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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

	)	Docket No. 01-035-01
In the Matter of the Application	)	REBUTTAL REVENUE
Of PacifiCorp for an Increase in	)	REQUIREMENT TESTIMONY OF
Its Rates and Charges	)	JOSEPH A. HERZ, P.E.
	)	FOR THE UNITED STATES
	)	EXECUTIVE AGENCIES

July 16, 2001

REBUTTAL TESTIMONY OF JOSEPH A. HERZ, P.E.

Q. Please state your name.

A. My name is Joseph A. Herz.

Q. Are you the same Joseph A. Herz that provided Direct Revenue Requirement Testimony in this proceeding on behalf of the Department of the Air Force representing the United States Executive Agencies (USEA)?

A. Yes, I am.

Q. Why are you filing Rebuttal Revenue Requirement Testimony in this proceeding?

A. There are several reasons for this filing. First, there are many direct revenue requirement testimonies addressing the net power cost that I addressed in my direct testimony and I would like to clarify the differences between my recommendations and those of other intervenors. Second, PacifiCorp filed a supplemental filing that raises a new issue in addition to correcting certain errors in its filed application. Third, I would like to comment on the pre-filed direct testimonies of the Utah Department of Energy that recommended an increase to the revenue requirement to include $35 million funding DSM initiative.

Q. What issues did you raise regarding the net power cost?

A. As discussed in my direct testimony, corrections and adjustments to the Power Cost Model are as follows:

1. Correct PacifiCorp's use of 1999 Utah Retail Sales in one portion of the Power Cost Model rather than the normalized Test Year sales ending September 30, 2000.

2. Correct the modeled capacity inputs of the Colstrip units from the prior rating of 70 MW to the current rating of 74 MW for each unit.

3. Adjust the availability factor inputs for PacifiCorp thermal units, except for the Gadsby units, based on six-year historical averages rather than the four-year averages utilized by PacifiCorp; and, adjust the Gadsby units availability factors to the thermal system weighted average availability factor.

4. Adjust thermal unit scheduled maintenance inputs to a six-year historical average rather than the four-year average used by Pacificorp, and adjust the timing of scheduled maintenance on certain units from June to February and April.

Q. What was your recommendation to the Commission regarding the net power cost?

A. My recommendation was that the Commission establish Test Year revenue requirements in this proceeding based on Test Year power costs that incorporate the corrections and adjustments to the Power Cost Model inputs summarized above. My direct testimony also provided the following tabulation summarizing the impact of the Power Cost Model input changes on Test Year Power Cost Model results:

Description of Correction or Adjustment	Impact on Utah Test Year Revenue Requirements Increase/(Decrease)
1. Correct use of 1999 Utah Retail Sales to Test Year Sales in Power Cost Model	($ 7,510,000)
2. Correct modeled capacity of Colstrip Units from 70 MW to 74 MW	($ 2,429,000)
3. Adjust thermal availability factors in Power Cost Model to six-year average	($ 21,409,000)
4. Adjust scheduled maintenance in Power Cost Model to six-year average and timing of maintenance periods	($ 21,443,000)

The combined impact of the corrections and adjustments summarized above decrease Utah Test Year revenue requirements by approximately $43,229,000. PacifiCorp's supplemental filing accepted my first and second corrections.

Q. Did other intervenors' direct revenue requirement testimony change your recommendations?

A. No, they did not. Actually, Mr. Randall Falkenberg, a witness for the Committee of Consumer Services (CCS) and the Division of Public Utilities (DPU) addressed the same issues regarding the availability factor and scheduled maintenance inputs for PacifiCorp's thermal units. Similar to my recommendation, with exception of the Gadsby units and timing of maintenance, Mr. Falkenberg also recommended the use of six-year historical averages rather than the four-year averages utilized by PacifiCorp. As explained in my direct testimony, my adjustment to the availability factor will decrease the net power cost, on a total company basis, by approximately $58 million and the scheduled maintenance adjustment (six-year average and timing of maintenance) will decrease the net power cost, on a total company basis, by approximately $58.1 million. Mr. Falkenberg's adjustment to net power cost for correcting thermal plant availability (scheduled and unscheduled) by using six-year historical averages is $41.3 million, the difference from my recommendation is due to the order in which changes were made. Mr. Falkenberg's adjustments were computed after changes were made, per his recommendation, to short term transactions.

Q. Please explain how your recommendation regarding the Gadsby units differs from that of Mr. Falkenberg?

A. I recommended the use of a system six-year operating equivalent availability weighted average of 92.41% for the Gadsby units that is less than the Gadsby units six-year historical average (which was greater than 97%, page 19, line 6 of my pre-filed Direct Revenue Requirement Testimony has a typo of 98% instead of 97%) in recognition of their frequent operation. As explained in my Direct Revenue Requirement Testimony, PacifiCorp proposed to use an operating equivalent availability factor of approximately 66% for the Gadsby units. I have also recommended a longer maintenance outage time for the Gadsby units than the historical average. It is my understanding Mr. Falkenberg did not take exception to the Gadsby units, other than spinning reserves, and used a six-year average for operating equivalent availability factors and scheduled maintenance outage hours.

Q. Did Mr. Falkenberg take an issue with the PacifiCorp timing of maintenance outages?

A. No he did not.

Q. What is the new issue raised by PacifiCorp in its supplemental filing?

A. PacifiCorp's proposes to change its treatment of the San Diego sale (SDG&E Sale) from being considered a short-term sale to a long-term sale. In doing so PacifiCorp decreases the revenue credit and increases its net power cost. Revenues from short-term sale are calculated based on normalized prices while revenues from long-term sale are based on actual prices.

Q. What impact did the change of the SDG&E Sale from being considered a short-term sale to a long-term sale have on the revenue requirement?

A. Due to the difference between actual long-term prices and PacifiCorp's normalized test-year short-term prices, the change of the SDG&E Sale from being considered a short-term sale to a long-term sale increased the Utah test year revenue requirement by approximately $17 million.

Q. Do you agree with this change?

A. No, I do not, for two reasons. First, the SDG&E Sale was considered a short-term sale in the last rate case before this Commission. Second, even though the sale is for a period of four years, it is structured with four, one-year terms and all transactions of one year or less are considered by PacifiCorp to be short-term.

Q. Please explain the third reason for filing your rebuttal testimony.

A. As part of my review of revenue requirement direct testimonies, I reviewed the direct testimonies of the Utah Department of Energy. In pre-filed testimony, the Utah Department of Energy recommended an increase to the revenue requirement to include $35 million funding of a DSM initiative. This recommendation was based on the Tellus Report.

Q. Please describe the DSM initiative.

A. The DSM initiative includes load management, energy efficiency, and combined heat and power measures to be implemented through a multi-year initiative, with a year 2001 phase-in and full scale operation during 2002 through 2006.

Q. Please describe the Tellus Report.

A. The Tellus Report is an economic analysis of demand side management opportunities in Utah produced by Tellus Institute. The Tellus report dated March 2001 and corrected in May 2001 found 14 sets of measures to be cost-effective distributed to Residential (4), Commercial (6) and Industrial (4). The report estimates a net benefit of $1.08 billion for the period of 2001 through 2025.

Q. Do you think this proceeding is the right forum for addressing this DSM proposal?

A. No, I do not. The Hill Airforce Base believes in DSM and had invested millions of dollars in DSM activities but this DSM proposal has a large impact on rates at this time in addition to any rate increase for the general rate case. The DSM proposal of Utah

Department of Energy contemplates too much, too soon and to my knowledge the Tellus report did not receive an outside critical analysis or comprehensive review. A comprehensive review with more analysis and discussion would be necessary before its DSM programs could be implemented.

Q. Why do you believe more analysis is needed?

A. The Tellus report states on page 18 the following “The DSM program features assumed in this study are not specific program proposals or complete program designs. Rather, they are program assumptions used …”. As inferred by this sentence several assumptions went into the calculation of the cost/benefit ratio. Additional analysis on specific program proposals is needed.

Q. What are you recommending to this Commission regarding this subject?

A. In light of PacifiCorp filing On June 26, 2001 of four proposed tariffs designed to implement some additional DSM programs, I recommend the stakeholder advisory committee analyze the specific program proposed by PacifiCorp and issue an updated report for consideration by the Commission.

PacifiCorp estimates that its proposed programs would cost about $13 million the first year. PacifiCorp recommends deferred accounting treatment of these costs - meaning that PacifiCorp will book its actual expenses and accrue a return, but each specific program will be analyzed for prudence at a future date and the costs will not be added to rates until after the Commission and other parties have had a chance to analyze them for prudence. Determining the specific cost to each customer class and the specific means of collection would also be deferred to a later date.

Q. Does this conclude your testimony?

A. Yes it does.