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January 20, 2006

Via Electronic Filing and U.S. Mail

Oregon Public Utility Commission
Attention: Filing Center
PO Box 2148
Salem OR 97308-2148

Re: In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Staff's Investigation Relating to Electric Utility Purchases from Qualifying Facilities
OPUC Docket No. UM 1129

Attention Filing Center:

Enclosed for filing in the above-captioned docket are the original and five copies of Portland General Electric's Phase I Rebuttal Testimony of Ted Drennan and Doug Kuns (PGE/300). This document is being filed by electronic mail with the Filing Center.

An extra copy of this cover letter is enclosed. Please date stamp the extra copy and return it to me in the envelope provided.

Thank you in advance for your assistance.

Sincerely,

JRG:am

cc: UM 1129 Service List

Enclosure

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the PHASE I REBUTTAL TESTIMONY OF PORTLAND GENERAL ELECTRIC COMPANY to be served by electronic mail, and for those parties who have not waived paper service, by First Class US Mail, postage prepaid and properly addressed, upon each party on the attached service list, pursuant to Oregon Administrative Rule 860-013-0070.

Dated at Portland, Oregon, this 20th day of January, 2006.

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BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON

UM-1129 Phase I Compliance

PORTLAND GENERAL ELECTRIC COMPANY

Investigation Relating to Electric Utility Purchases from Qualifying Facilities

REBUTTAL TESTIMONY

OF

Doug Kuns
Ted Drennan

January 20, 2006

UM-1129 / PGE / 300
KUNS – DRENNAN

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Table of Contents

I. Introduction and Summary

Q. Please state your names and positions at Portland General Electric (PGE).

A. My name is Doug Kuns. I am employed by PGE as the Manager, Pricing & Tariffs

My name is Ted Drennan. I am employed by PGE as a Regulatory Affairs Analyst.

Q. Have you filed testimony previously in this case?

A. Yes. We filed testimony in this case on September 17, 2004, Exhibit 100.

Q. What is the purpose of your rebuttal testimony?

A. Our rebuttal testimony responds to several proposals by parties who filed testimony in this phase of UM 1129 to change the standard contract and the avoided cost methodology from that submitted in our July 12, 2005, compliance filing.

We support improvements to our standard contract, but do not believe that our compliance filing contains material deficiencies relative to the requirements of Oregon Public Utility Commission's Order No. 05-584 (Commission). A number of the parties' issues relate to interpretations or preferences with respect to contract provisions or methodology, but are not compliance issues. Our rebuttal testimony reflects Order No. 05-584 in giving the Commission our perspective on parties' objectives and proposed alternatives in their testimony to provisions and methodologies used in our compliance filing.

We also recommend that the Commission establish a review of the standard contract and avoided costs at any time that the cumulative expected power supply to a utility under new Qualifying Facility (QF) standard contracts reaches 20 MW. The review will allow the utilities and Commission to make sure that the appropriate balance between costs the utility is incurring and the value customers are receiving is being maintained. Given the unknown and uncertain levels of QF development and avoided cost pricing in the future, on-going reviews are necessary to help achieve that balance.

Our testimony is organized into two sections. First, we address issues related directly to the standard contract terms and provisions. Second we address issues raised by parties related to the development of avoided costs, including items associated with natural gas prices and resource sufficiency period determination.

II. Standard Contract Provisions

Q. Please summarize your response to the recommendations regarding the standard contract provisions proposed by parties.

A. Proposals by the OPUC Staff, Oregon Department of Energy, and Sherman County related to the standard contract concern a utility's obligations to a QF when the QF does not perform to the specified minimum operational and financial levels set out in the standard contract. These proposals generally require the utility to, in effect, extend credit or provide waivers from default provisions for certain events. Such proposals tend to skew the relationship between the QF project and the utility in a manner that shifts the cost of QF development to utility customers, and therefore we do not recommend the Commission adopt them. We recommend that the QF and utility work together on a case-by-case basis to address exceptions needed for significant performance and financial problems. Also, the Commission should be aware of and involved in these situations in order to improve PURPA implementation as we go forward.

A few proposed changes and corrections to the standard contract, however, are useful. For example, we concur with recommendations to place a limit on the length of time to assess damages in the event of contract termination due to QF default.

Nevertheless, we believe many proposals present a challenge to the Commission and the purchasing utility to avoid harm to utility customers and maintain the balance between creating a simple standard contract for QFs and providing a degree of supply commitment consistent with avoided cost-based pricing and utility planning.

Q. What are the essential performance commitments a QF makes in your Standard Contract.

A. The standard contract's QF commitments that relate to actual performance are: (1) a Minimum Net Output (annual kWh amount) and (2) the Commercial Operation Date. The QF also warrants that it is maintaining certain financial standards related to creditworthiness. For making these nominal commitments, the QF receives substantial utility commitments of up to 20 year contracts, and fixed or market based power purchase prices. Our standard contract does not require monthly output scheduling, nor does it tie any performance requirements to a QF's Net Output.

Q. What is the purpose of Minimum Net Output?

A. The Minimum Net Output provides information for planning purposes and allows us to measure actual QF performance against the minimum expectation of output. The Minimum Net Output is used in the standard contract to establish performance standards.

Q. Does the Minimum Net Output affect pricing?

A. No. The Minimum Net Output does not affect pricing.

Q. Are you concerned with the relationship between QF supply and financial commitments, and power purchase prices?

A. Yes. We are concerned that proposals by parties in this docket regarding standard contract QF commitments do not balance utility customer and QF interests. For example, in 2007, using fixed avoided cost rates filed in this docket, PGE would pay approximately $1.7 million for output from a 10 MW QF (or multiple smaller QFs with a cumulative 10 MW capacity) that has a 33% capacity factor. Stated another way, although this output is only 28,600 MWh per year or just 3.3 MWa, it has a significant cost. Several parties have suggested power supply and financial commitments may have an impact on ability to finance QF projects. However, lack of commitments by a QF shifts the risk of default to the utility and, by extension, customers in favor of the lender. With costs of upwards of $1.7 annually for a small QF project, we are not comfortable taking on the role of a default lender with respect to QF financial risks without explicit Commission approval and oversight.

Q. Do QFs have any alternative pricing options to manage the performance commitments they make to the utility?

A. Yes. The PGE standard contract provides a power purchase option that eliminates a number of default risks if a QF is not able, or not willing to operate under the minimal commitments of the standard contract. Specifically, PGE's standard contract Mid-C Rate Index price option uses the reported daily firm Mid-C prices (adjusted to include the avoided losses and wheeling costs) as the purchase price for daily QF power production. For QFs that select the daily Mid-C price, our standard contract provides exemptions from the provisions related to specifying a Minimum Net Output and Lost Energy Value (in Sections 4.2 and 4.3 of the standard contract) recoupment requirements. The QF is supplying power on an "as available" basis, and we pay for the power at a price consistent with the contemporaneous delivery of the power.

QFs that require more price certainty than the daily Mid-C pricing are required to make a limited level of supply commitments. PGE's three other pricing options establish fixed prices or fixed/variable price schedules for up to fifteen years but require supply and financial commitments in order to minimize customer harm.

Q. How is your testimony organized to respond to the issues and recommendations raised by parties?

A. For the balance of our testimony in this section, we will respond to each PGE related recommendation set out in Staff Exhibit Schwartz/1, 1001, Summary of Staff's Recommendations. The Staff's summary consolidates numerous issues raised by parties and proposes changes to our standard contract. Our testimony will include each recommendation followed by our response.

Q. Please discuss the recommendations in Staff Exhibit Schwartz/1, 1001 regarding creditworthiness.

A. Staff proposes to:

- *Require PGE to modify Section 7 of its standard contract, requiring default security in the event a QF becomes delinquent during the contact term, to provide an exception for becoming delinquent on its construction loan so long as the lender is working with the borrower to become current on loan payments.*

We recommend that the Commission not adopt this recommendation.

The events that trigger default security in our standard contract can only occur after the QF has signed the standard contract and is in default on some financing arrangement. The fact that a QF is in default on a financial arrangement essential to the development of a project means the QF is a risky counterparty, regardless of whether the lender is willing to work with them to resolve late loan payments. Whether a project is financially sound is fundamentally related to the integrity of the project and its power supply viability. Our contract includes that in the event a QF is in default on a financial arrangement, the QF must provide security as a degree of loss protection to the utility. In compliance with Order No. 05-584, the standard contract allows the QF to choose one of several forms that is most acceptable to it: senior lien, step-in rights, cash escrow or line credit.

We believe that the collateral amount of these security options is not particularly large relative to the QF's expected revenues. For example, applying our contract formula to set the collateral amount to the 10 MW facility described above, and assuming that the QF set its Minimum Net Output equal to 50% of the expected Net Output, the security would be just $92,000 (the 2007 average on-peak price is 6.64 cents/kWh and 5.52 cents/kWh off-peak and the number of on-peak hours is about 5,000). Clearly, this default security amount relative to our example QF's normally expected sales of $1.7 million is minimal. If our default security provision is onerous to a particular QF, it casts doubt that the QF would be able to successfully resolve potential financial issues.

An additional critical factor that must frame the Commission's consideration of the proposals to reduce the obligations and commitments of the QF is that the purchasing utility such as PGE has no knowledge of the financial strength of any given project. A QF project may be highly leveraged or simply be an experimental or speculative project. Again, to carve out minimal risk mitigation provisions from the standard contract requirements, such as exempting certain QFs from standard security requirements, shifts exposure to utility customers and should be approached with care.

Q. Does PGE support the recommendation regarding Security made by Staff?

A. Yes. Staff recommends that the Commission:

- *Direct Idaho power and PGE to provide specific definitions in their standard contracts for the security options of cash escrow, senior lien, step-in-rights and letter of credit.*

We are prepared to add definitions to the agreement using standard legal definitions. We provided definitions in our response to Staff Data Request No. 056.

Q. Please respond to the Default and Termination recommendations summarized by Staff?

A. Staff makes five recommendations that alter the standard contract provisions for QF default and termination situations. We will respond to each recommendation individually.

1. Mechanical Availability Guarantee

Staff recommends that the Commission:

- *Allow the utilities to amend their standard contacts to use a Mechanical Availability Guarantee based on annual production as the basis for determining default for under-delivery for QFs relying on intermittent resources.*

At this time, we do not propose to implement a Mechanical Availability Guarantee ("MAG") provision in the standard contract. This concept will be further explored in Phase II and thus clearly is not a compliance issue. Among our concerns with the MAG is the apparent need for PGE to track QF events that interfere with power production rather than rely on actual production to determine performance.

2. Commercial Start-up Delay

Staff recommends with respect to QF start-up delays to:

- *Require the utilities to modify their standard contracts to exclude delay of commercial operation as an event of default, including as a cause of termination or related damages, if the utility determines at the time of contract execution that it will be resource-sufficient as of the QF on-line date specified in the contract.*

Staff's recommendation shifts risks from the QF to utility customers. We recommend that the Commission reinforce the principle that utility customers should not be harmed by the failures of QFs to meet their own performance requirements. In this specific Staff recommendation, the proposed exclusion applies if <u>at the time the contract is entered into</u>, the utility is resource sufficient as of the original specified online date. This means that the actual power supply conditions at the time of the default are ignored. A prudent utility will seek to balance its loads and resources as it nears time of delivery of power to its load. In other words it will have bought and/or sold power to reach load/resource balance. If a counted on resource does not show up, the utility must take actions to replace it.

The potential harm to ratepayers is the cost of replacement power at the time the QF does not produce power. Resource sufficiency or deficiency at the time the contract is signed is not relevant for failure to meet the Commercial Operation Date. A reasonable and balanced approach is that contained in our standard contract, which establish damages relative to the actual costs of replacement power.

3. Motive Force Availability for Testing

Staff proposes to:

- *Require the utilities to modify the testing requirement for achieving commercial operation to take into account availability of motive force.*

Our standard contract does not restrict the QF in any way with respect to the number of times it may try to demonstrate it is commercially operable. If motive force is unavailable, the QF may reset the testing. This does not, however, extend the commercial online date.

4. Reciprocal Default Terms

Staff asks the Commission to:

- *Direct PGE to provide for reciprocal default terms in its standard contract.*

We will modify the standard contract in Section 10 to reflect reciprocal default terms.

5. Payment Schedule for Default Damages

The Staff recommendation states:

- *Require PGE to modify its standard contract to provide a payment schedule for QF default damages that takes into account sufficient monies to provide for continued QF operations and debt payment, when future utility payments are temporarily reduced as a penalty for under-delivery.*

We recommend that the Commission not adopt this proposal to mandate that PGE automatically adjust its payments to QFs if a QF does not meet its annual minimum delivery. This recommendation effectively requires that we provide interim financing to QFs. We prefer that the Commission recognize that we have the ability to work with the QF as necessary on a case specific basis. Staff's recommendation does not appear to consider the already limited ability to recover replacement power costs since any cost recovery is restricted by the amount of power under-delivery compared to the Minimum Net Output which the QF will have much flexibility in setting. In the standard contract, fixed prices are simply reduced to the price of the avoided cost off-peak price until the proxy for replacement power costs (the contract's Lost Energy Value) is recouped. The avoided cost pricing principle embedded in this provision recognizes that the QF's under-delivery means capacity value is not received by the utility.

If the Commission determines that we should implement the Staff recommendation, we request guidance with respect to the conditions to be applied to the financing arrangement including interest rates (market or other) and maximum amounts to finance (for example, are provisions in the Idaho Power contract appropriate for PGE?).

In lieu of PGE restructuring the Lost Energy Value payment schedule, the QF should be able to arrange for additional short-term financing to accommodate the assumed temporary nature of the output shortfall. Again, we do not want to be a lender or indirectly act as the lender's recourse for QF financial issues.

Q. Please respond to Staff recommendations regarding damages.

A. Staff makes three recommendations regarding potential damages that may be recovered from a QF resulting from QF defaults. We address each proposal individually.

1. 24 Month Limit to Damages Due to Contract Termination

Staff proposes specific formulas be added to the standard contract:

- *Direct PGE and Idaho power to specify that if the standard contract is terminated due to the QF's default, the QF must pay the positive difference, if any, obtained by subtracting the contract price from the projected forward market prices for 24 months beginning with the date of contract termination, for the minimum annual delivery amount specified in the contract.*

We are not opposed to this recommendation to add a provision to establish a specific amount of damages due for a default involving contract termination.

2. Remove Exception for Resource Sufficiency

Staff further seeks to:

- *Require PGE to remove from its standard contract the exception for being resource-sufficient for applying damages for under-delivery*

We agree with Staff that the provision in Section 1.11 of our standard contract is inconsistent with Order No. 05-584 and the principle of recovery of replacement power costs for QF under-delivery (relative to Minimum Net Output) and will remove that provision.

3. Establish Default Price Cap of 110% a Forward Market Price

Staff proposes a methodology to cap potential damages with the following recommendation:

- *Establish a cap for the standard contracts for default losses that can be recouped pursuant to future QF contract payment reductions based on 110% of the utility's forward market prices at the time of contract execution, on average, over the term of the contract. The cap would result in a cost per megawatt-hour against which recoupment of replacement power costs would be limited for the period of default.*

PGE does not support this recommendation to cap replacement power costs. This proposal does not maintain consistency between a default causing under-delivery and the cost for recovery of replacement power during the default period. Because our standard contract only compares deficiencies in deliveries to the Minimum Net Output set by QFs we believe it is utility customers that are required to carry the risk of QF performance deficiencies. The Commission should maintain the principle that the utility should seek recovery of actual damages, not partial damages.

Staff states that the cap is necessary because it provides transparency and is verifiable. (Staff/1, 1000/53). We assume that this means it gives QFs certainty about potential default risks. However, the recommendation ignores the lack of equity that accrues to the utility and customers. The QF retains the ability to receive full avoided cost pricing for any and all delivery amounts as long as the Minimum Net Output is met. With the proposed cap, the QF will have minimized its risks for both deliveries and non-delivery of power. This is not a balanced result because the utility and customers are confronted with the actual costs of replacement power. The utility and customers are asked to assume that the expected power delivery is the Minimum Net Output, but the actual QF power deliveries are expected to be significantly greater. This proposal creates an artificial remedy that may provide certainty for QF financing but is not equitable to utilities and their customers.

Q. How does PGE respond to Staff's other proposed contract changes?

A. Staff requests several other changes or additions to the contract, including that the Commission:

- *Order PGE to modify Section 3.1.5 of its standard contract to provide an exception for statutory liens.*

While we do not believe that the lack of the exception in the contract is likely to cause harm to a QF, we can add language to exempt statutory liens.

Q. Does PGE agree with Staff's proposal regarding insurance (Issue 9.A)?

A. No. Staff's position is that any insurance company licensed to do business in Oregon is adequate for QF coverage. We believe our requirement for insurance from companies rated by A.M. Best as single A or better is a reasonable and moderate way to reduce potential exposure of PGE customers. This simply requires the QF to acquire insurance from carriers that are in the middle of what A. M. Best classifies as Secure.

Q. Should utilities be required to add detailed procedures in the tariff as proposed by Staff?

A. Staff in testimony at Staff/1, 1000/58 through 62 describes a number of additional details to be added to the tariff rate schedules such as contract negotiation timelines and a list of project information. We concur that a timeline as outlined by Staff is reasonable for the standard contract. We think it will help address issues in the future when avoided cost prices change and contracts are not completed.

We consider the proposed requirement to add specific project information to the rate schedule repetitive, potentially confusing and duplicative of information readily ascertained in the standard contract which is a part of our Rate Schedule 201. QFs should carefully review the contract prior to submitting information for a contract. Understanding the requirements in the context of the contract is a reasonable requirement of QFs.

Q. Does PGE agree with the Staff's proposal regarding the treatment of additional generation when a QF increases output?

A. Staff proposes that the Commission:

> *Direct the utilities to amend their standard contracts to treat additional generation resulting from efficiency improvements or necessary equipment replacement as follows:*

> a. *The QF will continue to receive the avoided cost rates in place as of the effective date of the current agreement for generating output up to the original nameplate rating specified in the agreement. Payments for generation resulting from any additional capacity installed after the effective date will be based on avoided cost rates as of the date of the improvement or equipment replacement. The contract will be amended at that time to reflect changes in operation or equipment.*
>
> b. *If the total new capacity rating exceeds 10 MW, the QF and the utility will negotiate a new non-standard contract based on avoided cost rates, terms and conditions at the time of the improvement.*

We agree with the Staff proposal that if the QF's nameplate capacity changes and exceeds 10 MW, the QF must enter into a new nonstandard contract.

Also, we agree that additional output increases resulting from changes in the operating characteristics or capacity of the QF project are appropriately valued at the then current avoided costs. There are some challenges in establishing the exact mechanisms to determine the portion of output applicable to the different avoided costs. For transparency in the standard contract, a simple prorated formula to split usage into the appropriate avoided cost prices is reasonable. For example, if the QF increases the nameplate capacity by 10%, any output from the QF will be split 10% to the new pricing and 90% to the existing pricing. Other terms such as Minimum Net Output may also be affected.

III. Avoided Costs

A. Resource Sufficiency Period

Q. Should the Commission require that PGE update its resource sufficiency analysis as proposed by Staff?

A. We do not believe an update to a load-resource balance is necessary for this avoided cost study. Our avoided cost study is consistent with the Commission's order and resulted in a resource sufficiency period ending in less than 3 years (2009 is the "deficiency" year for the avoided cost study). We presented an updated load-resource balance that supported the 2009 date for using the proxy plant in computing avoided costs.

A simple review of the timing for our resource sufficiency period supports the 2009 date for the end of the resource sufficiency period from an economic avoided cost perspective. From an avoidable cost standpoint, costs of a CCCT are not avoidable in the near-term. The CCCT cannot be planned, constructed or used to avoid costs in the near term. Other economic supply options are available and thus avoidable. The avoidable costs (that is costs saved as a result of supply provided by the QF) in the sufficiency period is the cost of market-based purchases. Beginning in 2009 our avoided costs are based on the costs of a CCCT and reflect the assumption that there is an avoidable long-term resource addition (the fixed and variable costs of a CCCT) in 2009. Notwithstanding the 2009 "deficiency" date PGE does not currently have an avoidable new plant addition at that date. The 2009 date to start using the CCCT costs to set avoided costs is a balanced way to reflect the economic supply options that are avoidable in the near term (market Purchases) and avoidable costs based on longer-term resource commitments (the costs of a CCCT). Both

QFs and utility customers should find our resource sufficiency period to be reasonable economic representation of avoidable costs.

We believe that our resource sufficiency period used in our compliance filing is reasonable and does not require updates.

Q. How do you propose to determine a resource sufficiency period for future avoided cost filings?

A. We recommend that the load-resource balance be based on the utility's applicable integrated resource plan with any necessary updates to reflect material changes in loads or resources. The Commission should continue to require that avoided costs reflect power supply costs that are avoidable because of QF projects. This will yield QF pricing that mirrors the avoidable costs of the utility at the time a QF contract is entered into.

Staff proposes a number of adjustments to PGE's load-resource projection to determine the resource sufficiency period. (Staff/1200, Galbraith/9 through 12) We believe that Staff's proposal diverts attention from the central purpose of an avoided cost determination, which is to determine avoided costs. Avoided costs should reflect the economic supply options representative of the utility's supply position and planned supply actions. For PGE our supply portfolio includes future additions such as Port Westward (which is not avoidable) and power market purchases to meet loads economically. A single strict application of a load-resource formulation may well miss the economic resource options. This would be harmful to customers.

B. Natural Gas Price Forecast

Q. Who provided PGE's long-range natural gas forecast?

A. Cambridge Economic Research Associates ("CERA") provided the basis for the forecast used in PGE's compliance filing. According to Staff, "The firm is well-known for its work in the oil and gas industries. It is safe to assume that they have put a great deal of thought and work into their forecast product." (Staff/1100 Chriss/10 Lines 8-10).

Q. Several parties questioned PGE's natural gas forecast. Are the criticisms valid?

A. No. Order No. 05-584 allows discretion for utilities to use their own forecasts. Our natural gas price forecast is a credible forecast supplied by CERA, an independent third party. Parties such as ODOE and Sherman County pointed to recent natural gas price spikes, such as those that have occurred since Hurricanes Katrina and Rita, and suggest PGE's forecasts should now be adjusted upward. These criticisms should be discounted for several reasons. First, PGE's compliance filing was made in July, before most, if not all, of the short-term market shocks. Second, and more importantly, these market shocks should not be considered to be indicative of future price levels. Staff realizes this as well, "A good example is the price trough that occurred after the high prices of 2000-2001, when nominal prices dropped from upwards of $4.00/MMBtu to almost $1.00/MMBtu" (Staff/1100 Chriss/21-22 Line 23,1-2). PGE's avoided costs do not rely on a gas forecast until 2009, after our resource sufficiency period. Finally, it should be noted that our forecast is a long-term measure going forward twenty years.

Q. Does PGE have concerns with Staff's analysis and conclusions regarding PGE's natural gas forecast?

A. Yes. Our review of Staff's analysis does not support Staff's conclusion that "PGE's natural gas price forecast is not reasonable" (Staff/1100, Chriss/15 Lines 12-13). We prepared additional analysis, using Staff's modeling approach to test Staff's supposition. The results discussed below yield a conclusion that our forecast is reasonable. In particular we found that Staff's analysis needed to:

- Recognize the serious limitations of relying on a single spot market daily price for comparison to a 20 year forecast.
- Recognize that the trading hub data actually used a proxy (Kingsgate) rather than AECO;
- Continue the analysis for the entire length of PGE's forecast as was done with PacifiCorp;
- Use the forecast presented by PGE as opposed to raw CERA data.

Q. Please explain the concern over Staff's choice of trading hubs.

A. PGE requested the Intercontinental Exchange ("ICE") data for the AECO, Sumas and OPAL hubs as used for Staff's analysis in PGE DR 008. Staff provided data for Kingsgate, Sumas, and OPAL. Their response noted that as AECO does not trade on ICE, and thus Kingsgate was used as a proxy.

There are several issues with using Kingsgate as a proxy for AECO. First, the Kingsgate hub is not a liquid hub. On the March 30 trading date (for delivery on March 31, 2005) used by Staff there were a total of six trades. Liquidity is necessary to demonstrate the robustness of trades at an individual hub. Additionally, as AECO prices are generally lower than those for Kingsgate, Staff inadvertently inflated the price differential between its own forecasted averaged real price and PGE's averaged real price. For example, AECO prices were approximately $0.39 lower than prices at Kingsgate for gas delivered on March 31, 2005, the date Staff used for its analysis.

Our major concern is Staff's choice of a single trading date gas price as the basis for 20 years of future prices. Volatility has increased in the gas market. Staff's methodology does not provide a representative forecast for comparison and is not grounded in sound economic analysis. Using a single date arbitrarily skews the results of Staff's analysis. The table below demonstrates that Staff's data points yield high costs, based on the date chosen. It is also clear that Staff's choice of trading hubs, Kingsgate/Sumas instead of AECO/Sumas would lead to higher average prices.

Average Price Comparisons

Delivery Date	Kingsgate/Sumas per MMBtu (1)	AECO/Sumas per MMBtu (2)	Hub Difference (1)-(2)
January 31, 2005*	5.45	5.03	0.42
March 31, 2005**	6.52	6.13	0.39
May 31, 2005	5.30	5.02	0.28
July 6, 2005	6.37	5.96	0.40

***Kingsgate data not available for 01/31/05 – used Sumas only**
**** Date used in Staff's analysis**

Q. What are your concerns with Staff's modeling approach?

A. One concern is the fact that Staff did not use PGE's forecast for the entire time frame. Staff used CERA's raw data, as opposed to the actual forecast presented by PGE. Our forecast used the CERA data on an annual basis, and then shaped it for monthly pricing based on NYMEX values. We then extended the forecast, based on inflation, for the entire twenty-year period as required in Commission Order No. 05-584. This forecast shape matches closely with the PacifiCorp forecast that Staff deemed reasonable.

Staff did not find PGE's gas forecast reasonable because its analysis forecasted PGE's average real gas price to be lower than its own forecasted real price (Staff/1100 Chriss/15 Lines 8-11). But the following table illustrates that if Staff would have used the full 20 year forecast as filed in PGE's compliance filing as well as different delivery dates as the basis for its own analysis, PGE's average real gas price would potentially be higher. The table illustrates price differentials between PGE's average real gas price and Staff's forecasted real price. Positive numbers indicate Staff's forecast exceeds PGE's forecast. The opposite is true with negative numbers.

Gas Price Differentials Comparison
Staff Methodology Trended Price Level vs PGE Forecast

End Year	**2020**	**2020 ****	**2025 *****
Hubs Used	**Kingsgate/Sumas**	**AECO/Sumas**	**AECO/Sumas**
Delivery Date	**Price Differential per MMBtu**	**Price Differential per MMBtu**	**Price Differential per MMBtu**
January 31, 2005	0.19	-0.12	-0.56
March 31, 2005*	0.98	0.69	0.20
May 31, 2005	0.08	-0.13	-0.58
July 6, 2005	0.87	0.57	0.07

*** Date used in Staff's analysis**
**** Corrected for hub choice**
***** corrected for hub choice and forecast period**

Several conclusions can be drawn from the table. First, these differentials are quite varied, depending on the delivery date used for the initial analysis. Staff relied only on the March 31, 2005, date which is highlighted in the table. Second, the choice of trading hubs is important. The differential is lower when AECO/Sumas hubs are used, as opposed to Kingsgate/Sumas for the shortened analysis (through 2020). Finally, the time frame used is important. When PGE's full forecast is used (through 2025) our average price is higher relative to Staff's results. For these reasons, Staff's conclusion that our gas forecast is not reasonable is not supportable.

Q. Have you looked at other publicly available natural gas forecasts?

A. Yes. A comparison of the Northwest Power and Conservation Council's (NWPCC) forecast[1], with PGE's forecast shows that it is reasonable. The table below shows PGE's forecasts compared to the NWPCC forecasts. PGE's levelized forecasts exceed those of the NWPCC for the entire 20-year time frame of our compliance filing. The forecasts are also higher for the applicable time period in which they are used for calculating avoided costs (2009-2025).

PGE versus Northwest Power and Conservation Council Forecasts

	Sumas Nominal (PGE)	AECO Nominal (PGE)	Sumas Nominal (NWPCC)	AECO Nominal (NWPCC)
20-yr Levelized (2005$)	$4.71	$4.67	$4.40	$4.28
17-yr Lev. (2009-2025;2005$)	$4.28	$4.29	$4.19	$4.06

Q. Do you have any recommendations for the Commission regarding PGE's natural gas forecast?

A. As CERA is an independent, third-party provider of forecasts, and there has been no credible evidence presented to discredit its forecast, we recommend that the Commission accept PGE's natural gas forecast as presented in our compliance filing.

Q. ODOE proposes requiring the use of Henry Hub NYMEX values which are escalated to be used for forecasting long-term natural gas prices. Do you believe this is appropriate?

A. We do not believe the proposal represents an improvement to our long-term natural gas forecast. (ODOE/ Exhibit No.7, Carver/ Page 5 of 7, Lines 12-14). ODOE's proposal

[1]Medium Case of the Fifth Northwest Electric Power and Conservation Plan, May 2005

injects uncertainty and volatility into the long-term gas forecast process by escalating a single day's NYMEX forwards to develop a long-term twenty year price forecast. The NYMEX forwards are appropriate for establishing the near-term prices, and an econometric forecast for long-term forecasts and planning is reasonable. For our avoided costs, we must develop long-term resource plans including natural gas forecasts. We believe our forecasts are appropriate for this purpose.

Q. Is there an option for QFs that disagree with PGE's forecast?

A. Yes. QFs that believe natural gas prices will be higher can use PGE's Index Gas Price option for purchases from QFs. This pricing option sets rates to the fully indexed price of natural gas. If gas prices escalate the way ODOE states they will, those QFs will earn more from their generation.