Q. Please state your name, position, and address.

A. My name is Brian Hedman. I am manager of integrated resource planning and demand side policy at PacifiCorp. My address is 825 NE Multnomah, Portland Oregon.

Q. Please describe your education and business experience.

A. I have an undergraduate degree in business administration from the University of Washington and a masters degree in economics from Portland State University. I have been employed by PacifiCorp since 1980 and have held several positions. I have held my current position for the last 5 years and have managed the development of PacifiCorp's integrated resource plan, RAMPP-6.

Q. Have you previously testified before this commission?

A. Yes, I testified in Docket No. 99-035-10.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is threefold: 1) to clarify the use of certain assumptions regarding loss of load and the balancing of wholesale sales in RAMPP-5 as referenced by Ms. Wilson for the Division of Public Utilities; 2) to review assumptions held by the Company through much of the past decade regarding its resource situation, the western regional surplus, and wholesale market prices, as disclosed in the company's RAMPP 4 planning document; and 3) to address the rate-making treatment of demand-side management (DSM) costs and savings as referenced by Mr. Nichols for the Utah Energy Office.

Q. What does Ms. Wilson say about RAMPP-5 and Company strategy?

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A. Ms. Wilson states that in RAMPP-5, PacifiCorp "effectively removed long term wholesale load obligations from capacity expansion consideration."

Q. Do other witnesses make similar claims?

A. Mr. Anderson for UAE makes similar claims in his testimony

Q. Is Ms Wilson's and Mr. Anderson's characterization of the Company's strategy based on RAMPP-5 correct?

A. No. Ms. Wilson and Mr. Anderson assume in their conclusions that the Company bases its long term strategy on a static view of a single potential scenario. They cite assumptions used in the base case for RAMPP-5. These assumptions include a balancing of wholesale sales with wholesale purchases over a 5-year time frame and an assumption that the Company would lose 10% of its regulated load over that same time frame. Ms. Wilson states that these planning assumptions "left PacifiCorp in a vulnerable position when it was resource short in the summer and the cost of power purchases were significantly higher than the cost of its own generating resources" (page 13 of Wilson).

Q. Is this conclusion accurate?

A. No. It is inaccurate for two primary reasons. First, Ms. Wilson and Mr. Anderson apparently conclude that the Company uses the RAMPP modeling results for day-to-day business decisions. RAMPP is a high-level, long-term load and resource balancing model. Its purpose is to analyze numerous potential future scenarios and to thereby inform the Company well in advance of the need for new resources. Naturally, when forecasting over a 20-year horizon, a variety of assumptions must be made. Two assumptions they call into question are the

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assumption that for modeling purposes RAMPP-5 would assume that wholesale sales were balanced with wholesale purchases over a period of 5 years and the assumption that the Company would lose 10% of its load to deregulation over that same period. There were dozens of other assumptions that were made during the analysis as well, including load growth, fuel costs, market prices, and cost of new generation alternatives. The RAMPP process does not presume to be able to determine the single correct assumption in any of these categories. Consequently, numerous individual scenarios were created, each one with varying assumptions. This allows the Company and stakeholders to answer questions such as "What if load growth turns out to be more (or less)?", "What if market prices are such and such?", etc. This process is used, as designed, for long term, high level planning. ~~Day to day and near term decision making is described by Mr. Watters~~Mr. Watters describes day-to-day and near-term decision-making.

Q. For what other reason is Ms. Wilson's and Mr. Anderson's conclusion incorrect?

A. Ms. Wilson and Mr. Anderson apparently also assume that the Company would have followed a different strategy had it not made the wholesale and load loss assumptions I previously mentioned.

Q. Would the Company have followed a different strategy in the absence of those two assumptions?

A. No. As I mentioned previously, RAMPP-5 contains dozens of scenarios, not just the one that Ms. Wilson and Mr. Anderson reference. In fact, Table 5-4 of the RAMPP-5 study contains the results of a scenario with the wholesale balancing assumption and the load loss assumption removed.

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Q. What are the results of that scenario?

A. The optimization model chooses to build 85 MW of new co-generation in 2002.

Q. Would this have impacted the power costs in this rate case?"

A. No. The scenario without the assumptions does shorten the timeframe within which the model would choose to build new resources compared with the base case, but this foreshortened timeframe is still two years beyond the test period in this rate case.

Q. What do you conclude from the RAMPP-5 analysis?

A. The RAMPP-5 analysis encompassed a wide range of potential future scenarios, including one in which the assumptions criticized by Ms. Wilson and Mr. Anderson were removed. This scenario demonstrates that Company planning would not have been significantly altered regardless of which scenario was relied upon.

Q. What assumptions has the company operated under for the past several years regarding resources and wholesale market prices?

A. The Company's integrated resource plan for the 1996-1998 time period, RAMPP-4, describes how the Company perceived its situation during this period. According to RAMPP-4, PacifiCorp did not need peaking capacity under medium load growth until 2004, with energy requirements necessary in 2010.

Q. What were the conclusions of RAMPP-4 as far as prices during this period?

A. RAMPP-4 assumed a western region surplus, but also included "underbuilding" scenarios to review the impacts to prices. The analyses indicated prices would be above the costs of a combined cycle combustion turbine (CCCT) to cover

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resource requirements if the surplus went away. However, based on the surplus going away RAMPP still projected the price of market-based power to be approximately $25 per MWh (in real 1996 dollars) in 2001. Short-term firm power was viewed as a cheaper alternative to simple cycle combustion turbine (SCCT) and CCCT additions. Based on this conclusion, 150 MW of SCCT planned for Arizona were indefinitely postponed in the update to RAMPP-4 in early 1997.

Utah Energy Office DSM Proposal

Q. Does the company support the proposals of Mr. Nichols for Utah Energy Office?

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A. Mr. Nichols presents a compelling case for additional energy efficiency and demand side program activity in Utah. Indeed, the Company concurs with much of what Mr. Nichols suggests and has recently filed to enhance its energy efficiency programs. However, Mr. Nichols' suggestions for capturing costs and savings related to the programs are only partly acceptable to the Company.

Q. Please explain.

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A. Mr. Nichols states that a deferred accounting system should be established in which the costs of the energy efficiency and demand side programs would be offset by revenues from a tariff rider and by reductions in power costs resulting from the savings from the programs.

Q. Does the Company support a deferred accounting mechanism and a tariff rider to offset the costs?

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A. In part, yes. A deferred accounting mechanism provides a means for recovery of actual energy efficiency and demand side program costs, rather than just historical

test period costs. These can then be recovered through an appropriate mechanism such as a tariff rider or can be recovered through amortization in future rates.

Q. What about credits for power cost savings?

A. This is where we disagree with Mr. Nichols' testimony. The Company believes there are significant measurement problems with regard to DSM-related power cost savings. Measurement problems will exist with regard to both volume and price. Calculation of savings will be dependent on assumptions regarding baseline usage and costs. In addition to difficulties in quantifying volume changes, there will be difficulties in accurately pricing the savings. Besides this, power cost reductions will occur in the future as DSM programs are implemented. Price reductions attributed to future purchased power savings, for example, could easily exceed the corresponding power costs included in rates being collected by the Company. The proposed credit could thus result in the Company under-recovering its power costs.

Q. If the Commission approves a DSM charge in rates without implementing a corresponding DSM-related power cost balancing account, will customers still see benefits from these programs?

A. Yes. Cost effective energy efficiency and demand side programs are an important element of the resource portfolio that the Company uses to minimize power costs. Power purchases and new generation are reduced from what they otherwise would have been by the savings from these programs. These reduced costs are reflected in the power cost modeling, along with all other cost changes taken into account

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in rate cases. In addition, customers benefit from lower consumption and lower bills.

Q. Does this conclude your testimony?

A. Yes, it does.

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