

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Richard M. Anderson, 39 Market Street, Suite 200, Salt Lake City, Utah 84101.

3

4 **Q. ARE YOU THE SAME RICHARD ANDERSON WHO PRE-FILED DIRECT**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A. Yes, I am.

7

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. I will address several items that have arisen since I filed my direct testimony and respond
10 to issues addressed in the pre-filed testimony of other witnesses. First, I will discuss the
11 recommendation of Division/Committee witness Falkenberg to use actual values for
12 short-term prices instead of the Company's proposed "normalized" values, and I will
13 quantify the effect on my proposed disallowance of Mr. Falkenberg's proposal. Second, I
14 will compare my analysis of long-term wholesale contracts to the analyses provided by
15 Committee witness Yankel and Division witness Wilson. I will also make a brief
16 comment on other net power cost adjustments that have been proposed in the testimony
17 of various witnesses. Finally, I will discuss the DSM proposals contained in the pre-filed
18 testimony of Utah Energy Office witnesses Burks and Nichols.

19

20 **NORMALIZED VS. ACTUAL PRICES**

21 **Q. IN YOUR PRE-FILED DIRECT TESTIMONY YOU BASED YOUR ANALYSIS**
22 **ON THE "NORMALIZED" VALUES USED BY THE COMPANY IN ITS**
23 **FILING. DO YOU SUPPORT THE USE OF THE COMPANY'S NORMALIZED**
24 **VALUES?**

25 A. No. My pre-filed testimony should not be interpreted as an endorsement of the
26 "normalization" approach or the "normalized" values that the Company proposes in its

1 filings. My focus was not on the propriety of the Company's normalization adjustments,
2 but rather on the Company's deliberate decision to assume significant risks in its
3 wholesale activities. Although I was aware that other witnesses would evaluate the
4 Company's normalization proposals, when my direct testimony was filed I had not seen
5 Mr. Falkenberg's analysis and thus could not address his conclusions and
6 recommendations. I based my analysis on the normalized values that the Company had
7 previously filed because they were the only numbers available at that time.

8

9 **Q. HAVING HAD THE OPPORTUNITY TO REVIEW MR. FALKENBERG'S**
10 **TESTIMONY REGARDING THE USE OF ACTUAL VALUES INSTEAD OF**
11 **THE COMPANY'S NORMALIZED VALUES, DO YOU SUPPORT MR.**
12 **FALKENBERG'S ADJUSTMENT?**

13 A. Yes. I believe the Commission should adopt Mr. Falkenberg's proposal. I support his
14 proposal both for the reasons he highlights in his testimony as well as in light of events
15 that have unfolded since he filed his direct testimony. As discussed in Mr. Falkenberg's
16 testimony, the use of the Company's proposed "normalization" process in this proceeding
17 creates significant upward bias on future Utah retail rates. In addition, the economic
18 exposure the Company faces in the wholesale market is likely to decline in the next few
19 years as current uneconomic contracts expire and the Company is able to reposition itself
20 as a net seller.

21

22 Additionally, with the implementation by the Federal Energy Regulatory Commission of
23 price caps in the western wholesale market (an event that transpired after Mr.
24 Falkenberg's direct testimony was filed), it is likely that future wholesale prices will not
25 reflect the values created by the Company's normalization process. Exhibit RMA-1R
26 shows actual test-year values for short-term purchases and short-term sales as contrasted

1 with the Company's "normalized" values. The column furthest to the right shows the
2 prevailing WSCC price caps for June and July 2001. PacifiCorp's proposed
3 "normalized" prices exceed the recently imposed wholesale price caps in most months.
4 The "normalized" values developed through the Company's model appear
5 unrepresentative of both test year and future values.

6

7 **Q. BY LOOKING AT THE FERC PRICE CAPS IMPOSED LAST MONTH, ARE**
8 **YOU PROPOSING OUT-OF-PERIOD ADJUSTMENTS?**

9 A. I am proposing no adjustments based on the recent price caps. I am supporting Mr.
10 Falkenberg's proposal to use actual test year values. It is the company that proposes
11 "normalization" adjustments to test year values in an effort to reflect the Company's view
12 of future pricing. The FERC price caps confirm the reasonableness of Mr. Falkenberg's
13 proposal to use actual test-year data and the unreasonableness of the Company's
14 projections of future market values.

15

16 **Q. IF THE COMMISSION ADOPTS MR. FALKENBERG'S PROPOSAL TO**
17 **UTILIZE ACTUAL VALUES INSTEAD OF THE COMPANY'S NORMALIZED**
18 **VALUES, HOW WOULD IT AFFECT YOUR PROPOSED DISALLOWANCE?**

19 A. If the Commission adopts Mr. Falkenberg's proposal to use actual test year values instead
20 of the Company's proposed "normalized" values, the amount of the disallowance
21 proposed in my original testimony would change. My pre-filed testimony, based upon
22 the Company's proposed "normalized" values, recommends a minimum disallowance of
23 \$64,208,149 in net power costs. If the baseline changes to actual test year values as
24 proposed by Mr. Falkenberg, then my disallowance would be \$28,086,879. Exhibit
25 RMA – 2R incorporates the actual test year values (compared to Exhibit RMA – 13 in my
26 pre-filed direct testimony) and reflect my proposed disallowance

1 **Q. IS YOUR REVISED DISALLOWANCE INCREMENTAL TO THE**
2 **ADJUSTMENT MR. FALKENBERG HAS PROPOSED?**

3 A. Yes, the approximate \$28 million disallowance is in addition to the proposed adjustment
4 that results from the use of actual test year values advocated by Mr. Falkenberg. Should
5 the Commission elect not to adopt Mr. Falkenberg's proposed adjustment, the
6 disallowance I support remains at my original value of approximately \$64 million.

7

8 **LONG TERM WHOLESALE CONTRACTS**

9 **Q. WITNESSES WILSON AND YANKEL ADDRESSED THE ISSUE OF LONG-**
10 **TERM CONTRACTS BEING SUPPORTED BY SHORT-TERM PURCHASES,**
11 **AN ISSUE THAT YOU ADDRESSED IN YOUR PREFILED TESTIMONY. CAN**
12 **YOU EXPLAIN THE DIFFERENCES IN THE RECOMMENDED**
13 **DISALLOWANCES?**

14 A. Yes. Ms. Wilson, Mr. Yankel, and I addressed the Company's business strategy of using
15 short-term wholesale purchases to support long-term wholesale sales contracts. Each of
16 our testimonies concludes that the Company employed a risky business strategy that
17 placed economic exposure on consumers' shoulders – it is the Company that should
18 subjected to the economic exposure created by its actions. Our specific recommendations
19 differ because we used slightly different analytic approaches to the issue.

20

21 **Q. PLEASE CLARIFY THE DIFFERENCES BETWEEN YOUR ANALYSIS AND**
22 **THE ANALYSIS OF MS. WILSON.**

23 A. The primary difference between the approach of Ms. Wilson and the approach I utilized
24 lies in the selection of the values to be imputed to wholesale contracts under review. Ms.
25 Wilson employed an average embedded cost value of \$37.60 per MWh to impute
26 revenues to all wholesale contracts with an average price below that value. Ms. Wilson's

1 testimony did not discuss specific contracts, but rather measured all long-term wholesale
2 contracts of the Company against the average embedded cost of the system. For those
3 contracts in which the average price was below the average embedded cost, Ms. Wilson
4 imputed the \$37.60 per MWh revenue value.

5

6 In contrast to Ms. Wilson's use of average embedded costs applied to all contracts, I used
7 marginal or incremental costs for revenue imputation to several specific contracts. The
8 value used in my approach was \$108 per MWh; a value taken from the Company's net
9 power cost model. As noted by Ms. Wilson, the selection of the value for revenue
10 imputation "is a matter of judgment." (Wilson Pre-filed Direct Testimony, p. 18, line
11 22). In addition, Ms. Wilson applied her analysis to all long-term contracts while I
12 analyzed selected contracts ~~each contract~~ to reach a judgment as to whether the specific
13 terms and pricing conditions of each of those contracts ~~contract~~ appeared to place undue
14 or excessive economic risk on ratepayers. Thus, Ms. Wilson and I used different values
15 for revenue imputation and focused on different sets of long-term contracts.

16

17 **Q. CAN YOU CLARIFY HOW THE APPROACH EMPLOYED BY MR. YANKEL**
18 **AND YOURSELF DIFFER?**

19 A. Yes. The primary difference between Mr. Yankel's approach and my approach is that I
20 imputed revenues to contracts while Mr. Yankel removed the contracts (both costs and
21 revenues) from the net power cost model. Mr. Yankel reviewed ~~each~~ specific contracts
22 ~~contract~~ (like I did) and determined whether the average price of the contracts exceededs
23 the average embedded cost of the system (similar to Ms. Wilson's review). Mr. Yankel
24 used this test as a minimal test of the economic impact of the contract, and argued that
25 each contract should cover the marginal or incremental cost of servicing the contract
26 (similar to arguments in my pre-filed direct testimony). Mr. Yankel removed both costs

1 and revenues associated with the contracts that failed to cover average embedded cost.
2 Unlike my approach, Mr. Yankel did not impute revenue to the contracts he determined
3 to be uneconomical. After removing costs and revenues relating to 11 specific contracts,
4 Mr. Yankel's proposed adjustment (after adoption of Mr. Falkenberg's proposal to utilize
5 actual values) is approximately \$35 million. Under my approach of imputing revenue to
6 six specific contracts, my proposed disallowance is about \$28 million.

7

8 **Q. HAVING REVIEWED MS. WILSON'S AND MR. YANKEL'S APPROACHES,**
9 **ARE YOU CHANGING YOUR RECOMMENDATION?**

10 A. No. Each of the three approaches addresses the same issues. All three witnesses agree
11 that a large portion of the economic exposure created by the Company's deliberate
12 wholesale strategies should reside with the Company. Each approach utilizes defensible
13 assumptions and reaches defensible conclusions. Nevertheless, I support the calculations
14 and recommendations in my testimony.

15

16 **OTHER ADJUSTMENTS**

17 **Q. SEVERAL WITNESSES PROPOSED A NUMBER OF OTHER NET POWER**
18 **COST ADJUSTMENTS IN THEIR PRE-FILED TESTIMONY THAT YOU HAVE**
19 **NOT DISCUSSED. DO YOU TAKE A POSITION AS TO THOSE OTHER**
20 **ADJUSTMENTS?**

21 A. No, my testimony should not be read as opposing or supporting the net power cost
22 adjustments proposed by other witnesses. The focus of my net power cost testimony is
23 the Company's wholesale activities and decisions and who should bear the economic
24 exposure resulting from the same. I have simply not analyzed the other proposed
25 adjustments in sufficient detail to take a position in support or opposition.

26

1 **UTAH ENERGY OFFICE DSM/EFFICIENCY PROPOSAL**

2 **Q. YOU STATED IN YOUR OPENING COMMENTS THAT YOU WOULD**
3 **DISCUSS THE DSM INITIATIVES RECOMMENDED BY THE UTAH ENERGY**
4 **OFFICE. WOULD YOU PLEASE DESCRIBE THIS INITIATIVE.**

5 A. The Utah Energy Office (UEO) through the testimony of Mr. Burks and Mr. Nichols has
6 proposed that the Commission require PacifiCorp to spend approximately \$192 million
7 over six years to fund a series of DSM initiatives. The proposed initiatives would include
8 programs in residential, commercial and industrial customer classes. The UEO
9 recommends that \$35 million be added immediately to the revenue requirement otherwise
10 approved in this case to begin funding these DSM programs. The UEO has not specified
11 precisely how or when its proposed programs would be implemented, has not filed
12 proposed tariffs, and has not provided an in-depth or critical analysis of the programs that
13 it supports.

14

15 **Q. WHY DO YOU BELIEVE THE UEO PROPOSAL HAS NOT BEEN**
16 **SUFFICIENTLY ANALYZED OR SUPPORTED?**

17 A. Both Mr. Burks and Mr. Nichols cite a report by the Tellus Institute (which Mr. Nichols
18 authored) as evidence of the potential economic value of implementing the proposed
19 DSM programs. While that report provides general conclusions and arguments regarding
20 potential benefits of certain actions and addresses elements of program design, it does not
21 provide details of program structure, budget, tariffs, or operations. Moreover, it does not
22 provide a critical analysis of the numerous assumptions used in the study. The critical
23 detailed elements of program design and implementation, which are missing in their filed
24 testimony, will ultimately determine the cost effectiveness of the programs. The fact that
25 such important information has not been provided makes it impossible at this juncture to

1 make reasonable predictions as to which, if any, of the proposed programs will produce
2 economic benefits for ratepayers.

3

4 **Q. WILL RATEPAYERS BENEFIT FROM THE PROPOSED DSM INITIATIVES**
5 **BY HAVING THE COMPANY AVOID THE NECESSITY TO MEET ITS**
6 **RETAIL LOADS NEEDS THROUGH CONTINUED WHOLESALE**
7 **PURCHASES?**

8 A. Not necessarily. The extent to which the Company must systematically purchase power
9 on the wholesale market to supply retail load, as opposed to serving its wholesale sales
10 obligations, is at the very heart of the controversy in this case. Virtually every
11 organization that has offered testimony in this proceeding has questioned the validity of
12 the Company's claimed net power costs. Moreover, testimony offered by Mr. Falkenberg
13 demonstrates the fact that the current portfolio of contracts the Company services will
14 change in the near future, resulting in the potential to reposition the Company as a net
15 seller in the wholesale market. The extent and level to which Utah ratepayers will have
16 economic exposure resulting from future wholesale transactions the Company undertakes
17 is at this time highly speculative. It is premature to determine the extent to which even
18 cost-effective DSM programs will lessen the economic exposure of retail ratepayers to
19 future wholesale transactions.

20

21 **Q. WOULD NOT RATEPAYERS BENEFIT FROM THE DSM INITIATIVES EVEN**
22 **IF THE COMPANY IS ABLE TO AVOID THE NECESSITY OF WHOLESALE**
23 **PURCHASES TO MEET RETAIL NEED?**

24 A. That has not yet been demonstrated. The economic benefits that are potentially
25 obtainable from the DSM initiatives are speculative until there has been further analysis
26 of the underlying assumptions, and until further definition is given to program funding,

1 design and implementation. Mr. Nichols' study offered a snapshot of what may be
2 possible, but even he is cautious to note that the success of these programs lies in the
3 details of their ultimate implementation. At this juncture, the UEO initiative offers little
4 guidance on how such programs are to be implemented or administered. What is offered
5 is the imposition of a tariff rider, the sum of which is \$35 million in the first year. The
6 ratepayer is thus placed in a position of paying for programs before a tariff is even filed.
7 Until these are completed and reviewed by the Commission for cost effectiveness,
8 ratepayers will carry the economic risks of the programs.

9

10 **Q. DO YOUR CLIENTS SUPPORT THE CONCEPT OF COST-EFFECTIVE DSM**
11 **PROGRAMS?**

12 A. My clients spend significant amounts of money on energy. Most of them have spent and
13 continue to spend significant amounts of their own money in pursuit of energy efficiency.
14 Moreover, they support pursuit by the utility of the most cost-effective means of meeting
15 current and future electric demands. Our opposition to the UEO proposals is based on the
16 fact that they have not been sufficiently developed or critically analyzed to support
17 implementation.

18

19 UAE members invest significant amounts of money in applications that improve energy
20 utilization in buildings and technical processes. For example, Exhibit RMA-4R is a
21 partial list of representative energy efficiency investments and experiences of UAE
22 members over the last decade. Electricity is a key input into the technical or
23 manufacturing processes for these entities. As such, and just like any other productive
24 input, great effort is made to control the cost of utilization of the electricity input.
25 Investments in efficiency and up-front life cycle costs of capital investments are key to
26 the continued economic success of these enterprises.

1 **Q. IT WOULD APPEAR FROM YOUR EXHIBIT THAT MANY OF THE UAE**
2 **MEMBERS HAVE ALREADY INVESTED SUBSTANTIAL AMOUNTS OF**
3 **MONEY IN EFFICIENCY APPLICATIONS. DOES THIS CREATE FAIRNESS**
4 **ISSUES WITH RESPECT TO THE FUNDING OF UTILITY DSM PROGRAMS?**

5 A. That is correct. The fact that these entities have invested millions of dollars in efficiency
6 measures creates fairness or equity issues in light of the additional millions of dollars
7 now being requested through the UEO initiative. Most of these applications were funded
8 through internal investments. Consistent with the notion offered by the UEO witnesses,
9 all ratepayers benefited from these investments. As is recognized in the report of the
10 Energy Efficiency Advisory Committee, the issue of fairness to end-users who have
11 already made investments in efficiency applications and are now asked to invest again in
12 additional measures for themselves and others must be addressed and resolved. The UEO
13 proposal does not adequately address this issue, or other similar issues in program design
14 and implementation. This, again, highlights the inadequacy and premature nature of the
15 proposal.

16

17 **Q. DO YOUR CLIENTS SUPPORT ANY SPECIFIC DSM PROPOSALS AT THIS**
18 **TIME?**

19 A. Yes. The UAE filed comments in support of the Company's recent tariff filing for four
20 specific DSM programs in Utah. The Company filing provides an interesting and useful
21 contrast to the UEO proposal. First, the Company filed detailed tariffs identifying
22 specific program design. This gives interested parties the opportunity to analyze the
23 programs in detail. Second, the Company supported the programs with its specific
24 experiences with these programs in other states to demonstrate the likely cost-
25 effectiveness of the proposals. Third, consistent with the recommendation of the Energy
26 Efficiency Advisory Committee, PacifiCorp presented its specific tariff proposals to the

1 Advisory Committee and answered questions and solicited input. Fourth, and perhaps
2 most importantly, in recognition of the lack of critical review by others of the programs,
3 the Company proposed deferred accounting treatment of expenses to preserve the ability
4 of others to analyze the programs in detail and to challenge prudence. Company's filing
5 reflects the more appropriate approach and forum for evaluation of any new
6 DSM/efficiency measures in Utah.

7

8 **Q. IS THE UEO'S PROGRAM INITIATIVE CONSISTENT WITH THE**
9 **RECOMMENDATIONS OF THE ENERGY EFFICIENCY TASK FORCE?**

10 A. I do not believe so. The Task Force reported, "The advisory group does not regard the
11 Tellus study projections as recommendations or prescriptions the Commission or
12 PacifiCorp should necessarily adopt." (Energy Efficiency Task Force Report, page 35)
13 The UEO initiative, nevertheless, adopts the Tellus study findings without critical
14 analysis as the sole basis for recommendations on programs and funding levels.
15 Moreover, the Task Force recommended that proposed DSM programs be brought before
16 the Task Force for analysis and discussion of program design and funding. The UEO
17 proposal skipped this very important step, thus short-circuiting critical analysis, design
18 discussion and consensus building.

19

20 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE DSM PROPOSALS**
21 **OFFERED BY MR. BURKS AND MR. NICHOLS?**

22 A. I recommend that they not be adopted or approved. Rather, they should be referred to the
23 Energy Efficiency Advisory Committee for careful analysis and discussion of all relevant
24 aspects of program design and implementation.

25

26

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

2 **A.** Yes, it does.