

## Phase II – Market Reliance

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION AND YOUR BUSINESS  
3 ADDRESS.

4 A. My name is Daniel E. Gimble. I am a special projects manager with the  
5 Office of Consumer Services (Office). My business address is 160 E. 300  
6 S., Salt Lake City, Utah.

7

8 Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THE MARKET  
9 RELIANCE-HEDGING PORTION OF PHASE II OF THIS DOCKET?

10 A. Yes. On July 16, 2010, I filed direct testimony addressing the market  
11 reliance issue and presented the Office's overall recommendations in the  
12 areas of market reliance and hedging.

13

14 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN  
15 THE MARKET RELIANCE-HEDGING PORTION OF THIS  
16 PROCEEDING?

17 A. My testimony responds to the rebuttal testimony of Company witness,  
18 Gregory N. Duvall, as it relates to my direct testimony and the Office's  
19 recommendations in this portion of the case. My testimony explains why  
20 Mr. Duvall's rebuttal policy recommendation, which is to proceed with an  
21 ECAM pilot and address hedging and market reliance issues in the 2011  
22 IRP process, should be rejected by the Commission as not being in the  
23 public interest. I also address specific analytical points raised by Mr.  
24 Duvall regarding my testimony. Lastly, I present the Office's  
25 recommendations in the areas of market reliance and hedging.

26

27 Q. IS THE OFFICE SUBMITTING SURREBUTTAL TESTIMONY OF OTHER  
28 WITNESSES IN PHASE II OF THIS PROCEEDING?

29 A. Yes. Mr. Paul Wielgus and Dr. Lori Schell are filing surrebuttal testimony  
30 responding to the Company's rebuttal testimony in the area of hedging.

31

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32 Q. PLEASE SUMMARIZE THE OFFICE’S RECOMMENDATIONS.

33 A. The Office continues to recommend that an ECAM not be adopted as it  
34 has not been demonstrated to be in the public interest. In particular, the  
35 two issues of market reliance and hedging must be resolved prior to  
36 evaluating any ECAM design. Otherwise, it will not be possible to design  
37 an ECAM that would be in the public interest.

38

39 II. RESPONSE TO THE COMPANY’S REBUTTAL POSITION ON MARKET  
40 RELIANCE.

41 Q. PLEASE SUMMARIZE THE COMPANY’S POSITION ON MARKET  
42 RELIANCE?

43 A. The Company’s Rebuttal Position has three main aspects. First, Mr.  
44 Duvall submits that the Company’s market reliance strategy has resulted  
45 in significant savings for customers.<sup>1</sup> As evidence for the claimed  
46 savings, Mr. Duvall prepared a highly confidential economic analysis  
47 based on its February 2009 decision to terminate the Lakeside II resource  
48 (contract) that was scheduled to be in service by summer 2012 and rely  
49 on front office transactions (FOTs) to meet load requirements. The  
50 economic analysis evaluates forecasted dollar savings resulting from  
51 certain resource planning decisions. The analysis indicates a present  
52 value savings [Begin highly confidential]

53 [Redacted]

54 [Redacted]

55 [Redacted] [End highly confidential] Second, Mr.  
56 Duvall states the Company’s market reliance strategy and hedging  
57 program are dynamic issues that require ongoing analysis, which he  
58 states would best occur in the IRP process.<sup>2</sup> Third, Mr. Duvall asserts that  
59 the Commission’s 2008 IRP order acknowledged a higher level of FOTS

<sup>1</sup> Duvall Rebuttal, pg.3, lines 55-68.

<sup>2</sup> Duvall Rebuttal, pg. 3, lines 52-54.

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60 compared to the 2008 IRP update to meet capacity requirements in all  
61 years but 2014.<sup>3</sup>

62

63 Q. WHAT IS THE OFFICE'S RESPONSE TO THE COMPANY'S  
64 ECONOMIC ANALYSIS THAT PURPORTS TO DEMONSTRATE  
65 CUSTOMER BENEFIT FROM THE COMPANY'S RELIANCE ON FOT?

66 A. The Office believes that the Company misses the point of the Office's  
67 concern related to the Company's reliance on market purchases. The  
68 Office has not made any assertions that any particular Company decision  
69 has or has not been in the public interest. In fact, the Office would not  
70 advocate for disallowance of costs associated with resource decisions that  
71 had a favorable outcome for customers. The concerns raised by the  
72 Office relate to the assignment of risks associated with the Company's  
73 decisions. To the extent that the Company pursues resource acquisition  
74 strategies that are not consistent with the least cost/risk analysis  
75 conducted within the IRP, the Company should bear the risks.

76

77 The Office also finds it curious that the Company is emphasizing an after-  
78 the-fact assessment of costs associated with a major resource decision as  
79 support for its market reliance strategy. Certainly, the Company would be  
80 opposed to this kind of after-the-fact cost comparison of whether its past  
81 hedging strategies were advantageous to customers.

82

83 Q. HAS THE COMMISSION PREVIOUSLY PROVIDED GUIDANCE ON THE  
84 ISSUE OF WHO BEARS THE RISKS FROM RESOURCE ACQUISITION  
85 DECISIONS?

86 A. Yes. As I mentioned in my direct testimony, the Commission stated in its  
87 2007 IRP Order:

88

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<sup>3</sup> Duvall Rebuttal, pg. 14, lines 300-311.

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89 “The Company bears the risk for any unreasonable cost to  
 90 ratepayers associated with its decision to change the quantity and  
 91 type of resources it procures based on asserted but unexamined  
 92 risks.” (2007 IRP Order, pg. 34)

93  
 94 Q. DOES THE OFFICE HAVE ANY SPECIFIC CONCERNS OR  
 95 OBJECTIONS TO THE COMPANY’S ANALYSIS OF SAVINGS FOR ITS  
 96 CUSTOMERS?

97 A. The Company’s analysis relies on a number of underlying assumptions.<sup>4</sup>  
 98 Some of these assumptions may be inconsistent with other analysis  
 99 recently submitted by the Company to the Commission in the 2008 IRP  
 100 Update. [Begin Highly Confidential]

101  
 102  
 103  
 104  
 105  
 106  
 107  
 108 [End Highly Confidential]

109  
 110 The present reality is that the Lakeside II proxy is assumed to be on line in  
 111 2015 in both the Company’s 2008 IRP Update and 2010 Business Plan.  
 112 A more appropriate market analysis should reflect the Company’s open  
 113 position for market resources through 2014 and beyond. As  
 114 acknowledged by Mr. Duvall on pg. 4, lines 78-80, of his rebuttal  
 115 testimony, the Company’s open eastside position for FOTs in the 2008  
 116 IRP Update is 200 MWs in 2012 and 338 MWs in 2013. Table A.4 – 2010

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<sup>4</sup> Since the Company’s economic analysis was based on highly confidential bid information from responses to the 2010 RFP, access to the Company’s analysis was limited to its Salt Lake City offices. OCS made no attempt to verify the cost numbers associated with the bids and other assumptions included in the analysis.

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117 Business Plan Resource Portfolio (June 16, 2010 Errata version) shows  
118 that the open eastside position for market resources grows to 518 MWs in  
119 2014 and the open position for the system is at relatively high level of  
120 1,223 MW in 2014.

121

122 Q. IF ALL OF THE ASSUMPTIONS CONTAINED IN THE COMPANY'S  
123 ANALYSIS WERE FOUND TO BE REASONABLE, DOES THE  
124 ANALYSIS CHANGE THE OFFICE'S VIEW ON THE ISSUE OF MARKET  
125 RELIANCE?

126 A. No. As I stated earlier, the Office's issue relates to the risks associated  
127 with the Company's resource acquisition strategies. Even if it is shown  
128 that one potentially risky strategy was cost effective for customers, the  
129 Company should not be absolved of the risks associated with future  
130 decisions that are not consistent with least cost/risk planning.

131

132 Q. WHAT DOES THE OFFICE CONCLUDE FROM THE COMPANY'S  
133 ECONOMIC ANALYSIS?

134 A. The Company's economic study serves to underscore the necessity of a  
135 focused proceeding to better assess the appropriate level of market  
136 reliance. Without establishing this baseline, the Commission cannot  
137 ensure that the risks it referenced in its 2007 IRP Order are not shifted to  
138 consumers and therefore cannot conclude an ECAM design that includes  
139 these purchased power costs is in the public interest.

140

141 Q. MR. DUVALL STATES MARKET RELIANCE AND HEDGING ISSUES  
142 ARE DYNAMIC AND REQUIRE ONGOING ANALYSIS AND STUDY.. DO  
143 YOU AGREE WITH THE COMPANY'S POSITION?

144 A. I would agree that market reliance and hedging issues are dynamic and  
145 require ongoing study. However, these issues also require more near-  
146 term analysis and specific guidance from the Commission on market  
147 reliance and specific changes and endorsements from the Commission on

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148 hedging strategies and practices. Absent these actions, an ECAM cannot  
149 be found to be in the public interest because it would inappropriately shift  
150 risks and costs to customers without providing baseline protections. Once  
151 these actions are in place, ongoing study of these two dynamic issues  
152 could occur in the IRP process, provided certain changes to that process  
153 are made. I further address the issue of the ongoing oversight in the next  
154 section of my testimony.

155

156 Q. MR. DUVALL ALSO NOTES THAT THE ISSUE OF SHIFTING RISKS  
157 WAS SETTLED BY THE COMMISSION IN PHASE I OF THIS CASE. DO  
158 YOU AGREE?

159 A. No. If the Commission had intended the issue to be settled, then it would  
160 not have specifically requested that the issues of market reliance and  
161 hedging be specifically addressed in this portion of the case.

162

163 Q. MR. DUVALL ASSERTS THE COMMISSION ACKNOWLEDGED THE  
164 COMPANY'S 2008 IRP, WHICH INCLUDES A HIGHER LEVEL OF  
165 FOTS COMPARED TO THE 2008 IRP UPDATE TO MEET CAPACITY  
166 REQUIREMENTS IN ALL YEARS BUT 2014. DO YOU AGREE WITH  
167 THE COMPANY'S POSITION?

168 A. While I agree that the Commission acknowledged the 2008 IRP, the Office  
169 believes it is important to put that acknowledgment in proper context as it  
170 relates to the issue of market reliance. In its 2008 IRP Order, the  
171 Commission simply acknowledged that the Company's 2008 IRP generally  
172 met its IRP Guidelines.<sup>5</sup> Acknowledgement of an IRP does not imply the  
173 Commission found the level of the Company's FOTs to be reasonable. To  
174 the contrary, the Commission expressed concern about the Company's  
175 ability to manage the risk associated with its market reliance strategy,

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<sup>5</sup> Utah Commission's April 1, 2010 Order on PacifiCorp's 2008 IRP, pg. 58 (second full paragraph).

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176 particularly given its ECAM proposal.<sup>6</sup> This concern led the Commission  
177 to direct the Company to perform additional analysis of the Company's  
178 market reliance strategy as described on pages 21-22, lines 589-604 of  
179 my direct testimony.

180

181 Q. WAS THE COMMISSION ABLE TO CONCLUDE IN ITS 2008 IRP  
182 ORDER THAT THE COMPANY'S "PREFERRED PORTFOLIO" (5B  
183 CCCT WET) WAS THE OPTIMAL PORTFOLIO?

184 A. No. Towards the bottom of page 58 of the Order the Commission states:

185

186 "Indeed, we are not convinced the Preferred Portfolio is the optimal  
187 portfolio. For example, more comprehensive support than is  
188 provided in IRP 2008 is necessary to conclude it is in the public  
189 interest to rely on annual market purchases to the extent included  
190 in the Preferred Portfolio or to plan to a 12 percent planning  
191 reserve."

192

193 This above statement from the Commission clearly points out why an  
194 ECAM would not be in the public interest at this time. Since the  
195 Commission has not concluded that the current level of market purchases  
196 is in the public interest, risks associated with those purchases should not  
197 be shifted to consumers.

198

199 III. RESPONSE TO THE COMPANY'S CONCLUSIONS AND  
200 RECOMMENDATIONS

201 Q. WHAT ARE MR. DUVALL'S CONCLUSIONS AND  
202 RECOMMENDATIONS RELATING TO MARKET RELIANCE AND  
203 HEDGING?

204 A. Mr. Duvall concludes that the IRP is the appropriate venue to examine  
205 market reliance and hedging issues, states the Company will provide

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<sup>6</sup> See pgs 29-30 of the Commission's 2008 IRP Order issued April 1, 2010.

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206 additional analysis on these issues in the 2011 IRP in compliance with  
207 direction provided in the Commission's 2008 IRP Order, and recommends  
208 that implementation of an ECAM should not be further delayed.<sup>7</sup> He also  
209 proposes that implementation take place on a pilot basis from February  
210 18, 2010 through December 31, 2013.

211

212 Q. PLEASE RESPOND TO THE COMPANY'S CONCLUSIONS AND  
213 RECOMMENDATIONS.

214 A. Ongoing oversight and guidance regarding appropriate level of market  
215 reliance and hedging strategies may be best addressed in the IRP  
216 process. However, as the Office has already discussed, the current  
217 baseline for these two issues creates a situation in which an ECAM would  
218 not be in the public interest. In order for the public interest to be  
219 protected, these issues must be resolved first. If such a resolution were to  
220 occur, then future oversight could be accomplished both in ECAM  
221 amortization filings and IRP proceedings.

222

223 Q. PLEASE DESCRIBE HOW THE BASELINE FOR MARKET RELIANCE  
224 AND HEDGING CREATE A SITUATION IN WHICH AN ECAM WOULD  
225 NOT BE IN THE PUBLIC INTEREST.

226 A. Including market purchases that are the result of resource decisions that  
227 were either not fully vetted or consistent with an optimal resource plan  
228 shifts the risks associated with those decisions to customers, contrary to  
229 the Commission determining that the Company bears those risks.  
230 Including hedging costs, as well as the costs of the natural gas commodity  
231 being hedged, assigns both the cost and risk profile to consumers without  
232 factoring in their preferences. Even if new processes and oversight are  
233 established, both of these issues will take a couple of years to implement  
234 any major changes, as today's costs are the results of past decisions.

235

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<sup>7</sup> Duvall Rebuttal, pg 3-4, lines 69-71 and 75-78.

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236 Also, it is important to note that even the Company's rebuttal testimony  
237 highlights the potential inconsistency in the approach to these issues. The  
238 Company indicates that it is "based on the significant savings associated  
239 with the Company's market reliance strategy and the significant risk  
240 mitigation associated with the Company's hedging program" that the  
241 Commission should move forward with the ECAM. (see Duvall rebuttal  
242 lines 109 – 115) This statement highlights that it isn't clear that the  
243 Company is taking an appropriate and consistent approach to these  
244 issues. Such apparent inconsistency must also be addressed prior to the  
245 consideration of any ECAM design to ensure that public interest is being  
246 met.

247

248 Q. ARE THE CURRENT IRP GUIDELINES SUFFICIENT TO GIVE  
249 APPROPRIATE OVERSIGHT ON THE ISSUES OF MARKET RELIANCE  
250 AND HEDGING?

251 A. No. It seems apparent that additional guidelines would need to be  
252 developed. Since the 2011 IRP process is well underway, this could  
253 effectively postpone the additional analysis for another two years to the  
254 2013 IRP by the time new guidelines are in place.

255

256 It is interesting that the Company welcomes the review of these issues  
257 and input from parties within the IRP. The Company's history in terms of  
258 its level of response to input from parties on IRP issues has been mixed.  
259 Also, the Commission has typically provided only general guidance, not  
260 specific required actions within the IRP process. While it is possible to  
261 change the IRP process to properly address these issues, a more explicit  
262 Order from the Commission is necessary to establish a baseline that is in  
263 the public interest.

264

265

266

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- 267 Q. WHAT IS THE OFFICE'S VIEW TOWARD INCLUDING HEDGING  
268 EVALUATION IN THE IRP?
- 269 A. The Office's views on the hedging issue are addressed in more detail by  
270 witnesses Mr. Wielgus and Dr. Schell. However, I will restate that in  
271 general our view is the same as it is toward the issue of market reliance.  
272 Both issues require more up front evaluation before an ECAM could be  
273 found to be in the public interest. If such an evaluation is made and an  
274 ECAM is later in place, ongoing review could occur in the IRP  
275
- 276 Q. MR. DUVALL ALSO SUGGESTS THAT THE POTENTIAL USE OF  
277 OPTIONS IN THE COMPANY'S HEDGING STRATEGIES WOULD NEED  
278 TO BE VETTED THROUGH THE MSP PROCESS AND INCORPORATE  
279 CUSTOMER PREFERENCES ON THE ISSUE. DO YOU AGREE?
- 280 A. I am not certain why the use of options would need to be vetted through  
281 the MSP process. To my knowledge, the current hedging process was  
282 never examined in that forum. However, I agree that customer  
283 preferences regarding options should be incorporated in any future  
284 Company hedging policy that incorporates options. In fact, this would be  
285 entirely consistent with the overall recommendation made by the Office  
286 with respect to the Company's hedging policy and strategies.  
287
- 288 Q. WOULD IMPLEMENTING AN ECAM AS A PILOT PROGRAM  
289 ALLEVIATE THE OFFICE'S CONCERNS?
- 290 A. No. An ECAM pilot should not be undertaken until the Commission has  
291 made a public policy determination on the threshold issues of market  
292 reliance and hedging.  
293
- 294 Q. PLEASE SUMMARIZE THE OFFICE'S VIEW TOWARD POSTPONING  
295 ADDITIONAL ANALYSIS TO THE IRP PROCESS.
- 296 A. In summary, an appropriate baseline that is consistent with the public  
297 interest must be in place before the Commission should allow the

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298 Company to pursue a new method of rate recovery that shifts risks to  
299 consumers. This requires that the issues of market reliance and hedging  
300 be addressed prior to evaluating any potential ECAM design. If such  
301 issues are resolved, then ongoing oversight could take place within the  
302 IRP process, but changes to that process would also have to be in place.

303 .

304

305 IV. RESPONSE TO COMPANY'S REBUTTAL ANALYSIS

306 Q. ARE THERE SPECIFIC ISSUES RAISED IN MR. DUVALL'S REBUTTAL  
307 TESTIMONY THAT YOU WOULD LIKE TO ADDRESS?

308 A. Yes. There are a number of items raised by Mr. Duvall in his rebuttal  
309 testimony that requires a response, largely to clarify my testimony and the  
310 Office's position on certain issues.

311

312 **A. Significant Changes -2008 IRP versus 2008 IRP Update**

313 Q. PLEASE DESCRIBE THIS ISSUE.

314 A. In his rebuttal testimony at page 16, lines 352-373, Mr. Duvall states that  
315 the Company does not agree with my list of significant changes between  
316 the 2008 IRP and 2008 IRP Update. First, he states that the Office failed  
317 to include the acquisition of firm Nevada Power transmission service from  
318 Mead to the Company's load area beginning in 2012 to the list of  
319 significant changes. He proposes to add this to the list of changes.  
320 Second, he states the Office has incorrectly assumed that the Company  
321 has entered into new wholesale sales contracts in 2012 and 2013. He  
322 proposes to delete this item from the list.

323

324 Q. DO YOU AGREE WITH MR. DUVALL'S PROPOSED ADDITION AND  
325 SUBTRACTION FROM THE LIST?

326 A. Regarding the acquisition of firm Nevada Power transmission service, Mr.  
327 Duvall fails to note that I discussed in detail the FOT opportunities  
328 afforded by this new transmission service on pages 14-15, lines 380-393

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329 of my direct testimony. Consequently, I support adding this to the list.  
330 With regard to new wholesale sales contracts in 2012 and 2013, I  
331 acknowledge Mr. Duvall’s correction that these represent the “delivery leg”  
332 of power exchange contracts.<sup>8</sup> Thus, this item should be removed from  
333 the list.

334

**B. Market Reliance -Time Period and Level**

335  
336 Q. PLEASE DESCRIBE THE ISSUE RELATING TO THE TIME PERIOD OF  
337 THE OFFICE’S MARKET RELIANCE ANALYSIS.

338 A. On page 17, line 376, of his rebuttal testimony, Mr. Duvall asserts the  
339 Office’s market reliance concerns are confined to the 2012-2014 period.

340

341 Q. DO YOU AGREE WITH HIS ASSERTION?

342 A. While I agree the Office’s market reliance analysis has a near-term focus  
343 because of the rapidly increasing system deficit position, the Office’s  
344 concerns pertain to the entire ten-year planning horizon. According to the  
345 2008 IRP Update, only one significant resource, the Lakeside II proxy, is  
346 targeted in the 2012 - 2017 period. The Company proposes to delay  
347 acquisition of additional wind resources until 2017 and the next major gas  
348 plant is moved from 2016 to 2018.

349

350 Q. PLEASE EXPLAIN THE ISSUE RELATING TO MARKET RELIANCE  
351 LEVELS.

352 A. On page 17, lines 377-390, of his rebuttal testimony, Mr. Duvall presents  
353 evidence that a lower level of short term firm and system balancing  
354 purchases were included in the most recent general rate case than were  
355 included in the 2008 IRP update. He then concludes that an ECAM does  
356 not increase the risk of market reliance to customers.

---

<sup>8</sup> In the Company’s load and resource comparison table (3.10) in its 2008 IRP Update, these sales appear to be “stand-alone” transactions. The fourth bullet under East Changes clarifies that these sales in 2012 and 2013 are associated with FOTs (power exchange contracts).

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357 Q. WHAT IS YOUR RESPONSE TO MR. DUVALL'S CONCLUSION ON  
358 MARKET RELIANCE LEVELS?

359 A. First, the Company's analysis focuses exclusively on the levels of short-  
360 term market resources in the 2008 IRP Update compared to short-term  
361 market resources in base rates. The analysis does not acknowledge that  
362 base rates are normalized and that the Company presently incurs the  
363 price risk associated with market volatility between rate cases. If an  
364 ECAM is implemented, the risk of market price volatility shifts to  
365 customers. Therefore, his conclusion that an ECAM does not increase  
366 risk to customers because that risk is already built into rates is false.

367

368 Second, in its analysis of market reliance levels, the Company appears to  
369 be mixing short-term firm resources (e.g., FOTs with a one-three year  
370 contract duration and short-term firm purchases of less than one year)  
371 with economy purchases and sales that are required to balance the  
372 system. The FOTs and short-term firm purchases would be necessary for  
373 planning purposes in order to meet capacity requirements. Conversely,  
374 balancing transactions would be required for operational purposes of  
375 balancing the system as loads and resources vary on a real-time basis.  
376 For example, if the Company is resource long in a particular time period, it  
377 may elect to make an economy sale if it could profit from the transaction.  
378 Thus, the Company's analysis appears to involve an apples-to-oranges  
379 comparison unless the Company's view is that balancing purchases  
380 should be considered for resource planning purposes.

381

382 Q. WHAT CONCLUSION DO YOU REACH BASED ON THE COMPANY'S  
383 ANALYSIS OF MARKET RELIANCE LEVELS?

384 A. The degree to which the Company plans to meet increasing capacity  
385 requirements with short-term firm purchases less than one year and  
386 balancing purchases is unclear. This represents yet another reason why a  
387 focused proceeding would be beneficial in terms of more fully

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388 understanding the Company's market analysis and market reliance  
389 strategy. This would aid the Commission in considering whether an  
390 ECAM could be designed that promotes the public interest and, if so,  
391 evaluate criteria that could possibly limit inclusion of certain types of  
392 transactions in an ECAM.<sup>9</sup>

393

394 **C. Market Products**

395 Q. DID THE COMPANY PROVIDE A DESCRIPTION OF AVAILABLE  
396 MARKET PRODUCTS IN MR.DUVALL'S REBUTTAL TESTIMONY?

397 A. On page 21 of his rebuttal testimony, Mr. Duvall provided a summary of  
398 various market products in one Q & A. The Office submits that a detailed  
399 description and explanation of available market products by market hub  
400 needs to be provided to regulators and interested parties as part of every  
401 IRP process. Better information relating to specific market products, and  
402 the depth and liquidity of the markets those products are available in,  
403 would aid the Commission in its ongoing evaluation of the reasonableness  
404 of the Company's market reliance strategy.

405

406 **D. Market Price Outlook**

407 Q. MR. DUVALL STATES THAT YOU INCLUDED AN ERROR IN  
408 FOOTNOTE 13 OF YOUR DIRECT TESTIMONY. PLEASE RESPOND.

409 A. In the footnote, the Office was simply pointing out that PacifiCorp and  
410 NWPPC use different models to prepare load forecasts. The Office  
411 understands that the Company's forward price curves for resource  
412 planning are based on a combination of information from brokers and  
413 model forecasts. This is why I attempted to use the term "market outlook;"  
414 however, in reviewing my testimony I see that I used the terms "market  
415 outlook", "market view" and "market forecast" interchangeably. For  
416 purposes of clarifying the record, I accept Mr. Duvall's correction.

---

<sup>9</sup> I refer the Commission to pages 24-25 of my testimony where I discuss considerations pertaining to the establishment of limits for these types of short-term transactions.

417

418 Q. PLEASE RESPOND TO THE COMPANY'S CONCLUSION THAT THE  
419 NWPPC MARKET PRICE OUTLOOK APPEARS TO BE RELATIVELY  
420 HIGH COMPARED TO WHAT IS CURRENTLY AVAILABLE IN THE  
421 MARKET.

422 A. I agree that NWPPC's market outlook for Mid-Columbia consistently has  
423 higher prices than PacifiCorp's March 2010 and June 2010 forward price  
424 curves after 2011. The Office included the recent NWPPC market outlook  
425 to provide the Commission with a market outlook from a credible source  
426 that was published just prior to PacifiCorp's March 2010 market outlook.  
427 Given that the Company's June 2010 forward price curve is lower than its  
428 March 2010 curve lessens somewhat our market reliance concerns, but in  
429 no way changes our position that the risk associated with market price  
430 volatility should stay with the Company.

431

432 **E. 2009 WECC Power Supply Assessment (PSA)**

433 Q. DO YOU HAVE ANY COMMENT ON THE COMPANY'S RESPONSE  
434 RELATING TO THE WECC PSA?

435 A. Yes. While the 2009 PSA shows that initial resource deficits (summer  
436 period) for the Rockies, Northwest and Desert Southwest sub-regions do  
437 not begin until after 2015, WECC set forth and described a number of  
438 caveats related to its resource deficit projections. These caveats are  
439 discussed on page 19-20, lines 508-539, of my Direct Testimony. For  
440 example, the 2016 deficit projection for the Desert Southwest market is  
441 dependent on the timing and level of resources that are developed in  
442 California. In addition, the 2009 PSA reflects an average reduction in load  
443 forecasts of 3.6% resulting from the economic recession. Therefore, a  
444 quicker economic recovery from the recession may advance the timing of  
445 when certain sub-regions become resource deficit.

446

447

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448 **F. Long-Term Resources**

449 Q. PLEASE EXPLAIN THE ISSUE THAT ARISES IN CONNECTION WITH  
450 LONG-TERM RESOURCES.

451 A. In his testimony on pages 23-24, lines 510-517, Mr. Duvall appears to  
452 suggest that the Office supports the acquisition of long-term resources no  
453 matter what the impacts are on revenue requirement and rates. The  
454 implicit reference in the testimony is the Lakeside II Contract; the resource  
455 the Company used for comparison purposes in Mr. Duvall's highly  
456 confidential economic analysis discussed earlier in my testimony.

457

458 Q. DOES THE OFFICE SUPPORT THE ACQUISITION OF LONG-TERM  
459 RESOURCES TO SIMPLY "ASSURE A RESULT" AS IMPLIED IN MR.  
460 DUVALL'S TESTIMONY?

461 A. No. The Office supports the acquisition of supply and demand-side  
462 resources that can be demonstrated to be cost-effective, have acceptable  
463 risk levels and improve reliability.

464

465 **V. POSSIBILITY OF ADDRESSING CONCERNS THROUGH DESIGN**

466 Q. MR. DUVALL INDICATES THAT THE OFFICE'S CONCERNS  
467 REGARDING MARKET PURCHASES COULD BE RESOLVED  
468 THROUGH AUDIT PROVISIONS AND POTENTIALLY BY SHARING  
469 BANDS?

470 A. As I indicated in my testimony in the design phase of this proceeding, the  
471 Office believes that significant levels of sharing and appropriate review  
472 and oversight are necessary but not sufficient conditions for the ECAM to  
473 be found in the public interest. As I discussed earlier in my testimony,  
474 before such design provisions can be considered, the baseline must be  
475 found to be in the public interest. I have described in this and my direct  
476 testimony why market reliance and hedging remain threshold issues that  
477 must be addressed prior to moving forward with design.

478

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479 Q. HAVE OTHER PARTIES ATTEMPTED TO ADDRESS THESE ISSUES  
480 THROUGH DESIGN?

481 A. Yes. The Division has proposed some very specific design parameters in  
482 the design phase of this case to address the issue of market reliance. The  
483 Office will provide its concerns relating to the Division's proposal in its  
484 rebuttal testimony in the design phase. However, I will note at this time  
485 that the design parameters do not correct for the baseline problem I have  
486 described within this testimony and do not prevent the risk associated with  
487 resource acquisition decisions from being shifted to consumers, contrary  
488 to the risk assignment discussed by the Commission in its 2007 IRP  
489 Order.

490

491 I will also note that the two parts to this Phase II of the ECAM proceeding  
492 are becoming rather intermingled. It may be helpful for the Commission to  
493 provide very specific guidance in this part of the proceeding that could still  
494 be applied to the later rounds of testimony and the hearing in the design  
495 portion.

496

497 VI. RECOMMENDATIONS

498 Q. PLEASE SUMMARIZE THE OFFICE'S RECOMMENDATIONS.

499 A. The Office continues to recommend that an ECAM not be adopted as it  
500 has not been demonstrated to be in the public interest. In particular, the  
501 two issues of market reliance and hedging must be resolved prior to  
502 evaluating any ECAM design. Otherwise, it will not be possible to design  
503 an ECAM that would be in the public interest.

504

505 The Office's specific recommendations regarding the proper treatment and  
506 potential resolution of the threshold issues of market reliance and hedging  
507 include:

508

## Phase II – Market Reliance

- 509           • Adopt the specific recommendations relating to the Company's  
510 hedging practices proposed by the Office's experts, Mr. Wielgus  
511 and Dr. Schell, as revised in their respective surrebuttal testimony.  
512 The Commission should also initiate a comprehensive evaluation of  
513 the Company's hedging programs before any natural gas fuel or  
514 hedging costs are included in an ECAM. If customers are going to  
515 be required to bear the risks of natural gas cost fluctuation, they  
516 should have input into establishing appropriate hedging strategies  
517 and associated costs.  
518
- 519           • The Commission should initiate a comprehensive market analysis  
520 to determine the appropriate level of reliance on market purchases,  
521 including a demonstration that the western market is robust enough  
522 to support such a strategy. This market analysis should be  
523 presented in a focused proceeding before the costs associated with  
524 market purchases are allowed in any ECAM design and also  
525 required on an ongoing basis in all future IRPs.  
526
- 527           • Depending on the outcome of the analysis described above,  
528 consider developing and applying limits on the volume of FOTs for  
529 purposes of inclusion in an ECAM at least for some period of  
530 transition until the Company's market strategy is consistent with the  
531 outcome of future IRPs.  
532