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April 30, 2007

BY ELECTRONIC AND OVERNIGHT MAIL

Ms. Carole J. Washburn
Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504

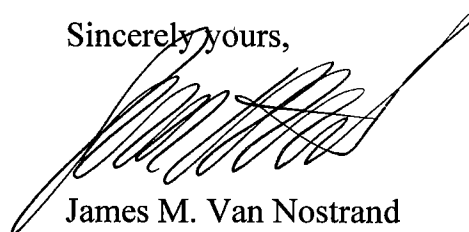
Re: *Dockets UE-061546 and UE-060817 (consolidated):*
Correction to PacifiCorp's Initial Post-Hearing Brief

Dear Ms. Washburn:

Enclosed for filing in the above-referenced proceedings are an original and twelve (12) copies of corrected pages 10 (paragraph 22) and 19 (paragraph 38) to PacifiCorp's Initial Post-Hearing Brief, and Certificate of Service. Please replace the pages filed April 23 with the enclosed pages. Marked pages showing the changes in legislative style are also included.

Thank you for your attention to this matter.

Sincerely yours,



James M. Van Nostrand

Enclosures

cc: Service List
The Honorable Dennis Moss

24878-0038/LEGAL13181937.1

21 Mr. Falkenberg's proposal to allocate to Washington a portion of dynamic overlay benefits (operating reserve benefits) is based on an unrelated and outdated study from 2004.⁵¹ This adjustment comprises \$2.9 million of the total \$8.6 million interconnection adjustment proposed by Mr. Falkenberg.⁵² Of the \$2.9 million portion, \$1.2 million is related to ready reserves and \$1.7 million is related to spinning reserves.⁵³

22 The proposed adjustment should be rejected, however, because it is based on stale information from a three-year-old data response from the Multi-State Process related to a different allocation method and because the adjustment does not consider the fact that the reserves may have little or no value if PACE carried its own reserves (as Utah Power did prior to the merger) or bought them from another entity.⁵⁴ The outdated study is also not representative of the current generating resources contained within PacifiCorp's system. The addition of new operating reserve contracts with PACE industrial customers and results from an updated semi-annual report show reduced value to the ready reserve dynamic overlay component.⁵⁵ Moreover, the addition of new wind projects in the WCA has increased spinning reserve and regulating margin requirements due to the variable and intermittent nature of wind resources.⁵⁶ These requirements can be expected to increase substantially in the future as a result of the renewable portfolio standards ("RPS") in Washington and California and the expectation that Oregon will soon adopt an RPS. Finally, Mr. Falkenberg's

that transmission from Mid-C to PACW load pockets is available when PACW wishes to make a sale to PACE with an offsetting purchase at Mid C, which is not the case. *Id.* at 18:9-12. In fact, Mr. Widmer explains that transmission capability is heavily used at that interconnection. *Id.* at 18:12-13. Mr. Widmer notes that Mr. Falkenberg also falsely assumes that any sale made at Mid-C can be made in a Southern Market Hub by diverting Bridger generation. *Id.* at 18:13-15. In reality, some sales are made at Mid-C because it is the only outlet for a surplus in the Walla Walla area. *Id.* at 18:15-16. The third false assumption noted by Mr. Widmer includes that fact that Mr. Falkenberg's analysis assumes that whenever PACW wishes to make a sale, PACE has surplus transmission to a liquid market hub, whereas, in reality, it is likely that when PACW has a surplus to sell, PACE also has surplus to sell and is already using the transmission path to a liquid market. *Id.* at 18:16-20. Mr. Widmer's testimony also includes further discussion explaining Mr. Falkenberg's additional false assumption regarding access to the Southern liquid markets and additional issues with his margin calculation. *Id.* at 19:1-21:2.

⁵¹ Exh. No. 88 at 21:5-6 (Widmer Rebuttal).

⁵² *Id.* at 21:6-9.

⁵³ *Id.*

⁵⁴ *Id.* at 21:16-20.

⁵⁵ *Id.* at 22:1-8.

⁵⁶ *Id.* at 22:11-23:3.

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adverse weather conditions or similar factors, the Company and its customers are fully exposed to the costs of much more expensive incremental generation, in the form of thermal plants or market purchases.¹⁰⁶ At the hearing, Mr. Buckley was questioned as to whether the normalization procedure adequately addresses variability of power costs to which Mr. Buckley responded by expressing his repeated preference for a PCAM.¹⁰⁷ Furthermore, Mr. Widmer contests Mr. Johnson's assertion that the use of historical hydro generation is not a reasonable basis to establish exposure to hydro conditions by noting that it is a long-standing Commission policy to use historical generation adjusted for current operating capabilities to determine a normalized level that is included in rates.¹⁰⁸

38 There are other flaws in Public Counsel's analysis. Mr. Johnson suggests that it is appropriate to compare the Company's hydro exposure and other net power cost risks on a total Company basis, but Mr. Widmer disagrees and explains that such a suggestion implies that the determination should be impacted by the relative risk of other states, an approach inconsistent with the Commission's findings in the 2005 Rate Case.¹⁰⁹ Mr. Johnson also states that an 18 percent variation in hydro production constitutes a "once in a decade" event. In fact, four of the worst water years occurred in the last 12 years of the 40-year period used in the Company's filing and, when updated through 2006, six of the worst water years occurred in the last 15 years.¹¹⁰ This demonstrates that the Company's hydro variability exposure has the potential to be greater than once in a decade.¹¹¹ Finally Mr. Johnson is critical of the Company's proposal to include new

¹⁰⁶ *Id.* at 3:18-21.

¹⁰⁷ Buckley, TR. 335:18-23, 336:5-15, 341:20-22.

¹⁰⁸ Exh. No. 88 at 50:8-10 (Widmer Rebuttal).

¹⁰⁹ Exh. No. 88 at 52:4-6 (Widmer Rebuttal).

¹¹⁰ *Id.* at 52:14-17.

¹¹¹ *Id.* at 52:16-17.

adverse weather conditions or similar factors, the Company and its customers are fully exposed to the costs of much more expensive incremental generation, in the form of thermal plants or market purchases.¹⁰⁶ At the hearing, Mr. Buckley was questioned as to whether the normalization procedure adequately addresses variability of power costs to which Mr. Buckley responded by expressing his repeated preference for a PCAM.¹⁰⁷ Furthermore, Mr. Widmer contests Mr. Johnson's assertion that the use of historical hydro generation is not a reasonable basis to establish exposure to hydro conditions by noting that it is a long-standing Commission policy to use historical generation adjusted for current operating capabilities to determine a normalized level that is included in rates.¹⁰⁸

38 There are other flaws in Public Counsel's analysis. ~~For instance, Mr. Johnson is not correct when he states that 17.9 percent of WCA load is met by hydro generation and that this is less than half the level of exposure to Puget Sound Energy ("PSE") and Avista Utilities ("Avista").¹⁰⁹ In fact, hydro generation meets 30 percent of the Company's WCA load requirements.¹¹⁰ Mr. Johnson also suggests that it is appropriate to compare the Company's hydro exposure and other net power cost risks on a total Company basis, but Mr. Widmer disagrees and explains that such a suggestion implies that the determination should be impacted by the relative risk of other states, an approach inconsistent with the Commission's findings in the 2005 Rate Case.¹¹¹ Mr. Johnson also states that an 18 percent variation in hydro production constitutes a "once in a decade" event. In fact, four of the worst water years occurred in the last 12 years of the 40-year period used in the Company's filing and, when updated through 2006, six of the worst water years occurred in the last 15 years.¹¹² This demonstrates that the Company's hydro variability exposure has the potential to be greater than once in a decade.¹¹³ Finally Mr. Johnson is critical of the Company's proposal to include new~~

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¹⁰⁹ Exh. No. 241 at 5:19-6:1 (Johnson Direct).

¹¹⁰ Exh. No. 88 at 51:7-9 (Widmer Rebuttal).

¹¹¹ Exh. No. 88 *Id.* at 52:4-6 (Widmer Rebuttal).

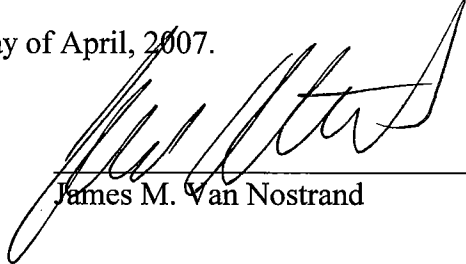
¹¹² *Id.* at 52:14-17.

¹¹³ *Id.* at 52:16-17.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the attached document upon the persons and entities listed on the Service List below by depositing a copy of said document in the United States mail, addressed as shown on said Service List, with first class postage prepaid.

DATED at Portland, Oregon this 30th day of April, 2007.



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