Yankel CCS – 7R

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application	**:**	**DOCKET NO. 01-035-01**
of PacifiCorp for Approval of its	**:**	**REVENUE REQUIREMENT**
Proposed Electric Rate Schedules	**:**	**REBUTTAL TESTIMONY**
and Electric Service Regulations	**:**	**ANTHONY J. YANKEL**
	:	**FOR THE COMMITTEE OF**
	:	**CONSUMER SERVICES**

July 16, 2001

Q. PLEASE STATE YOUR NAME, ADDRESS, AND EMPLOYMENT.
A. I am Anthony J. Yankel. I am President of Yankel and Associates, Inc. My address is 29814 Lake Road, Bay Village, Ohio, 44140.

Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY ON REVENUE REQUIREMENT ISSUES IN THIS CASE?
A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY REGARDING REVENUE REQUIREMENT ISSUES?
A. I address the revenue requirement recommendations proposed by Division of Public Utilities' witness Rebecca Wilson. I also address the treatment of the San Diego Gas & Electric contract that PacifiCorp (Company) recently reclassified as a Long-Term Firm Sales contract.

<u>**WILSON REVENUE REQUIREMENT TESTIMONY**</u>

Q. WHAT IS YOUR OVERALL VIEW OF MS. WILSON'S TESTIMONY IN THIS MATTER?
A. I strongly support the direction of Ms. Wilson's testimony.

Q. WHAT IS YOUR SPECIFIC DISAGREEMENT WITH MS. WILSON'S TESTIMONY?
A. My only disagreement involves the manner in which she calculated her proposed adjustment to net power costs. I believe that Ms. Wilson's adjustment falls far short of the criteria established by the Public Service Commission (Commission) in Docket 90-035-06 upon which she relies.

Q. WHAT CRITERIA DID THE COMMISSION ESTABLISH IN DOCKET 90-035-06 REGARDING WHOLESALE CONTRACTS THAT WERE ALLOWED TO BE TREATED UNDER THE REVENUE CREDIT METHOD?

A. As pointed out in Ms. Wilson's testimony, the criteria adopted by the Commission in Docket 90-035-06 for revenue credit treatment to be given to a long-term wholesale sales contract was that a contract had to "cover marginal costs" and "after a short time, the contract either terminates, or covers full embedded costs." This is not an either/or proposition. Revenue credit treatment was only to be given in cases where marginal costs were covered—to do any less means that retail customers will be subsidizing wholesale activities. The requirement to cover fully embedded costs after a short time is an important consideration when embedded costs are higher than marginal costs, but in the case before us today this requirement (taken in isolation) would mean that retail rates would increase under the revenue credit method. The general premise under which the revenue credit method was approved (and as addressed in the 1993 Taskforce Report) is that each contract must at least cover its own costs, and hopefully, contribute some benefit to retail customers. Use of embedded costs to impute revenues for these contracts in this case will impose a significant net loss on retail customers.

Q. DO THE CONTRACTS FOR WHICH MS. WILSON PROPOSES TO MAKE AN ADJUSTMENT TO NET POWER COSTS COVER EITHER MARGINAL COSTS OR EMBEDDED COSTS?

A. No.

Q. DOES MS. WILSON'S PROPOSED ADJUSTMENT COVER BOTH THE MARGINAL AND EMBEDDED COSTS OF THESE WHOLESALE CONTRACTS?

A. No. As pointed out in her testimony at pages 17-19, her adjustment only covers embedded cost and not marginal cost. Ms. Wilson recognizes that this adjustment does not cover the marginal cost of these contracts and in order to recover marginal costs, shareholders (rather than ratepayers) would be responsible for far more of the Company's net power costs.

Q. WHAT WOULD BE THE LEVEL OF MS. WILSON'S PROPOSED ADJUSTMENT IF MARGINAL COSTS WERE TO BE COVERED AS SPECIFIED IN THE COMMISSION'S ORDER IN DOCKET 90-035-06?

A. Using embedded costs, Ms. Wilson calculated a revenue adjustment of $66,914,686 on a total company basis for the 14 contracts she addressed. Using average actual Short-Term Firm purchase prices for the test year, the imputed revenue adjustment should be $157,947,275 for these same 14 contracts on a total company basis. Because PacifiCorp spent $157,947,275 in order to meet its obligations under these contracts, if rates were set by imputing revenue on only embedded costs, then retail customers would be asked to make up the $91,032,589 shortfall in the cost of supplying these customers ($157,947,275 - $66,914,686 = $91,032,589).

<u>SAN DIEGO GAS & ELECTRIC CONTRACT</u>

Q. DO YOU AGREE WITH THE COMPANY'S RECLASSIFICATION OF THE SAN DIEGO GAS & ELECTRIC SALES CONTRACT FROM A SHORT-TERM CONTRACT TO A LONG-TERM FIRM CONTRACT?

A. Yes.

Q. WHAT IMPACT DOES THIS RECLASSIFICATION HAVE ON YOUR RECOMMENDED ADJUSTMENT APPLIED TO LONG-TERM CONTRACTS THAT HAVE SIGNIFICANTLY FALLEN BELOW THE MARGINAL COST, AS WELL AS THE EMBEDDED COST, OF SUPPLYING THOSE CONTRACTS?

A. The reclassification of the San Diego contract increases the level of my recommended adjustment. In my direct testimony I addressed eight contracts (plus three others) that had a history of being priced below the cost to provide the marginal energy to serve these contracts. The average price of those eight problem contracts was $21.57 per MWH. The San Diego contract is priced at $16.45 per MWH and, therefore, should be added to the list of problem contracts.

Q. WHAT IS THE IMPACT OF REMOVING THE SHORT-TERM PURCHASE POWER EXPENSES THAT EXCEED THE REVENUES ASSOCIATED WITH THE SAN DIEGO CONTRACT?

A. Exhibit CCS 7.12 illustrates the impact of the excess short-term purchase power costs associated with just the San Diego contract. Page 1 of that exhibit shows the excess short-term purchase power costs on a total company basis using the purchase power costs as filed by the Company. The amount of short-term purchase power expense associated with the San Diego contract that is in excess of revenues is $77,231,282 on a total company basis. Using the Company's filed purchase power costs, an adjustment of $28,686,478 ($77,231,282 x .371436 = $28,686,478) is required.

Q. WHAT IS THE IMPACT IF ACTUAL PURCHASE POWER COSTS ARE USED INSTEAD OF THE PURCHASE POWER COSTS FILED BY THE COMPANY?

A. Based on the Company's actual purchase power costs, an adjustment of $13,974,200 ($37,622,093 x .371436 = $13,974,200) is necessary. This calculation is reflected on page 2 of exhibit CCS 7.12.

Q. REGARDING THE SAN DIEGO GAS & ELECTRIC CONTRACT WHAT LEVEL OF ADJUSTMENT DO YOU RECOMMEND?

A. The Committee has proposed the use of actual Short-Term Firm prices rather than the normalized prices used by the Company. Thus, I recommend an adjustment of $13,974,200.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.