partial Requirements Service, Schedules 483 and 489, Transmission
9 Access Service, and Schedule 576, Economic Replacement Power Rider
10 Direct Access Service.

11 Staff agrees with the companies' approach for rate design for cost-of-
12 service and standard offer service customers. PGE proposes to apply the AAC
13 to customers participating in short-term (one year or less) direct access
14 options; PacifiCorp does not. PGE proposes that the AAC not apply to
15 customers under the company's three- and five-year direct access options.
16 Prior to the first Renewable Portfolio Standard (RPS) compliance year (2011),
17 the AAC should apply to direct access customers under new short-term and
18 long-term agreements unless the customer is "effectively committed to service"
19 from an electricity service supplier (ESS), such as those under PGE's five-year
20 opt-out. See Order No. 07-002 at 19. The Commission requires the utilities to
21 plan for all other customers because these customers have a right to return to
22 cost-of-service rates without advance notice. As a practical matter, staff
23 recommends the AAC first apply to direct access customers in 2009 due to the

1 timing of transition adjustment calculations that inform customers' decisions.
2 However, beginning in 2011, direct access customers of any term (short- or
3 long-term) should not be charged under the AAC. Otherwise, they would be
4 charged twice for meeting the RPS – once by the utility and again by their ESS
5 who is required to meet the RPS requirements that apply to the utility in whose
6 service territory they sell (Section 9 of Senate Bill 838).

7 Since the AAC should not apply to direct access customers beginning
8 in 2011, then the dispatch benefits of renewable resources (e.g. wind's zero
9 dispatch cost which lowers net variable power costs) should be removed from
10 the TAM and the Annual Update calculations for those customers at that time.
11 Otherwise, they would get the benefits and not the costs of those resources.

12 Staff agrees with the companies that the AAC should not apply to
13 economic replacement power, an optional interruptible service for customers
14 with on-site generators, including customers on PGE Schedules 76R and
15 576R² and PacifiCorp Schedules 76R and 276R.

16 **Q. PACIFICORP STATES THAT THERE SHOULD BE NO EARNINGS**
17 **REVIEW ASSOCIATED WITH THE AAC MECHANISM. DOES STAFF**
18 **AGREE?**

19 A. Yes. Staff agrees that Senate Bill 838 did not make recovery of renewable
20 energy investments and associated transmission investments subject to an
21 earnings review.

² PGE inadvertently applied the AAC to Schedule 576R in its proposed revision of Schedule 100 "Summary of Applicable Adjustments." See Advice No. 07-21, Sheet No. 100-1. The company clarifies its intent to exempt Schedule 576R at PGE/100, Dahlgren-Cody/3.

1 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A. Yes.

CASE: UM 1330
WITNESS: Judy Johnson

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualifications Statement

September 28, 2007

WITNESS QUALIFICATION STATEMENT

NAME: JUDY A. JOHNSON

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: MANAGER – RATES & TARIFFS

ADDRESS: 550 CAPITOL ST. N.E., SALEM, OREGON 97310-1380

EDUCATION: MBA with an emphasis in Statistics from
Eastern Washington University
Cheney, Washington

BA in Accounting from
Eastern Washington University
Cheney, Washington

EXPERIENCE:

- 3/95-Present I have been employed by the Oregon Public Utility Commission since March of 1995. My current position is Program Manager of Rates & Tariffs. I was previously a Senior Analyst for the Revenue Requirements Section.
- 6/77-2/95 I was employed by Avista Corporation, an electric and natural gas utility located in Spokane, Washington. The majority of my employment was spent in the Rates and Regulatory Affairs Department as a Senior Rate Analyst. I have prepared testimony and exhibits in numerous electric and natural gas rate cases, primarily in the area of results of operations and cost of service.

CERTIFICATE OF SERVICE

UM 1330

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 the following parties or attorneys of parties.

Dated at Salem, Oregon, this 28th day of September, 2007.

A handwritten signature in cursive script, appearing to read "Mike Weirich", written over a horizontal line.

Mike Weirich
Assistant Attorney General
Of Attorneys for Public Utility Commission's Staff
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**UM 1330
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