

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

In the Matter of the Joint Application of
PACIFICORP and PACIFICORP,
WASHINGTON, INC. for an Order
Approving (1) the Transfer of Distribution
Property from PacifiCorp to an Affiliate,
PacifiCorp, Washington, Inc.,
(2) the Transfer by PacifiCorp of Certain
Utility Property to an Affiliate, the Service
Company, and (3) the Proposed Accounting
Treatment for Regulatory Assets and
Liabilities, and an Order Granting an
Exemption under RCW 80.08.047 for the
Issuance or Assumption of Securities and
Encumbrance of Assets by PacifiCorp,
Washington, Inc. and/or PacifiCorp

Docket No. UE-001878

PACIFICORP

SUPPLEMENTAL DIRECT TESTIMONY OF
GREGORY N. DUVALL

June 2001

1 Q. Please state your name.

2 A. My name is Gregory N. Duvall.

3 Q. Have you previously filed testimony in this proceeding?

4 A. Yes. I filed direct testimony in April describing a proposed initial Power Sales
5 Agreement between PacifiCorp Generation and PacifiCorp, Washington, Inc.
6 (“Agreement”).

7 **Overview of Testimony**

8 Q. What is the purpose of your Supplemental Direct Testimony?

9 A. The purpose of this Supplemental Direct Testimony is to present proposed
10 changes and clarifications to the Agreement and to present proposed detailed
11 Agreement Exhibits. For reasons discussed below, the Company is proposing
12 two Agreements – a Short-Term Agreement and a Long-Term Agreement.
13 These, along with the Agreement Exhibits, are attached as Exhibits to this
14 testimony.

15 The draft Agreement accompanying my direct testimony represented our
16 first cut at a number of complex issues arising from designing a contract that
17 accomplishes the goals described at page 4 of that testimony. I indicated in my
18 direct testimony that we would continue to analyze the Agreement and would
19 likely propose changes to it. Additionally, the draft Agreement contained a
20 number of blanks in its text and only included some illustrative exhibits. We
21 committed to filling in those blanks and providing actual proposed Agreement
22 exhibits as part of the Company’s final filing in its direct case.

1 **Load Balancing**

2 Q. In your direct April testimony (at page 22), you stated that “the entire subject of
3 load balancing is one that we believe requires substantial further consideration
4 and will be further addressed in subsequent filings in this proceeding”. First,
5 would you please explain what you mean by “load balancing”?

6 A. Load balancing, in its simplest terms, is the matching of injections of electricity
7 into the grid with the consumption of electricity by customers and transmission
8 losses. This requires dispatching existing sources of power, securing additional
9 sources of power and disposing of excess power.

10 The intent of the Agreement is to afford PacifiCorp, Washington with
11 the benefits of a fixed monthly share of PacifiCorp’s existing generating
12 resources and purchased power contracts, with the month-by-month fixed share
13 designed to reflect PacifiCorp, Washington’s seasonal load shape. This
14 preserves the economic benefits of our diverse system that our retail customers
15 enjoy today. In some hours, this fixed share will be in excess of PacifiCorp,
16 Washington’s requirements, permitting the excess to be sold in wholesale
17 markets, with the proceeds credited to PacifiCorp, Washington.

18 Other times, the fixed monthly share will be inadequate to serve
19 PacifiCorp, Washington’s load in an hour and will have to be supplemented with
20 wholesale market purchases. Still other times, it may be more economic to
21 make market purchases than to “dispatch” the existing resources. We refer to
22 all these activities, which involve the interplay between the Agreement and the

1 wholesale market, as “load balancing”. Again, this all mirrors activities that
2 occur on a single system basis today.

3 Q. Are you now proposing changes from your direct testimony as to how load
4 balancing is handled ?

5 A. Yes. We are proposing a number of important changes.

6 Q. Please describe what you are now proposing.

7 A. Certainly.

8 In my direct testimony (at page 22), I stated, “We are concerned that as
9 load patterns and market conditions change during the term of the Agreement, it
10 will be challenging to equitably price load balancing with reference to market
11 hub price indices”. We continue to believe this to be the case. Generally, our
12 proposed approach is to: 1) have PacifiCorp Generation provide “full
13 requirements” service, including load balancing, to PacifiCorp, Washington for
14 an initial five-year period and 2) have load balancing charges and credits during
15 this initial five-year period established by a rigorous computer simulation model
16 that captures transmission constraints and “basis differential” among principal
17 market hubs in the Western United States where load balancing could be
18 expected to occur. The algorithm that will be captured in the model is described
19 in what are now Agreement Exhibits I and J contained in Exhibit GND-5 to this
20 testimony.

21 During this initial five-year period, PacifiCorp, Washington will have an
22 opportunity to pursue competitively-supplied power to meet its load growth as it

1 sees fit, while concurrently enjoying the benefit of having a supplier which is
2 obligated to provide PacifiCorp, Washington's full requirements if desired.

3 Q. How will PacifiCorp, Washington provide for load balancing after the initial
4 five-year period?

5 A. In order to maintain system efficiencies, we expect that it will always be
6 appropriate for PacifiCorp, Washington and its sister state electric companies to
7 have a single entity provide load balancing services for all of them. After the
8 first five years, that entity could either be an affiliated entity that provides such
9 services based upon actual cost or a third-party, for-profit entity that
10 competitively bids for the right to provide the service. Either approach has
11 potential advantages. Currently, there are approximately 35 control area
12 operators in the Western United States with the skills to provide this service on
13 a competitive basis. We expect much to change during the first five years of the
14 Agreement as wholesale power markets mature and one or more regional
15 transmission organizations ("RTO's") are established. We expect that these
16 developments will make remaining providers of load balancing even more
17 efficient. However, because of the extent of the expected changes, we do not
18 believe it would be sensible to prejudge what the best approach will be for
19 obtaining load balancing services six years from now.

20 Q. Why are you proposing that PacifiCorp Generation not continue to provide
21 load-balancing services after the initial five-year period?

1 A. There are a number of reasons. We believe that five years is a long time for
2 providing a service as dynamic as system balancing. We would expect that
3 suppliers of the service in a competitive market would only commit for one or
4 two years and that consumers of the service would also be reluctant to be locked
5 into long-term arrangements. We believe an initial five-year commitment by
6 PacifiCorp Generation strikes a good balance between the needs of PacifiCorp
7 Generation and PacifiCorp, Washington and its customers.

8 While we expect that the load balancing model will produce reasonable
9 results, its ability to reasonably simulate load balancing costs will likely
10 deteriorate through time as load patterns, transmission constraints and market
11 conditions change. The formation of RTOs will likely accelerate these sorts of
12 changes.

13 Finally, it is important to note that providing load balancing services for
14 the state electric companies requires that the party providing such services has
15 control over substantial network and point-to-point transmission rights. We
16 believe that retaining these rights within PacifiCorp Generation over the long
17 term could give rise to competitive concerns. The introduction of direct access
18 would likely further complicate these issues.

19 For all these reasons, we believe that it is best for the state electric
20 companies to move on a deliberate basis toward either receiving load balancing
21 services from a non-profit affiliate based upon actual cost, or from a third-party
22 provider offering a market price for the service.

1 Q. Why can't PacifiCorp Generation provide load balancing during the interim
2 period based upon actual cost, rather than relying upon your proposed
3 simulation model ?

4 A. We concluded that it would be very difficult to objectively assess PacifiCorp
5 Generation's actual costs after the fact, because load balancing activities
6 (purchases and sales) on behalf of the state electric companies could not be
7 easily distinguished from merchant activities that PacifiCorp Generation would
8 carry out for its own account.

9 Q. Will consumers of PacifiCorp, Washington be benefited by the use of the load
10 balancing model to calculate load balancing costs?

11 A. Yes. Current ratemaking processes require predictions to be made about the
12 level of future wholesale market prices. Under current circumstances, this is a
13 very challenging task. The system balancing model results will be calculated on
14 an after-the-fact basis using actual hourly prices derived from published indices
15 at major market hubs. Also, our current modeling of load balancing for
16 ratemaking purposes relies upon monthly averages. Given the extreme volatility
17 being experienced in wholesale power markets, this has become an issue in
18 recent rate proceedings. The load balancing model relied upon in the Short-
19 Term Agreement operates on an hourly basis.

20 Q Please generally describe how the load balancing model is intended to function.

21 A. Each state electric company is assumed to have an amount of "base load" at the
22 start-year of the Agreement. The model calculates the total system costs of

1 providing load balancing services for this base load and allocates them among
2 the state electric companies based upon relative use of energy under the “Fair-
3 Share” method load factor currently used in PacifiCorp ratemaking. The model
4 also calculates the cost of providing load balancing for load levels above the
5 “base” amount. These costs are allocated to individual states based upon the
6 relative amount by which they exceed their base load amounts.

7 In calculating load balancing costs, the first step is to determine which of
8 PacifiCorp Generation’s resources will be dispatched on either the east side and
9 west side or both sides of its system, based upon prevailing market conditions in
10 those two regions. Next, the model determines whether a surplus or deficit
11 remains on both the east side or west side of PacifiCorp Generation’s system. If
12 there is a surplus, the surplus power is assumed to be sold at the market hub for
13 which there is available transmission access and which has the highest prevailing
14 market price. If there is a deficit, the needed power is assumed to be purchased
15 at the market hub with available transmission access and the lowest prevailing
16 market price.

17 At times it is possible, given market conditions and transmission
18 constraints for the model to be reflecting purchases on one side of the system
19 and sales on the other side.

20 Q. Will PacifiCorp, Washington have the wherewithal to procure load balancing
21 services after the initial five-year period ?

- 1 A. Absolutely. Essentially, the “tools” that are required are supply and
2 transportation. Under the Long-Term Agreement PacifiCorp, Washington will
3 continue to have a firm source of supply from PacifiCorp Generation that will
4 be delivered at the “Points of Injection” specified in Agreement Exhibit F. At
5 the end of the term of the Short-Term Agreement, all of PacifiCorp
6 Generation’s transmission rights will be transferred to PacifiCorp, Washington
7 and the other state electric companies. These will permit the electric companies
8 to transport power from the Points of Injection to the locations where it is
9 required to meet retail and wholesale load and permit load balancing.
- 10 Q. Does the decision to have PacifiCorp Generation provide load balancing services
11 for only five years materially change the Agreement?
- 12 A. Yes. Many provisions of the Agreement relate in one way or another to load
13 balancing. Therefore, we are now proposing to have two Agreements – a Short-
14 Term Agreement that provides for load balancing for a five-year period, to be
15 immediately followed by a Long-Term Agreement that does not provide for the
16 service. Accordingly, attached to my Supplemental Direct Testimony are:
17 Exhibit GND-4 which is a proposed Short-Term Agreement in legislative format
18 to show changes from the form of Agreement filed in April, Exhibit GND-3
19 which is the same Short-Term Agreement in “clean” form and Exhibit GND-6
20 which is a proposed form of Long-Term Agreement.
- 21 Q. Please describe, on a section-by-section basis, the material differences between
22 Exhibit GND-3 and the April version of the Agreement.

1 A. I will now proceed to do that. For the balance of my testimony, when I use
2 capitalized terms, they refer to defined terms in the Short-Term Agreement (or
3 the Long-Term Agreement, if applicable).

4 **Section 1 – Definitions**

5 There are new defined terms of “Gain on Sale” and “Loss on Sale”. The
6 principal purpose of these is to establish that for purposes of allocating proceeds
7 from the sale of a Thermal Plant, book and tax basis will be calculated
8 consistent with assumptions underlying the pricing under the Agreement. For
9 example, PacifiCorp Generation ought not be able to decrease the apparent gain
10 on a Thermal Element sale by reducing its actual book depreciation rates below
11 the levels reflected in Exhibit K (which are the basis for depreciation expense
12 paid for by the Buyer under the Agreement).

13 There is a new defined term of “Points of Injection” These are points
14 (principally generators), where PacifiCorp Generation can deliver Power
15 without using transmission rights. In the Short-Term Agreement, the only
16 instance when Power is to be delivered to a Point of Injection is to supply
17 wholesale contracts entered into by PacifiCorp, Washington. We are proposing
18 this approach in order to anticipate potential consequences of direct access in
19 one or more states served by a state electric company which could have the
20 effect of reducing PacifiCorp Generation’s available transmission rights. To
21 implement direct access, PacifiCorp Washington might elect to resell freed-up
22 Power at wholesale (which is permitted by the Agreement). However, because

1 PacifiCorp Generation will only be required to deliver Power being resold under
2 any such Wholesale Contracts at Points of Injection (which do not require
3 transmission rights for delivery), from a transmission standpoint, direct access
4 in Washington will not unreasonably burden the other state electric companies
5 or PacifiCorp Generation. Under the Long-Term Agreement, all deliveries of
6 Power are made at Points of Injection or Alternate Points of Injection because
7 under the Long-Term Agreement, PacifiCorp Generation will no longer have
8 the transmission rights needed to deliver Power to the more localized Points of
9 Delivery that apply under the Short-Term Agreement (having assigned those
10 rights to the state electric companies).

11 In the Short-Term Agreement we also propose a new definition for “Rate
12 of Return”. In my direct testimony, I suggested that we were considering
13 having the rate of return under the Agreement established in whole or in part
14 based upon external indices. Ultimately, we decided this approach would be of
15 concern to regulators and customers in the context of an Agreement that will
16 likely be in place for decades. The definition of Rate of Return in both the
17 proposed Short-Term Agreement and Long-Term Agreement assumes that
18 capital structure, cost of debt and preferred and a fair return on equity will all
19 be established from time to time by the Federal Energy Regulatory Commission
20 (“FERC”).

21 The Short-Term Agreement contains new defined terms of
22 “Transmission Contracts” and “Replacement Transmission Contracts”. In order

1 to: a) deliver Power to the Points of Delivery, b) make deliveries under Power
2 Sales Contracts, c) take deliveries under Purchased Power Contracts and d)
3 provide load balancing services, it is necessary for PacifiCorp Generation to
4 retain the transmission rights now held by the PacifiCorp “merchant” function.
5 These rights are the “Transmission Contracts”. In the event that PacifiCorp
6 Generation loses any of these rights during the term of the Short-Term
7 Agreement, it will need to replace these rights, or otherwise compensate for the
8 loss, by entering into new transmission arrangements. These would fall under
9 the definition of “Replacement Transmission Contracts”.

10 **Section 2 – Effective Date and Termination**

11 Consistent with my testimony above regarding load balancing,
12 Subsection 2.1 of the Short-Term Agreement is changed to cause the Agreement
13 to terminate five years after deliveries commence, unless the Parties mutually
14 agree to extend it. The comparable provision in the Long-Term Agreement
15 provides that deliveries under that Agreement commence the day after the Short-
16 Term Agreement terminates. The termination provisions in the Long-Term
17 Agreement are the same as those that were provided for in the draft Agreement
18 we filed in April.

19 Subsection 2.2 of the Short-Term Agreement now provides that
20 Transmission Contracts and Replacement Transmission Contracts will be
21 assigned to the state electric companies or their designate upon termination of
22 the Short-Term Agreement.

1 **Section 3 – Power Purchase**

2 I explained earlier in my testimony why paragraph 3.2a of the Short-
3 Term Agreement provides that PacifiCorp is permitted to deliver Power that is
4 to be resold under any Wholesale Contracts entered into by PacifiCorp,
5 Washington at Points of Injection.

6 In paragraph 3.2b of the Agreement, a blank in our earlier filing is filled
7 in so as to provide that the coincident load factor of all Wholesale Contracts
8 under which PacifiCorp, Washington is reselling Power must be at least 80%.
9 The reasons for this limitation were explained in my direct testimony (at page
10 28). That is to say, while we do not wish to unreasonably burden PacifiCorp,
11 Washington's ability to resell Power freed up by direct access, we do not
12 believe it is reasonable to materially alter the load profile that PacifiCorp
13 Generation is called upon to serve.

14 The only other change in Section 3 is editorial in nature and relates to
15 changes in the way the Agreement deals with direct access which I will discuss
16 later in my testimony.

17 **Section 4 – Hydro/Contract Charge**

18 The only change to Section 4 of the Agreement is to fill in FERC Form 1
19 references from which actual Hydro-Electric Generating Plant and Purchased
20 Power Contract cost information and Power Sale Contract Revenue will be
21 derived. For purposes of the Agreement, the Company's Foote Creek wind
22 farm will be treated the same as Hydro-Electric Generating Plants. We have not

1 yet been able to determine the appropriate FERC Form 1 reference for
2 recording wind plant costs. As a consequence, some blanks remain in this
3 subsection.

4 **Section 5 – Thermal Charge**

5 Subsection 5.1 of the Agreement has been simplified. The formula that
6 was previously in that Subsection was intended to shape the Thermal Charge in
7 different amounts over each month to reflect PacifiCorp, Washington’s changing
8 entitlement to Power during different months. The new language in Subsection
9 5.1 will result in relatively little change from month to month in the Thermal
10 Charge and will not change the total amount paid by PacifiCorp, Washington.

11 Section 5.2 of the Short-Term Agreement provides greater detail with
12 respect to the Transmission Charge. PacifiCorp, Washington is required to
13 reimburse a fixed percentage of PacifiCorp Generation’s costs under
14 Transmission Agreements and Replacement Transmission Agreements based
15 upon the SG allocation factor. Because PacifiCorp Generation does not retain
16 any transmission rights that it uses to deliver Power under the Long-Term
17 Agreement, Section 5 of the Long-Term Agreement contains no provision for
18 PacifiCorp, Washington to reimburse PacifiCorp Generation for transmission
19 costs. Rather, transmission costs will be paid directly by PacifiCorp,
20 Washington.

1 **Section 6 – Variable Charge**

2 Subsection 6.1 of the Short-Term Agreement removes reference to a
3 separate Exhibit that was to contain formulae for calculating transmission losses.
4 Instead, losses are established in accordance with the terms of Transmission
5 Contracts and Replacement Transmission Contracts under which they are
6 incurred. There is no provision for recovery of losses under the Long-Term
7 Agreement because PacifiCorp Generation is making delivery of Power at
8 Points of Injection, which does not give rise to transmission losses.

9 In the draft Agreement filed in April, Subsection 6.3 contained a formula
10 for calculating load balancing costs. With the decision to rely on a simulation
11 model to calculate load balancing costs and revenues, Subsection 6.3 of the
12 Short-Term Agreement now makes reference to the methodology set forth in
13 Agreement Exhibits I and J for that purpose. Otherwise, the proposed method
14 for calculating Variable Charges is unchanged.

15 Section 6 of the Long-Term Agreement makes no reference to concepts
16 related to load balancing because no market purchases or sales are deemed to be
17 made under that Agreement for load balancing purposes. Instead, under the
18 Long-Term Agreement, PacifiCorp, Washington has the option of scheduling as
19 much Power as it wishes under the Agreement, subject to the total amount
20 available from its allocated share of PacifiCorp Generation’s resources. Under
21 the Long-Term Agreement, PacifiCorp, Washington will not dispatch Power to
22 the extent it has cheaper market alternatives. Conversely, to the extent there is

1 surplus Power available under the Long-Term Agreement, that is less expensive
2 than prevailing market prices, PacifiCorp, Washington can schedule it and resell
3 it in wholesale markets.

4 **Section 7 - Environmental Cost Assessments**

5 Section 7 of the Agreement is changed to add a clarifying sentence to
6 establish that, PacifiCorp, Washington will not be required to continue to pay
7 for the amortization of pre-sale costs associated with Environmental
8 Responsibilities with respect to any Thermal Plant that has been sold. To the
9 extent that PacifiCorp Generation has unamortized investment in a Thermal
10 Plant that is sold, which is associated with meeting Environmental
11 Responsibilities, it will recover those costs from the proceeds of the sale
12 because they should be reflected in the Thermal Plant's book value. Pursuant to
13 Subsections 12.3 and 12.4, environmental costs that accrue after a Thermal
14 Plant is sold, are to be allocated on the same basis as any Gain on Sale or Loss
15 on Sale.

16 **Section 8 - Reimbursement of New Taxes**

17 No changes are proposed to Section 8 of the Agreement.

18 **Section 9 - Direct Access Credit**

19 Section 9 of the Agreement, as filed in April, has been deleted in its
20 entirety. This is because the load balancing model set forth in Short-Term
21 Agreement Exhibit J is structured so as to eliminate the need for a separate
22 direct access credit. Under the load balancing model, any surplus Power

1 (whether it be the result of direct access or otherwise) is sold for the benefit of
2 PacifiCorp, Washington at the highest available market price.

3 **Section 10 (Now Section 9) – Scheduling and Dispatch**

4 Subsection 9.6 of the Short-Term Agreement continues to provide that
5 PacifiCorp, Generation will provide spinning and non-spinning operating
6 reserves sufficient to meet its obligations to deliver Power consistent with
7 WSCC criteria. The comparable subsection in the Long-Term Agreement limits
8 PacifiCorp Generation’s obligation to provide spinning reserves to a fixed
9 amount which is slightly higher than PacifiCorp, Washington’s SG Factor share
10 of 350 megawatts. This is the level of spinning reserves that PacifiCorp
11 currently maintains. This portion of the Long-Term Agreement also provides
12 that to the extent PacifiCorp Generation loses access to Mid-Columbia hydro-
13 electric resources, the amount of Power that PacifiCorp, Washington is entitled
14 to purchase will be correspondingly reduced. The reason for this is that the
15 Mid-Columbia resources are critical to PacifiCorp Generation’s ability to
16 provide spinning reserves. To the extent Mid-Columbia resources are lost,
17 Thermal Elements will have to be “backed down” to provide spinning reserves
18 and PacifiCorp’s ability to deliver Power will be correspondingly reduced. The
19 Long-Term Agreement continues to provide that PacifiCorp Generation will
20 provide nonspinning reserves appropriate to the amount of Power being
21 delivered.

1 Subsection 9.7 of the Short-Term Agreement, and the comparable
2 provision of the Long-Term Agreement, limit PacifiCorp Generation's
3 obligation to provide Energy Imbalance Service to a stated amount. The amount
4 is slightly higher than an SG allocation of 50 megawatts – the amount of
5 deviation between scheduled and actual loads that PacifiCorp is currently
6 required to typically follow. If PacifiCorp, Washington provides reasonably
7 accurate schedules of its requirements, the amount of Energy Imbalance Service
8 provided for should be sufficient. If not, additional energy imbalance services
9 can be acquired from the market.

10 **Section 11 (now Section 10) – Billing**

11 The provisions of this Section related to the Direct Access Credit were
12 eliminated, consistent with the elimination of Section 9 of the draft Agreement
13 filed in April. Reference to a separate exhibit describing billing “true-ups” to
14 reflect actual costs associated with Hydro-Electric Generating Plants and
15 Purchased Power Contracts was also eliminated because we concluded that a
16 separate exhibit was not required for this purpose.

17 **Section 12 (now Section 11) – New Resources**

18 With respect to the Short-Term Agreement, this Section was changed to
19 recognize that “New Resources” might be generating plants owned by
20 PacifiCorp, Washington and not just purchased power contracts. While we
21 continue to believe that state electric companies will probably wish to not get in

1 the business of building and owning power plants, we decided that it was
2 inappropriate for the Agreement to effectively require this result.

3 Because PacifiCorp Generation will have no dispatch role under the
4 proposed Long-Term Agreement, all references to New Resources (“dedicated”
5 or “non-dedicated”) are eliminated from that Agreement.

6 **Section 13 (now Section 12) – Maintenance and Sale of Resources**

7 In the April draft of the Agreement, we did not propose a resolution of
8 the issue of how any gain or loss from the sale of a Thermal Plant prior to its
9 End Date should be allocated between PacifiCorp Generation and PacifiCorp,
10 Washington. Both the draft Short-Term Agreement and the draft Long-Term
11 Agreement contained in this filing provide that all of the gain or loss be
12 allocated to PacifiCorp, Washington and its sister state electric companies.

13 Because PacifiCorp Generation has the option of whether to propose to sell a
14 Thermal Plant prior to its End Date, we concluded that if PacifiCorp Generation
15 were to have the ability to share any gain from such a sale, there would be
16 concerns that it was somehow “gaming” this provision of the Agreement.

17 The April draft of the Agreement also left blank the limitation on the
18 amount of Thermal Plant capacity that could be sold prior to End Dates. The
19 draft Agreements contained in this filing provide for a limit equivalent to
20 approximately 25 percent of the total Thermal Plant capacity initially allocated
21 to PacifiCorp, Washington. However, the draft Agreements contained in this
22 filing also recognize the possibility that Governmental Bodies might require the

1 divestiture of generating plants and provide an exception to the 25 percent limit
2 were this to occur. We also recognized the possibility that exchanges of
3 Thermal Elements for generating units owned by third parties might be
4 advantageous. Under the proposed Agreements, this could occur, but only with
5 the concurrence of PacifiCorp, Washington.

6 This Section was also changed with respect to the gain/loss sharing
7 formula for Thermal Elements sold at their End Dates. The new provision
8 relies on relative contribution to accumulated depreciation and gross plant
9 investment (rather than depreciated book value) which we concluded was more
10 appropriate for Thermal Elements that are likely to be largely depreciated at the
11 time of their sale.

12 **Balance of the Agreement**

13 We are not proposing any changes to the “boiler plate” provisions in the
14 balance of the Agreement.

15 **Changes to Agreement Exhibits**

16 Q. How are the Agreement Exhibits changed in this filing?

17 A. Several of the Agreement Exhibits that were contemplated in our April filing
18 have been eliminated because we concluded that they would not be required.

19 These are: “Calculation of Interest on Estimated Billings” (formerly Agreement
20 Exhibit G), “Transmission Loss Calculation Methodology” (formerly
21 Agreement Exhibit I), “Reductions in Load Following Amount” (formerly
22 Agreement Exhibit J). The “Hourly Shaping of Market Indices” (formerly

1 Agreement Exhibit M) has been included in Agreement Exhibit N to the Short-
2 Term Agreement and is not required for the Long-Term Agreement.

3 Since our April filing, we developed a more comprehensive formula for
4 calculating Thermal Plant Fixed Costs. This has resulted in an expansion of
5 Agreement Exhibit A and the addition of three new Agreement Exhibits: "Plant
6 Book Depreciation Amounts" (Agreement Exhibit K), "Plant Capital Additions"
7 (Agreement Exhibit L) and "Plant Tax Depreciation Amounts" (Agreement
8 Exhibit M).

9 There are differences between Agreement Exhibits A and F in the Short-
10 Term Agreement and the Long-Term Agreement. Two different versions are
11 therefore provided in Exhibit GND-7. Short-Term Agreement Exhibits I, J, and
12 N are not required in the Long-Term Agreement. Otherwise, the Exhibits are
13 the same between the two Agreements and we are therefore not providing
14 duplicate sets.

15 Q. Does this conclude your Supplemental Direct testimony?

16 A. Yes.