Q. Please state your name, business address and present position with Rocky Mountain Power, a division of PacifiCorp (the "Company" or "RMP").

A. My name is Gregory N. Duvall, my business address is 825 NE Multnomah St., Suite 600, Portland, Oregon 97232, and my present title is Director, Long Range Planning and Net Power Costs.

Q. Have you previously filed testimony in this case?

A. Yes. I filed direct testimony, supplemental direct testimony and rebuttal testimony in Phase I of this case.

Q. What is the purpose of your rebuttal testimony?

A. I respond to issues raised by the Division of Public Utilities ("DPU"), presented in the testimony of Mr. Douglas D. Wheelwright; the Office of Consumer Services ("OCS"), presented in the testimonies of Mr. Daniel E. Gimble, Dr. Lori Smith Schell and Mr. Paul Wielgus; and Western Resource Advocates and Utah Clean Energy ("WRA/UCE"), presented in the testimony of Ms. Nancy L. Kelly.

Summary of Testimony

Q. Will you please summarize the topics you will cover in your rebuttal testimony?

A. In my rebuttal testimony, I cover the following issues:

- Is it necessary to determine whether the Company's level of reliance on the wholesale power market and its hedging program are "optimal" before determining whether an energy cost adjustment mechanism ("ECAM") can be adopted or whether it can include front office transactions, natural gas fuel costs or hedging costs?

- Does the Company's level of market reliance need to be further analyzed or changed in connection with adoption of an ECAM?
- Does the Company's hedging program need to be further analyzed or changed in connection with adoption of an ECAM?

Q. Please provide a summary of your conclusions on the first issue.

A. The Company filed its proposed ECAM a few months prior to its most recent general rate case, Docket No. 09-035-23, to allow an ECAM to commence based on net power costs ("NPC") found just and reasonable in a general rate case. While testimony on market reliance and hedging in connection with an ECAM is relevant to the question of whether the Company must change its market reliance and hedging with an ECAM in place, thorough analysis of the Company's reliance on market purchases or its hedging program should not be a precondition for including market purchases or hedging costs in the ECAM. In deciding that this proceeding should move to Phase II, I believe the Commission already rejected the position advocated by some of the witnesses that an ECAM should not be adopted until the Commission has thoroughly reviewed the Company's reliance on market energy and its hedging program. As stated by the Commission in its February 8, 2010 Report and Order, the issue here is whether "the [C]ompany's use of natural gas hedging and the level of and reliance on market energy [is] affected by the use of an ECAM."

In addition, as acknowledged by Mr. Wheelwright and Ms. Kelly and to some extent by Mr. Gimble, a determination of appropriate levels of market reliance and hedging is really an ongoing issue best addressed in the integrated resource plan ("IRP") process. The Commission has already directed that the Company file additional information regarding front office transactions and its hedging program in the IRP process. The Company will comply with that direction and welcomes any input the parties wish to provide regarding these issues. However, adoption of an ECAM should not be delayed to continue to study and analyze the Company's reliance on market purchases and its hedging program given that these are, by their nature, dynamic issues and will always require continuing study and analysis.

Q. Please summarize your testimony on market reliance.

A. The testimony of other parties ignores the fact that there is also risk to customers in committing to long-term resources. The current forward market for firm supplies in 2012 and 2013 is well below the annualized cost of a new combined cycle power plant dispatched into the market. The Company has received numerous proposals in its current All Source Request for Proposals ("RFP"), including 2014 in-service dates, that are much lower cost than the winning bid for a new gas-fired plant in the previous All Source RFP. Customers are benefitting from the Company's level of market reliance. For example, the Company's decision in February 2009 to terminate the Lake Side II resource selected in the last RFP and to rely on front office transactions is reasonably expected to provide approximately [BEGIN HIGHLY CONFIDENTIAL] [redacted] [END HIGHLY CONFIDENTIAL] in present value revenue requirement savings to customers.

The IRP is the appropriate proceeding to address reliance on wholesale market purchases to satisfy load and reserve requirements and nothing further is required in advance of implementing an ECAM. The Commission acknowledged the 2008 IRP, which included a level of market purchases to satisfy peak capacity requirements. The Company's 2008 IRP Update reduces the open position and requirement for new market purchases as a result of executed transactions and changes in the load forecast except in 2014. The Commission's 2008 IRP acknowledgment order requires the Company to provide additional information regarding market risk of front office transactions in the next IRP and the Company is committed to provide that information. The Company's open east-side capacity position for front office transactions in 2012 and 2013 as reflected in the 2008 IRP Update is 200 MW in 2012 and 338 MW in 2013. The level of market reliance underlying the NPC found just and reasonable in the 2009 General Rate Case is consistent with the Company's current level of market reliance. The ECAM will capture only differences between that level of market reliance currently allowed in base rates and actual market reliance.

Q. Please summarize your testimony on the Company's hedging program.

A. The Company has demonstrated in Phase I of this case and through technical conferences in this docket and the natural gas hedging docket, Docket No. 09-035-21, that its natural gas and electricity hedging program effectively reduces customer exposure to price volatility through adherence to its robust risk management policies and best practices and that the hedging program does not eliminate the need for an ECAM.[1] The Company agrees with the OCS that there are many operational uncertainties that impact NPC such as weather and unplanned outages that remain outside the scope of hedging. In regard to Commission guidelines regarding hedging, the Company agrees with the DPU that the Commission should avoid guidelines or requirements that would interfere with the Company's ability to make the best decisions on behalf of customers in day-to-day operations. The Company agrees with the DPU that there should be a biennial review of the Company's hedging program and notes that this is consistent with the Commission's 2008 IRP acknowledgment order directing the Company in the next IRP to add a section on hedging strategy that minimizes costs and risks for customers.

The Company is open to the potential use of options in addition to the standard products that it currently uses in its hedging strategy. However, the Company proposes a carefully staged approach to use of options.

The Company has maintained and continues to maintain that it does not believe it is necessary to change its hedging strategy with adoption of an ECAM. However, the Company will welcome input and reasonable guidance regarding hedging during biennial reviews in connection with the IRP process.

[1] At a May 18, 2009 technical conference, the Company demonstrated how its hedging program delivers significant risk reduction benefits to customers. Further, although the purpose of the hedging program is not to beat the market, but rather to reduce risk, the Company provided actual history from January 2004 through March 2009 that showed that the Company's hedging activities resulted in cumulative savings to customers of approximately $100 million (excluding the benefits of the long-term Hermiston natural gas contracts that further increased the benefit to customers).

Q. What is the overall recommendation of RMP in this rebuttal filing?

A. Based on the significant savings associated with the Company's market reliance strategy, and the significant risk mitigation associated with the Company's hedging program, which are already reflected in rates, RMP recommends that the Commission move forward with the next part of Phase II of this proceeding without requiring any changes to its current level of market reliance and hedging strategy in connection with the adoption of an ECAM. The issues that have been raised by the parties in this proceeding on reliance on market transactions and hedging should be evaluated, as ordered by the Commission, in the development of the Company's 2011 IRP. As RMP has indicated, such issues are by their nature dynamic and will require continual study and analysis. The Company recommends implementing an ECAM in Utah on a pilot basis from February 18, 2010 through the end of 2013, thereby addressing the OCS's concerns prior to 2014; the only year in which market reliance in the 2008 IRP Update has increased in comparison to the 2008 IRP.

Q. How would the "pilot" work?

A. The Company is currently deferring the difference between the NPC found just and reasonable in the 2009 General Rate Case and actual NPC incurred after February 18, 2010, pursuant to the Commission's Report and Order on Deferred Accounting Stipulation issued July 14, 2010 in this docket and Docket No. 10-035-14. When the Commission issues its final order on ECAM design in this docket, the Company will make any adjustments to the deferred account that may be required by that order. The ECAM will then proceed as ordered by the

Commission. The Company will file the 2011 IRP, which will include the evaluation of market reliance and hedging ordered by the Commission in the order that acknowledged the 2008 IRP. Interested parties will have the opportunity to review and comment on all aspects of the IRP and the Commission will have the opportunity to provide any guidance it deems appropriate on the IRP, including any guidance the Commission wishes to provide on market reliance and hedging strategy. In addition, the outstanding All Source RFP will be concluded, interested parties will be able to review, and the Commission will have had the opportunity to reach a decision on, any resource acquisitions proposed as a result of the RFP. Based on this information and information about operation of the ECAM during this period, the ECAM will then be reviewed to determine whether any changes should be made in it. It is anticipated that this review will take place during 2013. Thereafter, the ECAM will be continued (no longer as a pilot program) with any adjustments that may be ordered by the Commission in the review proceeding.

Issue in This Portion of Phase II

Q. Why did the Company file its proposed ECAM when it did?

A. The Company filed its proposed ECAM over three months in advance of the filing of its 2009 General Rate Case consistent with Commitment U 23 approved in the Commission's Report and Order issued June 5, 2006 in Docket No. 05-035-54 that an application for an ECAM would be filed at least three months in advance of a general rate case filing. I understand that the purpose of the commitment was to assure that an ECAM was established on a NPC base examined and found just and reasonable in a general rate case. I understand that this purpose was confirmed in the statute specifically authorizing an ECAM when it provided that the Commission could approve an ECAM that is implemented at the conclusion of a general rate case. Utah Code Ann. § 54-7-13.5(2)(b)(iii). (The Company requested that the ECAM commence concurrent with the Commission's final order in the 2009 General Rate Case and, as mentioned above, is deferring incremental NPC effective as of the date of the final order as ordered by the Commission.)

Q. What do you understand is the issue before the Commission in this portion of Phase II of this docket?

A. In its February 8, 2010 Report and Order, the Commission stated:

> As we come to the end of what we have called Phase I of this docket, we conclude we will proceed with further examination of an ECAM or energy cost adjustment mechanism, that would address the difficulties PacifiCorp raises about its power costs and their impact on the company's operations and ratemaking in the State of Utah. *In the June 18, 2009, Notice of Scheduling Conference and Procedural Order (June 18 Procedural Order), we indicated that we would continue on to Phase II of this docket if we were to conclude that an ECAM were in the public interest.* Several parties have objected to an ECAM under any circumstances. Contrary to their position, we do not believe the evidence presented precludes a conclusion that one could design an ECAM and use it consistent with the public interest.
>
> . . . .
>
> We make no conclusion relative to the specific ECAM and operation PacifiCorp proposed in Phase I. . . . All parties must have the opportunity to make full and complete comment on the proposed ECAM and PacifiCorp to respond thereto. Also, this does not preclude the examination of an alternative ECAM or any other measure or means which would address the difficulties PacifiCorp

> claims to be associated with its recovery of power costs consistent with a reasonable balance of public policies. *In addition, we would like to see the two issues raised by the Office of Consumer Services addressed: namely, is the company's use of natural gas hedging and the level of and reliance on market energy affected by the use of an ECAM?* We will continue this docket into Phase II to make this exploration together with all other relevant areas of inquiry.

(Emphasis added.)

In the June 7, 2010 Scheduling Order for this phase of the docket, the Commission scheduled the filing of testimony and a hearing on issues related to hedging and reliance on market energy followed by the filing of testimony and a hearing on all remaining ECAM issues, that is, the Company's proposed ECAM, any alternative ECAM proposed by another party or any other measure or means to address the difficulties the Company claims are associated with recovery of its NPC.

Based on these orders, the issue for this portion of Phase II is whether the Company's use of natural gas hedging and its level of and reliance on market energy is or should be affected by adoption of an ECAM. In other words, I understand the issue in this portion of Phase II to be whether the Company's hedging and reliance on market energy should be changed in the context of an ECAM. For example, if an ECAM is adopted, should the Company hedge or rely on market purchases more or less than it does currently.

Q. Do you believe the testimony filed by other parties on June 16, 2010 complies with this direction?

A. The testimony filed by the DPU complies in part with this direction. It discusses issues related to hedging and reliance on market energy and how the adoption of an ECAM might impact those issues. The DPU states that it may recommend mechanisms in the second part of Phase II to provide incentives for the Company to reduce its reliance on front office transactions. (Testimony of Douglas D. Wheelwright ("Wheelwright"), lines 178-180.) It further states that the Commission should address questions about guidance for the Company's hedging strategy in the context of an ECAM. (*Id.*, lines 195-204.) This type of testimony is what was expected based on the Commission's direction.

However, the DPU then proceeds to discuss whether the Company's current hedging program has resulted in lowest fuel costs, implying that the purpose of the hedging program is or should be to achieve lower NPC. The DPU also suggests that to deal with concerns about market purchases, the Commission should exclude market purchases or only allow cost recovery for market purchases that cover a specific percentage of annual or peak load, implying that the current level of market reliance is not "optimal." The issue of whether the Company's level of market reliance or hedging program is "optimal" is of questionable relevance to this proceeding given that the Commission has directed the Company to address specific details on market reliance and hedging in its 2011 IRP. What is important in this proceeding, at least in the Company's view, is how its level of market reliance or hedging strategy is affected by moving to an ECAM.

Q. What about the testimony filed by the OCS and WRA/UCE?

A. The testimony filed by the OCS and WRA/UCE also discusses to some extent how an ECAM might be expected to affect the Company's market reliance and hedging. However, the testimony goes further to recommend that the Commission not include front office transactions, gas fuel purchases and hedging costs in an ECAM because the witnesses believe they are not "optimal" or that the Company has not demonstrated that they are "optimal." Whether they are "optimal" or not in the view of these parties, front office transactions and hedging are currently included in the base NPC found just and reasonable by the Commission and only the incremental deviations from base NPC will be recovered or refunded through an ECAM. The issue here is only whether there is a need to change the level of market reliance and the Company's hedging strategy because an ECAM is being adopted.

The net effect of Mr. Gimble's testimony is to reiterate the OCS's position from Phase I of this docket that the Commission should delay adopting an ECAM until the Commission has thoroughly evaluated and adopted policies or standards for the Company's reliance on market energy and hedging strategy or that it should not include market purchases or at least limit the inclusion of front office transactions in an ECAM. (Market Reliance Direct Testimony of Daniel E. Gimble ("Gimble"), lines 684-689, 720-754.) When the Commission determined to proceed to Phase II, it effectively rejected that position. In lieu of that position, the Commission stated that it wished to examine whether the Company's use of natural gas hedging and its level of reliance on market energy *are affected* by the use of an ECAM. Yet the OCS still advocates that the Commission cannot adopt an ECAM, or at least include front office transactions in an ECAM, until it has thoroughly analyzed and evaluated market reliance and hedging and adopted policies regarding them.

Likewise, Ms. Kelly states that the IRP process must be addressed and a mechanism put in place to assure that customers benefit from least-cost, least-risk planning before an ECAM is adopted. (Prefiled Direct Testimony of Nancy L. Kelly Phase II, Stage 1 (“Kelly”), lines 32-38.) As a fall-back position, she recommends that the Commission should require the Company to meet energy efficiency and renewable resource targets and limit front office transactions as a condition to approval of an ECAM. (*Id.*, lines 311-313.) However, Ms. Kelly acknowledges “that market reliance and natural gas [hedging] issues are fundamentally integrated resource planning issues.” (*Id.*, lines 298-299.) As I will discuss further in responding to specific issues raised by the June 16 testimony, the appropriate place to address the level of the Company’s reliance on market purchases to meet customer load and whether its level of hedging results in least cost resources is in the IRP process.

Q. Do you see any additional problem with the recommendation of the OCS and WRA/UCE that analysis of these issues must be concluded before these NPC can be include in an ECAM?

A. Yes. Analysis of market reliance and hedging is a continuous project because the market is dynamic. It would be difficult to find that analysis of these issues would ever be completely concluded. Thus, the recommendations of these parties arguably are the equivalent of a recommendation for an indefinite and open-ended delay in adoption of an ECAM.

Q. What do you conclude?

A. Establishing an "optimal" level of market reliance and an "optimal" hedging program is not the purpose of this phase of this case and, therefore, should not be a precondition for approval of an ECAM or for including market purchases or hedging costs in the ECAM. The Commission has directed that these issues be reviewed in the IRP process. That is the appropriate venue for periodic and continuing review of these issues in the context of market changes.

Company's Current Level of Market Reliance

Q. Do the DPU, OCS and WRA/UCE contend the Company is over-reliant on market purchases?

A. Yes. All of these parties express concern that the Company is over-reliant on market purchases and may be inappropriately putting customers at-risk by delaying acquisition of, or long-term contracts with, new gas-fired resources (e.g., Wheelwright, lines 79-96; Gimble, lines 253-266; Kelly, lines 236-237).

Q. What is the Company's response to these concerns?

A. The Company's decision in February 2009 to terminate the Lake Side II resource selected in the last RFP and to rely on front office transactions is reasonably expected to provide approximately [BEGIN HIGHLY CONFIDENTIAL] [redacted] [END HIGHLY CONFIDENTIAL] in present value revenue requirement savings to customers. These savings are quantified in Highly Confidential Exhibit ___ (GND-Phase IIA-1R), which reflects the favorable proposals received to-date in the current All Source RFP. (The Company notes that several stages of the All Source RFP remain to be completed including evaluation of the best and final proposals, which were recently submitted, selection of a final shortlist, negotiation and selection of resources.)

The Commission's 2008 IRP acknowledgment order was based on a higher amount of front office transactions than the 2008 IRP Update to meet peak capacity requirements in all years except 2014. The order requires the Company to expand discussion on market risk in the next IRP, which the Company is committed to do. The 2008 IRP Update reduced the open capacity position as a result of executed forward transactions and changes to the load forecast.

Q. Mr. Wheelwright acknowledges that the DPU's concern is not changed based on adoption of an ECAM (Wheelwright, lines 141-143). Do you agree with this testimony?

A. I agree with his conclusion, but not his reasoning. I agree that the issue of the level of the Company's reliance on market purchases is not significantly different whether an ECAM is adopted or not. However, Mr. Wheelwright states that the introduction of an ECAM could reduce the Company's incentive to build (or purchase) longer-term resources to meet demand (Wheelwright, lines 149-153). Mr. Wheelwright seems to be ignoring the resource acquisition and major plant addition processes in this position. Given the passage of the Energy Resource Procurement Act in 2005 and section 54-7-13.4 in 2009, the Company has no disincentive to build or acquire generating plants when it is prudent to do so. Given these provisions, the Company can obtain a decision from the Commission that its decision to construct or acquire a plant is prudent before it actually undertakes the project and it can obtain rate recovery for the cost of the plant when the plant goes into service. With these provisions in place and given that the Company only earns profit on investments and not on operating expenses, the Company has every incentive to invest in rate base assets rather than market purchases to meet its load requirements.

Q. Mr. Wheelwright mentions that the Commission might address concerns about over-reliance on market purchases in the context of an ECAM by excluding them from the ECAM or by limiting them to a percentage of annual or peak load (Wheelwright, lines 163-167). How do you respond?

A. Market purchases are already in rates. All an ECAM does is address the incremental difference, either positive or negative, of actual market purchases versus those included in rates under the current paradigm. Further, although Mr. Wheelwright raises this possibility, he correctly observes that such measures could create perverse incentives and that the Commission should therefore be careful to avoid creating a regulatory structure that does not allow the Company to use its best judgment in managing its day-to-day operations (*Id.*, lines 167-172). I agree with these observations. However, Mr. Wheelwright proceeds to suggest that the DPU may recommend mechanisms within the design of an ECAM that would provide incentives for the Company to reduce its reliance on front office transactions (*Id.*, lines 178-180). The Company will respond to those recommendations when and if they are made. At this time, all that I can say is that any ECAM that does not include all NPC will inevitably create perverse incentives.

Q. Mr. Gimble identifies five significant changes between the 2008 IRP Update and the 2008 IRP (Gimble, lines 138-159). Do you agree with his list?

A. No. I would add one item and delete one item. First, the 2008 IRP Update reflects the results of a Nevada Power system impact study commissioned by PacifiCorp that supports the availability of incremental firm transmission from Mead to the Company's load area for a five-year period. This additional transmission provides incremental access to the liquid Mead market and thereby reduces the supply risk associated with relying on market purchases. It allows the Company to transfer additional power from the Mead market to load in 2012-2016.

Q. Which item would you delete from the list?

A. The last item in Mr. Gimble's list, where he assumes incorrectly that the Company has entered into new wholesale sales contracts in 2012 and 2013 (*Id.*, lines 156-159). While the 2008 IRP Update load and resource table shows increases as stated by Mr. Gimble, they are the "return" leg of the "locational spreads" or exchanges shown in Table 3.6 – New Front Office Transactions – on page 28 of the 2008 IRP Update. They are offset by the "receipt" leg of the exchange which is included in the "Purchases" category of the load and resource table. Under these exchange contracts, the Company receives power where it can be used to meet retail loads and in exchange, returns power in another, more liquid market, where it will be offset by a purchase in that market. The Company is not engaging in forward wholesale sales transactions as suggested by Mr. Gimble.

Q. Does Mr. Gimble raise any concerns about the level of reliance on market transaction in 2010 or 2011, when the ECAM is first implemented?

A. No. Nor does he raise any concern after 2014. His sole focus is on 2012-2014.

Q. What is the current level of market reliance included in the NPC study recently approved by the Commission for setting Utah rates?

A. In the Company's most recent general rate case, Docket No. 09-035-23, the amount of short term firm purchases and system balancing purchases during the summer months is 1,614MW, 1,590MW and 1,284MW for July, August and September, respectively.

Q. What do you conclude from this evidence?

A. I conclude that the level of market reliance during the summer included in rates today exceeds the levels anticipated in the 2008 IRP Update as illustrated in Table 1.

Table 1

Year	Existing and Planned Short-term Firm Market Purchases (Megawatts)
2012	1,004
2013	1,282
2014	1,223

The evidence shows that adopting an ECAM does not increase the risk of market reliance to customers since that risk (to the extent it is a risk) is already built into existing rates.

Q. How do you respond to Mr. Gimble's observation that the Company's 2008 IRP Update shows that short-term resources are approximately 9% of the Company's overall resource mix in 2014 (Gimble, lines 193-194)?

A. Given that the Company plans to a 12% planning reserve margin, I would conclude that the Company plans to meet nearly 100% of its forecasted retail load with long-term resources in 2014. This should give the Commission additional comfort that the Company is reasonably positioned to meet the "confluence of rising market prices, prolonged drought conditions and demand recovery above forecast levels" posited by Mr. Gimble (*Id.*, lines 257-262).

Q. How does the Company address the "confluence" situation hypothesized by Mr. Gimble?

A. This is done through stochastic analysis in the integrated resource planning process. In addition to market prices, hydro conditions and load being treated as stochastic variables, the Company includes stochastic analysis for forced outages and natural gas prices. While Mr. Gimble's extreme conditions are captured in the stochastic analysis in the IRPs, it is not reasonable to plan as if these were the only expected assumptions. Customer costs would be much higher if the Company were to plan resource additions to meet these circumstances on an expected basis. In addition, the confluence could go the other way where lower market prices, extended wet years, and loads lower than forecast occur together. If the Company were to plan for the confluence described by Mr. Gimble as its expected future, costs would be very high should the low confluence case materialize.

Mr. Gimble also ignores the fact that even without an ECAM rates should be set to cover actual costs. It is true that if rising market prices, prolonged drought conditions and demand recovery above forecasted levels all occur, customer rates will likely increase. This would be the case with or without an ECAM. If it were possible to accurately forecast these factors, the resulting rates would be the same in either case.

Q. In Section IV of his testimony, Mr. Gimble compares the Company's March 30, 2010 forward price curve for Mid-Columbia and Palo Verde with the February 2010 forecast by the Northwest Power Planning Council ("NWPPC") and concludes that the Company's market price forecast for Mid-Columbia appears to be optimistic compared to the NWPPC's price outlook (Gimble, lines 341-367). Is his conclusion reasonable?

A. No. In footnote 13 on page 13 of his testimony, Mr. Gimble mistakenly implies that PacifiCorp relies on the Midas model to forecast prices in 2012-2014. This is incorrect. The first six years of the Company's forward price curve are based on actual prices currently available in the market through broker quotes. They are not forecasts produced by the Midas model. A more legitimate conclusion from his comparison of the NWPPC and Company price streams would be that the NWPPC prices appear to be high when compared to what is currently available in the market.

Q. Why is this correction important to understand?

A. Mr. Gimble states "the Company's March 2010 near-term market price forecasts appear to better substantiate the Company's deferral for gas and wind resources in its revised 2008 IRP action plan than its prior market price forecast. However, there remains the issue of validating the reasonableness of the Company's March 2010 electric market price forecasts." (Gimble, lines 332-336). Given that there are no model forecasts or model input assumptions to validate, the qualifier in the second sentence quoted above is no longer necessary. This clarification, at least directionally, would lessen Mr. Gimble's concerns over the level of market reliance in the 2012-2014 time periods.

Q. Mr. Gimble indicates that the OCS plans to request PacifiCorp's June 2010 forward price curve (Gimble, lines 376-378). Has that been completed?

A. Yes. The March 2010 and June 2010 forward price curves for Mid-Columbia and Palo-Verde are shown below in Table 2.

Table 2

	Average Annual PV HLH				**Average Annual Mid C Flat**			
	Sep-09	Dec-09	Mar-10	Jun-10	Sep-09	Dec-09	Mar-10	Jun-10
2010	54.60	53.00	42.40	*41.54* *	46.91	45.82	38.50	*39.81* *
2011	59.97	56.88	47.75	46.56	50.81	49.09	40.43	39.88
2012	**60.94**	**58.19**	**52.00**	**50.88**	**51.46**	**50.50**	**44.33**	**43.41**
2013	**62.48**	**60.19**	**54.50**	**53.38**	**51.89**	**52.07**	**46.53**	**45.38**
2014	**63.95**	**62.44**	**57.25**	**56.13**	**52.79**	**53.53**	**48.97**	**47.22**
2015	65.50	64.69	60.25	58.88	53.99	55.00	51.43	49.43
2016	67.87	69.27	65.84	64.54	58.99	61.21	57.02	54.22
2017	69.62	73.92	71.74	73.11	63.53	67.62	63.11	63.18
2018	69.85	76.79	75.00	77.96	63.73	70.36	65.61	69.15
2019	74.08	75.59	74.91	81.77	67.27	69.30	66.15	72.41

* 2010 forward prices are for July through December

Q. What do you conclude from Table 2?

A. Prices for Mid-Columbia and Palo Verde for 2012-2014 are even lower in the June 2010 forward price curve than in the March 2010 curve. These new prices would even better substantiate the Company's resource deferrals described above and provide the Commission additional evidence that the Company's level of market reliance does not need to be changed in adopting an ECAM and that its reasonableness will be validated during the initial review period.

Q. Mr. Gimble states that it would be useful for the Commission and the parties to understand the various types of standard market products that are currently available to the Company and how they might differ by market hub (Gimble, lines 427-434). Please provide that information.

A. Products the Company currently uses to hedge its price risk include fixed price physical transactions and fixed-for-floating financial swap transactions[2] ("swaps") for both power and natural gas. Additionally, New York Mercantile Exchange ("NYMEX") Henry Hub swaps and floating-for-floating basis swaps[3] are available for natural gas hedging. Fixed price physical transactions and swaps are available in the market at the major market hubs such as Mid-Columbia, Palo Verde, and South of Path 15 ("SP15") for power, and Opal, AECO[4] and Sumas for natural gas. Fixed price physical power transactions are available at additional points of delivery such as Mead, Mona, Four Corners and California-Oregon Border ("COB"), with somewhat less liquidity. These power and natural gas products are generally transacted in calendar months up through the next season, and in calendar quarters and calendar years for delivery periods beyond the next

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[2] A fixed-for-floating financial swap transaction is a transaction in which one party pays a fixed price in exchange for a floating index price. With respect to natural gas, the floating index price could refer to beginning of the month index prices, or daily index prices. With respect to power, the floating index price normally refers to daily index prices.

[3] A floating-for-floating basis swap is a transaction in which one party pays a floating index price at one location and is paid a floating index price at another location.

[4] AECO is the historical reference for a trading hub in Alberta, Canada.

season through the Company's 48-month hedging period. Additionally, seasonal natural gas products are available. Fixed price physical power transactions delivered at additional points of delivery are generally available with limited market depth at additional locations for delivery within a few months or seasons. Power is transacted in standard peak (hours ending 7:00 through 22:00 Pacific prevailing time Monday through Saturday excluding certain holidays), off-peak (all other hours), and flat (all hours). There are additional products available in the market currently not used by the Company, such as options.

Q. Mr. Gimble states that the Commission needs assurance that the Company will be able to reliably and economically contract for the levels of front office transactions indicated in its IRP Action Plan (Gimble, lines 450-458). How do you respond?

A. The volume and price of front office transactions referred to at Mona and Four Corners are reasonable based on the Company's experience with purchases of standard products at those locations.

Q. Mr. Gimble makes reference to the Western Electricity Coordinating Council's ("WECC") Power Supply Assessment ("PSA") (Gimble, lines 463-465). What does he say the PSA shows?

A. Most notably he indicates that the most recent PSA shows that initial deficits occur in the Basin, Rockies, Northwest and Desert Southwest in 2013, 2018, never, and 2016, respectively (*Id.*, lines 504-506). These dates should give additional comfort to allow the ECAM pilot program to move forward while the Company completes the evaluation it has been directed to perform by the

Commission on market reliance in the 2011 IRP.

I also wish to note that the PSA is not in and of itself an indication of market availability or depth. For example, the 2004 PSA,[5] which reflected a power supply assessment that was conducted in October 2004, stated the following in the Executive Summary:

> Although the aggregated Northwest area remained surplus, a deficit condition developed in the Utah zone (one of the zones in the Northwest area) beginning in 2008, due to insufficient committed generation and transmission constraints. The Utah zone became deficit earlier in scenarios #3 and #4. Note that PacifiCorp approved the release of this zone level result information.

Despite this assessment, there was no "deficit condition" in the Utah zone in 2008 and beyond. The Company will use the most recent PSA as one piece of information when it conducts its analyses in the 2011 IRP.

Q. Do you have any other comment about the concerns expressed by Mr. Gimble about the Company's ability to meet its load requirements?

A. Yes. If Mr. Gimble's point is that the Company has not demonstrated that it can meet its load requirements with no increase in rates under any possible scenario, I would have to agree with him. However, considering the relatively high cost of longer-term resources in the recent past and the best information available to the Company, I do not believe it would have been prudent for the Company to "assure" itself of that result because doing so would have assured a substantial increase in rates as the Company would have been required to commit to major investments in resources at the peak of the market. Instead of doing that, the

[5] The 2004 PSA is dated November 24, 2004 and can be found using the following link: http://www.wecc.biz/Planning/ResourceAdequacy/PSA/Documents/2004%20Power%20Supply%20Assessment%20-%20November.pdf.

Company now appears to be in a position to acquire generation resources at significantly lower costs as demonstrated by the information available at the current stage of the All Source RFP.

Q. Mr. Gimble points to the Commission's order in the 2008 IRP as support for the view that the Company's position that an ECAM is needed because of the unpredictability and volatility of NPC is inconsistent with its confidence in managing market risks in the IRP process (Gimble, lines 566-587). Do you agree that these positions are inconsistent?

A. No. The Company's evidence in Phase I of this proceeding demonstrated quite clearly that NPC are substantial and far more volatile than other costs incurred by the Company in providing service to customers. It also demonstrated quite clearly that it is very difficult to forecast NPC in the context of a general rate case. That is why the Company is seeking an ECAM in this docket and it is an essential basis upon which every other non-restructured state in the country has adopted ECAM-like mechanisms for at least some of its electric utilities.

The fact that NPC are substantial, volatile and difficult to forecast, however, does not relieve the Company of the obligation to prudently plan to meet its customers' load requirements at the lowest cost reasonably available and to undertake risk management processes to attempt to the greatest extent reasonable to minimize risks associated with that uncertainty. The Company does an excellent job of meeting these obligations through sophisticated, state-of-the-art IRP and risk management processes. The Company has no intention of abandoning those processes if an ECAM is adopted. The Company appreciates and welcomes the input of all interested stakeholders regarding those processes. These same issues will continue to be issues whether or not an ECAM is adopted.

Q. Mr. Gimble contends that adoption of an ECAM will shift the risks of procurement decisions from the Company to its customers (Gimble, lines 629-634). Do you agree?

A. No. As a preliminary matter, I note that this issue was thoroughly explored in Phase I of this docket. The parties expressed strongly held views on the issue there, with the OCS and other parties contending that the issue was so significant that the Commission should conclude that adoption of an ECAM was not in the public interest and that the matter should be concluded in Phase I. The Commission did not agree, concluding: "we do not believe the evidence presented precludes a conclusion that one could design an ECAM and use it consistent with the public interest."

Adoption of an ECAM will not in any way absolve the Company of its responsibility to be prudent in its planning to meet resource needs. This is demonstrated by the fact that the Company's current planning is done in the context of most of its states already having cost adjustment mechanisms in place. Adoption of an ECAM actually adds an additional venue for parties to raise questions about the Company's prudence if there is a basis to do so. Not only will parties be able to continue to examine the prudence of the Company's decisions prospectively in the IRP process, resource acquisition proceedings, certificate of public convenience and necessity proceedings, major plant addition cases and general rate cases, they will now be able to examine actual costs when the

Company seeks recovery of deferred power costs in the context of ECAM pass-through proceedings. We trust that the Commission and the parties will not second-guess decisions that have been thoroughly examined on a prospective basis, but they will have the opportunity to raise questions if the Company does not react prudently to changing conditions.

Q. Mr. Gimble presents two alternative recommendations to the Commission. The first alternative is to not allow market purchases into an ECAM until sufficient analysis justifies their inclusion (Gimble, lines 686-687). How do you respond to his first alternative?

A. I disagree with this recommendation for the following reasons. First, two of the reasons for Mr. Gimble's recommendation are erroneous. Namely, the Company is not making wholesale sales of its summer resources as assumed by Mr. Gimble, and the Company's 2012-2014 wholesale market price forecast is not model based; rather, it is based on the market. Second, there is no evidence in the WECC's PSA of region-wide resource shortages in the near term. Holding up the ECAM to study this issue needs to be weighed against the merits of an ECAM as identified in Phase I of this proceeding. Third, recent forward prices better substantiate the resource deferrals between the 2008 IRP and the 2008 IRP Update.

Q. How do you respond to Mr. Gimble's second alternative to establish limits for the total amount of market purchases that could be allowed to flow through the ECAM (Gimble, lines 688-689)?

A. This recommendation is unreasonable given that a large amount of market purchases are already embedded in rates. In any event, this appears to be a design issue that could be addressed by audit provisions and potentially by sharing bands. Limiting market purchases without limiting market sales or other aspects of net power costs is unbalanced.

Mr. Gimble notes himself that economy energy purchases should be allowed (*Id.*, line 694). As already mentioned above, Mr. Wheelwright recognizes that the Commission must be careful not to impose guidelines or conditions that would have the effect of limiting the ability of the Company to react to changing market conditions in ways that would be beneficial to customers (Wheelwright, lines 167-172). Limiting the level of front office transactions included in an ECAM is not in the public interest.

Review of the actual level of front office transactions is exactly the type of issue that might be appropriate in a pass-through proceeding under an ECAM. The proper time to question the Company's decisions regarding reliance on market purchases is in IRP processes and ECAM pass-through proceedings. There is no need to prejudge the issue by including limits in the design of an ECAM.

Q. Does OCS consultant Dr. Schell contend the Company is over-reliant on market purchases?

A. No. Dr. Schell makes no comments in regard to the Company's reliance on wholesale market purchases. However, Dr. Schell's comments suggesting that the Company should actually *increase* its exposure to wholesale market price movement and reduce its hedging activity by widening the To-Expiry Value-at-Risk ("TEVaR") NPC cost bands unless there is a policy decision to cap the level of risk currently defined in the TEVaR net power cost bands (Direct Testimony of Lori Smith Schell for the Office of Consumer Services ("Schell"), lines 264-272) seems inconsistent with Mr. Gimble's testimony that the Company is over-reliant on short-term market purchases.

Q. Please explain TEVaR.

A. TEVaR is a statistical method to approximate potential losses a portfolio could incur at a given confidence level over a holding period from the current date through maturity of open forward positions. In contrast to PacifiCorp Energy's value-at-risk ("VaR") calculation, which approximates losses PacifiCorp Energy could incur at a given confidence level over one trading day, TEVaR provides information about losses that could be incurred by holding open positions until maturity.

On May 25, 2010, the Company held a technical conference on hedging in which it described the TEVaR method with Utah stakeholders. Handouts from that meeting were filed with the Commission on May 27, 2010.

Q. Does OCS consultant Mr. Wielgus contend the Company is over-reliant on market purchases?

A. No. Mr. Weilgus makes no comments in regard to the Company's reliance on wholesale market purchases.

Q. Mr. Wielgus recommends that the Company study and consider acquisition of non-natural gas capacity resources as an alternative to natural gas price risk management. (Direct Testimony of Paul Wielgus for the Office of Consumer Services ("Wielgus"), lines 204-207). What is the Company's response?

A. The Company's position is that the IRP is the appropriate place to review alternative resource strategies that take into account price volatility among many other variables.

Q. Do you have any comments on the testimony of WRA/UCE witness Ms. Kelly?

A. Yes. Ms. Kelly focuses in greater depth on the IRP process, concluding that the IRP process has not resulted in an "optimal" mix of resources and that it lacks teeth (Kelly, lines 20, 235-236). In fact, Ms. Kelly's testimony may be regarded as a proposal for the IRP process to be changed in the future. I have two responses to this testimony.

First, the IRP process has been a valuable process to enable the Company to provide analysis of its resource planning to the Commission and interested parties and to get the input of the Commission and those parties as it finalizes its plans. The fact that the Company, and perhaps the Commission, have not agreed with all of Ms. Kelly's positions over the years, is not an indication that the process has resulted in a "suboptimal" mix of resources.

Second, this is not the appropriate docket in which to reform the IRP process. To the extent Ms. Kelly believes the process needs changes, those changes should be suggested in the IRP process. Changes to the IRP process should in no way be a precondition to adoption of an ECAM.

Q. What does Ms. Kelly recommend?

A. Ms. Kelly recommends the Commission require the Company to meet energy efficiency and renewable resource targets and limit the Company's use of the short-term wholesale power market to meet capacity requirements (Kelly, lines 311-313).

Q. How do you respond to these recommendations?

A. With regard to renewable resources, by the end of 2010, the development of wind resource is nearly 350MW and five years ahead of the acquisition commitment of adding an additional 1,400MW of renewable resources by 2015. In addition, the Company is fully committed to energy efficiency even though it has no mandated energy efficiency targets. That said, these two recommendations appear to be unrelated to the issues being addressed at this stage of the ECAM proceeding and should not be adopted. As mentioned above, market purchases are already in rates. All an ECAM does is address the incremental difference of actual market purchases versus those included in rates under the current paradigm. Ms. Kelly's final recommendation on "limits" is different and farther reaching than Mr. Gimble's recommendation on "limits." Ms. Kelly is asking the Commission to restrict transactions, as opposed to Mr. Gimble's recommendation to restrict the amount of transactions that flow through an ECAM. I believe this recommendation is contrary to the public interest because it would not allow the Company to have sufficient flexibility to respond to opportunities in the market for the benefit of customers.

Company Hedging Program

Q. Has the Company previously explained its hedging program in this docket and the relationship of the hedging program to its request for an ECAM?

A. Yes. The Company's hedging program was explained at length in the Supplemental Direct Testimony of Frank C. Graves filed in August 2009. Mr. Graves also explained why an ECAM is needed even though the Company has a comprehensive hedging program in both his Supplemental Direct Testimony and his Rebuttal Testimony filed in December 2009. In addition, other Company witnesses in Phase I discussed the issue of how the Company's hedging program is affected by adoption of an ECAM. I will not repeat that testimony here, but simply note that it is already in the record in this case and that it provides a wealth of information on the issue before the Commission. I will focus my rebuttal testimony on hedging issues raised in the testimony filed by Mr. Wheelwright, Dr. Schell and Mr. Wielgus on June 16, 2010.

Q. Does DPU witness Mr. Wheelwright recommend any changes to the Company's hedging program?

A. Yes. Although Mr. Wheelwright does not indicate that any additional analysis is required before implementing an ECAM, he does request additional analyses, promotes the use of options, requests a biennial review of the Company's hedging program, and encourages the Commission to consider establishing guidelines in regard to the Company's hedging policy while being careful not to impose requirements that would interfere with the Company's ability to make the best decisions for customers in day-to-day operations (Wheelwright, lines 730-760, 767-771, 814-820, 824-826).

Q. Does the Company agree with any of Mr. Wheelwright's recommendations?

A. Yes. The Company agrees a biennial review of the hedging program is in the interest of customers. It seems the first installment of that review will be appropriately addressed through compliance with the Commission's 2008 IRP acknowledgment order for the Company to include a hedging strategy section in its next IRP. The Company does not see the need for additional Commission guidelines or requirements prior to adoption of an ECAM.

The Company is open to the use of options, but recommends an approach to work through multi-state regulatory recovery issues of these products. Discussion of options and criteria for using them along with a limited approach can be incorporated in the next IRP's hedging strategy section.

The Company is not opposed to Mr. Wheelwright's desire to see more information underlying the new TEVaR net power cost metric, such as the open position of each commodity or the mark-to-market value of each commodity. These metrics are and will continue to be part of the Company's daily risk reporting metrics.

Mr. Wheelwright contends the Company has not provided adequate information to demonstrate that the current level of hedging provides the "best" or "optimal" protection for the Company and its customers. Although the Company has not modified its overall risk tolerance position in its current hedging program from what it has maintained for several years, the Company is open to feedback from the Commission and stakeholders because this is ultimately a subjective judgment of customer rate risk tolerance. Such discussion could also be incorporated in the IRP process and biennial review of the hedging program. The new TEVaR metric was incorporated in part to provide better transparency regarding the NPC price risk to which customers are exposed and support a more intelligent discussion.

Mr. Wheelwright discusses the consideration of hedging of natural gas and electricity and financial and physical hedges separately. I will discuss the Company's position on separate consideration of natural gas and electric hedges below. The Company agrees with the suggestion that financial and physical hedges should be managed independently to the extent it is effective to do so. The Company hedges its market price risk with a combination of fixed price physical and financial swap transactions for both power and natural gas. The Company balances its physical position with a combination of fixed price physical and index price physical transactions for both power and natural gas.

Q. Does the Company disagree with any of Mr. Wheelwright's recommendations?

A. Yes. The Company does not agree with Mr. Wheelwright's recommendation to perform additional analysis that would consider separately managing exposures and associated hedging of natural gas and electricity open positions. The two commodities are correlated and the positions for each commodity are inextricably linked to spark spreads. Natural gas plants frequently produce the marginal electricity in a given hour and therefore are often the primary driver of electricity prices. As the power and natural gas commodity prices are highly-interrelated, it is appropriate and necessary to report and manage the risk exposures from these commodities in a combined fashion. Separate management of these commodities increases the risk of over hedging or increasing the overall risk profile of the Company by hedging in a manner that ignores or reduces natural offsetting positions. The Company believes the adoption of the TEVaR metric which accounts for the relative size of electricity and natural gas positions, forward prices, forward volatilities, and correlations, better reports the risk exposures from these commodities (see Company's response to Schell, lines 235-236, below). A hedging program that ignores this correlation and relationship will naturally be less effective than the current program.

Mr. Wheelwright incorrectly states that "[t]he current hedging program assumes that the current relationship between natural gas and electric hedging volumes will continue even though conditions will likely change before the maturity of the contracts" (Wheelwright, lines 536-539). In fact, the Company's current hedging program will capture changes in correlations and changes in future net long/short positions and will reflect the corresponding TEVaR NPC exposure and appropriate hedging signals to mitigate price risk. The Company's current hedging program calculates TEVaR values on a daily basis using assumptions of electricity and natural gas positions, forward price curves, forward volatilities, and near-term rolling historical correlations. These assumptions are each updated on a daily basis. Therefore, changes in electricity and natural gas positions and market dynamics will be captured by the Company's current hedging program.

Mr. Wheelwright incorrectly states that the Company's hedging program prevents the ability to participate in short or intermediate-term changes in markets (*Id.*, lines 211-212). The Company's hedging program is designed to respond to market price changes in several ways. First, the hedging program contains hedge targets within which the Company can vary the degree of hedging based on its response to market price changes and to its view of anticipated market price changes. Second, the hedging program is based on a calculation of the Company's open position, which is existing wholesale purchases and expected generation less existing wholesale sales and expected retail sales based on a load forecast. The expected generation is, in turn, based on the market price relative to the generation fuel cost: the higher the market price, the higher the level of expected generation. In this way, the market price influences the amount of hedging required. The expected generation based on market price is updated every business day thereby creating a dynamic process. Third, the hedging program relies on the correlation between power and natural gas market prices. Changes in the observed correlation between power and natural gas prices influence the amount of hedging required. For example, if the Company has a long power position and a short natural gas position and the correlation decreases, then more hedging will be required to stay below the maximum target.

The Company has noted its willingness to consider options, but does not see the need for additional analysis of option products at this time. The Company believes the best approach is a carefully-staged program that will work through the regulatory recovery process of these more advanced products. The Company is willing to include discussion of options in the next IRP hedging strategy section, such as discussion of potential option products, criteria for selecting options and specific criteria for the carefully-staged approach.

Q. Mr. Wheelwright recommends that the Commission provide a clearly stated goal or set of goals that it expects the Company's hedging program to achieve in this docket (Wheelwright, lines 816-818). How do you respond?

A. If this recommendation suggests that the analyses recommended by Mr. Wheelwright must be concluded in this docket, the Company objects to this recommendation. As previously mentioned, these analyses are best conducted in the context of the IRP process. If this recommendation suggests that the Commission provide some general guidance to the Company, the Company has no objection to the recommendation.

Q. Does Dr. Schell recommend any changes to the Company's hedging program?

A. Yes. Dr. Schell contends the Company should reduce its hedging levels and increase its exposure to wholesale market price volatility (Schell, lines 145-155). She proposes no other changes to the Company's hedging program.

Q. Does the Company agree with Dr. Schell's recommendation?

A. No. The Company disagrees with Dr. Schell's recommendation to reduce hedging and increase market exposure. The Company's hedge program is robust in its ability to respond to market price changes as noted previously in response to the testimony of Mr. Wheelwright. This robust process allows Company traders and management to understand exposures, trade to stay within risk management policy limits and approved hedge targets and make the best decisions on behalf of customers.

Q. Dr. Schell states that the TEVaR metric is less transparent than the volume-based hedge targets (Schell, lines 235-236). Do you agree?

A. No. The TEVaR metric is more transparent because, unlike volume-based hedge targets, the Company's TEVaR metric accounts for size of open positions, prices, volatilities, and correlations of power and natural gas commodities. Volume-based hedge targets report percentage-hedged values that do not provide an indication of the size of the underlying positions and therefore the size of potential losses that could be incurred from adverse market price movements. The TEVaR metric calculates risk exposures on the size of all open positions versus displaying percentage-hedged values. Volume-based hedge targets do not provide an indication of changes in risk exposure stemming from increases and decreases in forward prices and volatilities of the underlying commodities. The TEVaR metric responds daily to changes in forward prices and volatilities. Volume-based hedge targets also do not provide an indication of changes in risk exposure stemming from changes in correlations. The TEVaR metric responds daily to changes in historically observed correlations. Finally, as noted in the May 25, 2010 technical conference, PacifiCorp monitors both the TEVaR metric as well as volume-based information in its daily risk management reports.

Q. Dr. Schell recommends that the acceptable range of TEVaR values should be re-examined (Schell, lines 277-279). Does the Company agree with this recommendation?

A. Not to the extent the OCS uses this recommendation as a basis for recommending that hedging costs be excluded from an ECAM. The TEVaR levels correspond to the current hedging program metrics which have proven beneficial to customers. The Company is willing to have this issue analyzed further in connection with the 2011 IRP, but does not believe it needs re-examination at this time prior to adoption of an ECAM.

Q. Does Mr. Wielgus recommend any changes to the Company's hedging program?

A. No. However, Mr. Wielgus recommends more time be taken to perform additional analysis and collect stakeholder input into policy formulation. Mr. Wielgus recommends the following actions: 1) thorough analysis of associated transaction costs, 2) thorough analysis of the use of options, 3) value the partial leveling of rates, 4) compare hedging to other ways of reducing volatility including enterprise risk management, and 5) provide ample opportunity for all stakeholders to have input into this policy formulation (Wielgus, lines 215-223).

Q. Does the Company agree with Mr. Wielgus' recommendations?

A. Not to the extent that the OCS uses the recommendations as a basis for recommending that hedging costs and natural gas purchases be excluded from an ECAM until these analyses have been completed. The Company does not believe any additional analysis is required before an ECAM is implemented.

Q. Please respond to Mr. Wielgus' first recommendation that associated transaction costs should be thoroughly analyzed?

A. The costs associated with the front, mid and back-office would largely be incurred whether or not the Company had a hedging program. As discussed previously, the Company has demonstrated that its hedging program effectively reduces customer risk to price volatility. Further, the exposure to NPC due to price volatility has been made more transparent through the new TEVaR hedge metric. There is no need for further analysis of this issue prior to approval of an ECAM.

The Company is not opposed, however, to continuing evaluation of these dynamic issues and believes they may be best addressed in the biennial review process suggested by Mr. Wheelwright.

Q. Please respond to Mr. Wielgus' second recommendation that the use of options to reduce price volatility should be evaluated?

A. The Company is open to the use of options as has been discussed earlier, but on a carefully-staged approach. It would be unreasonable to require the use of options as a condition to approval of an ECAM without first considering the level of comfort of regulators and customers with options.

Q. Please respond to Mr. Wielgus' third recommendation that the partial leveling of rates that results from hedging natural gas should be valued.

A. The value of hedging and resulting reduction of price exposure has been presented and discussed in multiple analyses and technical conferences, including in testimony in Phase I in this docket. While the Company is always open for further analysis and input from the Commission and interested stakeholders on this issue, there is no need for further analysis before an ECAM is approved.

Q. Please respond to Mr. Wielgus' fourth recommendation that how the value of hedging compares to other ways to address ratepayer pricing volatility, including enterprise risk management methodology, should be analyzed.

A. The Company's hedging program is an integral part of its robust enterprise risk management oversight program that addresses multiple risks including market price, credit, liquidity, collateral, legal, and operational risks. These risks are governed by the PacifiCorp Energy Commercial & Trading Risk Management Policy.

Market price risk is the exposure to financial loss resulting from changes in market conditions, created primarily by position imbalances in location, time, or instrument characteristics combined with market price volatility, and managed by tracking Commercial & Trading's open positions and ensuring these positions at any point in time do not create risk outside of approved limits.

Credit risk is the risk of financial loss resulting from a counterparty's inability or unwillingness to honor its contractual obligations, a function of a counterparty's probability of default and credit exposure, and managed on both a counterparty and portfolio basis in accordance with approved credit risk limits.

Liquidity risk includes the risk of financial loss in the event of market illiquidity (market liquidity risk), varies based on the number of counterparties willing to transact and depth of market (indicators of market liquidity), and is managed by the credit risk management department through pre-approval of eligible trading instruments available to Commercial & Trading and the number and diversity of approved counterparties.

Collateral risk is the risk of working capital becoming insufficient to meet near term financial demands. Funding liquidity risk results when actual payment obligations deviate significantly from planned obligations and may arise from margin calls, a significant downgrade event of PacifiCorp, or other unexpected events that require immediately available funds and is managed by the PacifiCorp treasury department.

Legal risk includes the risk of financial loss or liability from inadequate documentation and incurring penalties or fines associated with non-compliant activities and is managed by standardized contracts as well as daily coordination with the PacifiCorp Energy legal department.

Operational risk is the exposure to financial loss resulting from human error, systems failure, or fraud and is managed through effective staffing and developing strong processes and internal controls.

The Company provides information regarding these risks in its Securities and Exchange Commission disclosures in addition to responses to numerous data requests.

The hedging program incorporates all of the aspects of the Company's enterprise risk management program that deal with NPC.

Q. Please respond to Mr. Wielgus' fifth recommendation that this process should provide ample opportunity for all of the affected stakeholders to have input into this process.

A. Stakeholders have ample opportunity to provide input to the Company through multiple processes including the IRP, RFPs and rate case dockets. Stakeholders will have an additional opportunity for input through the ECAM process because they will retain the right to question the prudence of all aspects of NPC in pass-through filings under the ECAM. The Company has no objection to additional stakeholder input. However, receipt of that additional input is not necessary prior to implementation of an ECAM.

Conclusion

Q. What are your conclusions?

A. The Company's reliance on wholesale markets for meeting a portion of its load requirements has been examined in the context of its IRPs and will be subject to further examination in that process in the future. The Company's decision in February 2009 to terminate the Lake Side II resource selected in the last RFP and to rely on front office transactions is reasonably expected to provide approximately [BEGIN HIGHLY CONFIDENTIAL] [redacted] [END

HIGHLY CONFIDENTIAL] in present value revenue requirement savings to customers. As effectively acknowledged by Mr. Wheelwright, Mr. Gimble and Ms. Kelly, the mix of resources, including front office transactions, relied upon by the Company to meet its load requirements is an IRP issue, and the Company is committed to providing the additional information on risk of market reliance requested by the Commission in the 2008 IRP acknowledgment order in the 2011 IRP.

The Company has provided substantial information regarding its hedging program previously and in this docket and is committed to continuing analysis of the program in the context of the next IRP and in subsequent IRPs. The Company's hedging program provides benefits to customers by reducing the risk of NPC being substantially higher than forecasted.

There is no need for the Commission to delay implementation of an ECAM or to restrict its scope to exclude the most volatile components of NPC (costs the Commission already reviews in general rate cases) while a thorough analysis of the Company's reliance on front office transactions and its hedging strategy and policies, which the Company is committed to do in the 2011 IRP process, is undertaken.

In addition, appropriate levels of reliance on market energy and hedging, and the types of hedging instruments used, will likely vary over time as market conditions change. Therefore, these issues should be scrutinized on a going-forward basis while an ECAM is in place. As discussed in the testimony of Mr. Graves in Phase I, the Company and the other stakeholders will benefit from experience under the ECAM in determining the appropriate level of risk tolerance for customers. Mr. Wheelwright's suggestion for a biennial review of hedging in conjunction with IRPs is a sensible plan.

Although it is not an appropriate issue for this docket, it is always possible with hindsight to second-guess decisions made by the Company with regard to NPC. However, even with hindsight, none of the parties has demonstrated that the Company's level of reliance on front office transactions or its hedging program have harmed customers in the past or will likely harm them in the future. In fact, the Company has demonstrated significant cost savings associated with its current level of market reliance and risk mitigation associated with its hedging program.

I recommend that the Commission conclude that there is no need to require the Company to adjust its reliance on market energy and its hedging program with adoption of an ECAM. I further recommend that the Commission reject the suggestions of the parties that an ECAM not include all front office transactions, hedging costs or natural gas fuel costs. Exclusion of these highly volatile and interrelated components of NPC from an ECAM will defeat the very purpose of an ECAM.

Q. Does this conclude your testimony?

A. Yes.