BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	**Docket No. UE-050482**
vs.	)	**Docket No. UG-050483**
AVISTA CORPORATION,	)	*(consolidated)*
Respondent.	)	

EXHIBIT NO.___(RJF-20)

EXCERPT OF PREFILED DIRECT TESTIMONY OF WALT POLLOCK AND

PAMELA LESH IN OREGON PUBLIC UTILITY COMMISSION DOCKET NO. UE 113

September 22, 2005

Not having excess physical plant means that PGE's income from the return on common equity is smaller than it would be were we a more typical utility and, consequently, means that our customers pay lower fixed costs than they otherwise would. This increases the effects of extreme weather on PGE, because we must purchase on the spot market for greater than expected use by our customers. Coupled with the second current condition – wholesale prices equal to, or during peak hours in excess of, retail prices, means that PGE must sell at retail for no or negative margin if loads rise above expected. While even a "standard" utility might be exposed to natural gas volatility, it is a significant factor for PGE given our resource mix and general short position.

The variance risks we have discussed are PGE-specific and thus not reflected in the methodologies by which regulation establishes the return on common equity we should receive. Many electric utilities still have full or partial fuel and purchased power adjustment clauses that allow them recovery of actual expenditures made for these commodities, notwithstanding the framework otherwise used to set retail prices. And, of course, most local distribution gas companies have historically tracked all, or most, of their natural gas commodity cost. While recent regulatory trends are to provide gas LDCs incentives to manage gas costs, most still include frequent (at least annual) updates of actual forward purchases and assumed purchases and some true-up of actual purchases to the assumed purchases.

Q. Given the weaknesses in the current regulatory framework, are you proposing to change it now?

A. No, we are not proposing to change the framework now for several reasons. The primary reason is that we are just over twelve months away from a major restructuring of Oregon's retail electricity market as a result of SB1149. We will file proposals to implement that restructuring while the Commission is likely still processing this request. It does not make sense to us to propose a significant change in the value exchange between PGE and our customers outside of the context of implementing SB1149. In addition, time is limited. The Commission, PGE, and PGE's customer groups representatives and other constituents all have much to do. We did not want to complicate this filing with any radical new proposal. Finally, the easiest change to make would have been some kind of true-up of actual experience to forecast inputs.

Philosophically, we dislike the idea of a true-up. Even with use of variance sharing, the true-up weakens the utility's incentives to manage its business and it seriously detracts from the value customers receive in knowing that the price they pay for electricity used today is the actual price. Few people would be willing to buy an airline ticket if, several weeks after the flight, the airline could send another bill – or a refund check for that matter – based on the final count of seats taken in the plane or some such set of actual inputs. People generally like price certainty. Until our customers have a choice of products, we would prefer not to require all to choose an electricity product that does not include price finality as a feature.

As we discuss in more detail below, we are proposing an adjustment to move our expected results closer to those we would experience if we supplied our customers in a more traditional manner.

Q. Please explain the methodology you use to prepare a forecast of net variable power costs for the purpose of setting prices under the regulatory framework for this filing.

A. PGE uses a combination of known future costs, assumed cost inputs, and a model to produce a forecast of net variable power costs, built around the principle of economic dispatch. In