



August 13, 2012

Via Electronic Filing and USPS

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol Street NE #215
PO Box 2148
Salem, OR 97308-2148

Re: OR Docket No. UE-246 - Sierra Club Surrebuttal Testimony of William Steinhurst

Please find enclosed the original and five (5) copies of Sierra Club's Surrebuttal Testimony of William Steinhurst in the above-referenced docket.

Please let me know if you require any additional documents or if you have any questions. Thank you.

Sincerely,

/s/ Derek Nelson

Derek Nelson
Program Assistant
Sierra Club Environmental Law Program
85 Second Street, 2nd Floor
San Francisco, CA 94105
(415) 977-5595
derek.nelson@sierraclub.org

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of August, 2012, I caused to be served the foregoing Sierra Club Surrebuttal Testimony of William Steinhurst on all party representatives on the official service list for this proceeding via electronic mail.

William Ganong

514 Walnut Ave.
Klamath Falls, OR 97601
wganong@aol.com

Boehm Kurtz & Lowry

Kurt J. Boehm
36 E. Seventh St., Ste. 1510
Cincinnati, OH 45202
kboehm@bkllawfirm.com

Boehm Kurtz & Lowry

Jody Kyler
215 South State St., Ste. 1510
Cincinnati, OH 45202
jkyler@bkllawfirm.com

Citizens' Utility Board Of Oregon

OPUC Dockets
Robert Jenks
G. Catriona McCracken
610 SW Broadway, Ste. 400
Portland, OR 97205
dockets@oregoncub.org
bob@oregoncub.org
catriona@oregoncub.org

Davison Van Cleve

Irion A Sanger
Melinda J. Davison
333 SW Taylor, Ste. 400
Portland, OR 97204
mail@dvclaw.com
ias@dvclaw.com
mjd@dvclaw.com

Energy Strategies LLC

Kevin Higgins
215 State St., Ste. 200
Salt Lake City, UT 84111-2322
khiggins@energystrat.com

Esler Stephens & Buckley

John W. Stephens
888 SW Fifth Ave., Ste. 700
Portland, OR 97204-2021
stephens@eslerstephens.com
mec@eslerstephens.com

Klamath Water and Power Agency

Hollie Cannon
735 Commercial St., Ste. 4000
Klamath Falls, OR 97601
hollie.cannon@kwapa.org

NW Energy Coalition

Wendy Gerlitz
1205 SE Flavel
Portland, OR 97202
wendy@nwenergy.org

PacifiCorp d/b/a Pacific Power

Oregon Dockets
R. Bryce Dalley
825 NE Multnomah St., Ste. 2000
Portland, OR 97232-2149
oregondockets@pacificcorp.com
bryce.dalley@pacificcorp.com

PacifiCorp d/b/a Pacific Power

Sarah Wallace
825 NE Multnomah St., Ste. 1800
Portland, OR 97232-2149
sarah.wallace@pacificorp.com

Portland General Electric

Douglas C. Tingey
121 SW Salmon St., 1WTC13
Portland, OR 97204
doug.tingey@pgn.com

PUC Staff – Department of Justice

Michael T. Weirich
Business Activities Section
1162 Court St., NE
Salem, OR 97301-4096
michael.weirich@doj.state.or.us

Renewable Northwest Project

Megan Walseth Decker
Jimmy Lindsay
421 SW 6th Ave., #1125
Portland, OR 97204-1629
megan@rnp.org
jimmy@rnp.org

Parks Law Offices LLC

Kevin Parks
310 SW 4th Ave., Ste. 806
Portland, OR 97204
kevin@parks-law-offices.com

Portland General Electric

Randy Dahlgren
121 SW Salmon St., 1WTC0702
Portland, OR 97204
pge.opuc.filings@pgn.com

Public Utility Commission of Oregon

Deborah Garcia
PO Box 2148
Salem, OR 97308-2148
deborah.garcia@state.or.us

Regulatory & Cogeneration Services Inc.

Donald W. Schoenbeck
900 Washington St., Ste. 780
Vancouver, WA 98660-3455
dws@r-c-s-inc.com

Robertson-Bryan, Inc.

Stuart Robertson
9888 Kent St.
Elk Grove, CA 95624
stuart@robertson-bryan.com

PUC Staff - Department of Justice

Johanna Riemenschneider
Business Activities Section
1162 Court St. NE
Salem, OR 97301-4796
mailto:johanna.riemenschneider@doj.state.or.us

Dated this 13th day of August, 2012 at San Francisco, CA.

/s/ Derek Nelson

Derek Nelson
Program Assistant
Sierra Club
85 Second St., 2nd Fl.
San Francisco, CA 94105
(415) 977-5595
derek.nelson@sierraclub.org

STATE OF OREGON

Public Utility Commission

In the Matter of PacifiCorp's Filing of Revised
Tariff Schedules for Electric Service in Oregon

Docket No. UE 246

**Surrebutal Testimony of
William Steinhurst, Ph.D.**

**On Behalf of
Sierra Club**

August 13, 2012

Table of Contents

1. INTRODUCTION AND QUALIFICATIONS	1
2. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	1
3. PRUDENCE AND THE COMPANY'S PROPOSAL	3
4. RECOMMENDATIONS	6

1 **1. INTRODUCTION**

2 **Q. Please state your name and occupation.**

3 A. My name is William Steinhurst, and I am a Senior Consultant with Synapse
4 Energy Economics (Synapse). My business address is 32 Main Street, #394,
5 Montpelier, Vermont 05602.

6 **Q. Are you the same William Steinhurst who prefiled Direct Testimony in this**
7 **proceeding?**

8 A. Yes, I am.

9 **Q. On whose behalf are you submitting this surrebutal testimony?**

10 A. I am testifying on behalf of the Sierra Club.

11 **Q. What is the purpose of your testimony?**

12 A. The purpose of my testimony is to respond to certain points raised in the Rebuttal
13 Testimony of Pacificorp witness Woolums.

14 **2. FLEET REPLACEMENT ISSUES**

15 **Q. What was witness Woolums' rebuttal testimony regarding fleet replacement?**

16 A. On page 5, lines 4-8, Ms. Woolums states:

1 **Q. Can the Company prudently base its investment decisions on a**
2 **stakeholder policy-driven transition away from coal-fueled**
3 **generation?**

4 A. No. The Company cannot prudently and effectively re-invent its entire
5 fleet based upon certain stakeholders' environmental policies and
6 goals. Such significant policy decisions are properly made by
7 legislative authorities.

8 On page 37, line 23, Ms. Woolums states, in reference to PGE's Boardman plant:

9 A. It is far easier for PGE to replace less than 400 megawatts of coal-
10 fueled generation from one plant located in the only state that it
11 serves than it is for the Company to replace more than 15 times
12 that amount of generation from 26 plants.

13 **Q. Are those rebuttal points directed at Sierra Club direct testimony?**

14 A. The latter point appears to be directed at CUB testimony, but it is related to the
15 former point which could, from its context, be directed at either CUB or Sierra
16 Club.

17 **Q. In any event, how do you respond to those points?**

18 A. First, I am not aware of any reason why the Company may not choose to "re-
19 invent its entire fleet" for whatever reasons its management chooses, subject to
20 the supervision of the various Commissions by which it is regulated, of course. It
21 is not clear to me whether or why any given state's legislature would or could
22 reserve to itself management decisions regarding generation plants.

1 Second, and more to the point, neither Sierra Club witness Fisher nor myself have
2 made any such suggestion. Our conclusion is that the Company's decision to
3 invest in environmental retrofits of four specific units was imprudent, and that the
4 associated costs should not be recovered in rates. That is a far cry from
5 "reinvent[ing] its entire fleet."

6 For both of these reasons and to the extent that Ms. Woolums intends to rebut
7 Sierra Club witnesses in the quoted passages, the Commission should not accord
8 the quoted rebuttal any weight.

9 **3. REANALYZING INVESTMENTS**

10 **Q. What was witness Woolums' rebuttal testimony regarding rate making?**

11 A. On page 26, line 22 through page 27, line 20, Ms. Woolums states:

12 **Q. Are there other potential consequences if CUB's interpretation**
13 **of the used and useful standard is adopted?**

14 A. Yes. As demonstrated in Mr. Teply's reply testimony, planning,
15 engineering, and installing emissions control equipment is a
16 lengthy and costly process. If the Company is required to
17 continually re-analyze its investment decisions, or if investments
18 are not considered used and useful until some amorphous final
19 compliance date, then the Company is at significant risk for
20 incurring costs that are not recoverable in rates. This risk is
21 particularly acute in Oregon, where the used and useful standard is

1 strictly interpreted to prevent recovery of costs incurred for
2 projects that are deemed not presently used to serve customers.
3 Examples of such costs at risk for non-recovery include the costs
4 associated with studying alternatives that are not ultimately
5 pursued and the prudent abandonment of an on-going project after
6 another alternative proves to be more cost effective. This strict
7 Oregon interpretation can create a disincentive to study alternatives
8 and to abandon projects once significant costs are incurred.

9 CUB and Sierra Club are attempting to use the existing regulatory
10 framework in Oregon to promote a particular policy goal—
11 reduction/elimination of coal-fueled generation prior to the end of
12 current ratemaking depreciation lives. But Oregon’s existing
13 regulatory framework does not support continued reanalysis and
14 abandonment of projects that are in process. The appropriate forum
15 to pursue CUB and Sierra Club’s policy goal is the legislature, not
16 this Commission. At the very least, a change to Oregon’s used and
17 useful statute, 18 ORS 757.355, is necessary to avoid creating a
18 disincentive for a utility to act in the customers’ long-term interests
19 by converting coal-fired plants to natural gas where economic.

20

21 **Q. Are those rebuttal points directed at Sierra Club direct testimony?**

22 A. The question and answer are confusing on this point. Sierra Club witnesses have
23 not raised used and useful issues relative to the Naughton or Hunter units in this

1 proceeding, yet the Company charges both CUB and Sierra Club with doing so.
2 Moreover, the answer bundles together the questions of treatment of non-used and
3 useful costs, “prudent abandonment of an on-going project,” and demanding
4 “continued reanalysis and abandonment of projects that are in process.” In any
5 event, the plain language of the answer implicates Sierra Club in its charges.

6 **Q. How, then, do you respond to that question and answer?**

7 A. First, Sierra Club witness Fisher and I testify about the prudence of certain
8 specific Company decisions made at certain specific points in time. Dr. Fisher’s
9 testimony sets out those specific decisions, the supporting analyses and the dates
10 on which those analyses were or should have been done. While I do believe that
11 the Company and any public utility has an obligation to monitor its proposed and
12 ongoing investments and correctly analyze their economics as it does so, Sierra
13 Club witnesses have spoken only to specific and logical points in time when it is
14 inarguable that the Company should review its commitments and act accordingly
15 as part of its fundamental duty to provide service at a just and reasonable cost.

16 Second, my testimony and recommendations concerning prudence and
17 disallowances are fully in keeping with traditional rate making concerning
18 prudence and the rebuttal is wholly irrelevant to that point.

19 Third, my testimony and that of Dr. Fisher do not relate to either CUB’s or Sierra
20 Club’s policy positions outside of this proceeding. Our analysis, conclusions and
21 recommendations address solely matters of sound utility management decision
22 making and traditional prudence reviews. Any suggestion to the contrary is
23 wrong.

1 **4. TREATMENT OF SUNK COSTS**

2 **Q. What was witness Woolums' rebuttal testimony regarding treatment of sunk**
3 **costs?**

4 A. On page 35, lines 16-20, Ms. Woolums states:

5 **Q. Why is the depreciable life of a facility one of the factors**
6 **considered when the Company assesses its compliance**
7 **strategy?**

8 A. There are significant rate and regulatory implications to early closure of
9 a plant that is not fully depreciated. Effectively, it leaves the
10 Company and its customers exposed to unrecovered or stranded
11 costs.

12 **Q. What is your understanding of where depreciable life is relevant in a cost-**
13 **benefit decision?**

14 A. I understand that certain environmental regulations require consideration of the
15 cost effectiveness of retrofits over a unit's depreciable life but solely for the
16 purpose of deciding whether that retrofit is or is not required by that regulation.

17 **Q. Is depreciable life relevant to least-cost planning decisions and the provision**
18 **of service at least cost?**

19 A. No, that would be economic nonsense. There may be "significant rate and
20 regulatory implications to early closure of a plant that is not fully depreciated,"

1 but those implications have nothing to do with whether closure is the least-cost
2 resource option.

3 I do not agree that, in the event of a coal unit retirement, the unamortized values
4 would be recoverable in rates under traditional ratemaking. However, from a
5 least-cost planning perspective it is irrelevant whether the unamortized costs of
6 those plants are recoverable in rates. That is because, whether or not those costs
7 would be recoverable from ratepayers, they would neither be incurred nor be
8 avoided by choosing to or not to pursue upgrades that would control emissions
9 that comply with EPA regulations. Rather, those costs are sunk and are
10 completely unaffected by any decision regarding the environmental retrofits.

11 The following example should clarify this point. Assume for the sake of argument
12 that (1) the current, unamortized cost of a coal plant, including the present value
13 of any carrying charges, is \$1 billion, (2) the life cycle cost of retrofitting and
14 operating those plants is \$3 billion, (3) the life cycle cost of retiring those plants
15 and replacing them with NGCC plants is \$2.5 billion, and (4) nothing else in the
16 cost of service will change between those two strategies. Then the cost of service
17 difference (NPVRR) will be:

Strategy	Build Case (Install Environmental Retrofits)	Alternative Case (retire existing plants and replace with NGCC)	Difference
Amortization of existing rate base and carrying costs	\$1 Billion	\$1 Billion	\$0
Capital and operating costs of strategy	\$3 Billion	\$2.5 Billion	\$0.5 Billion
Total	\$4 Billion	\$3.5 Billion	\$0.5 Billion

1 Clearly, whether we assume the existing rate base would, in fact, be recoverable from
2 customers under the Alternative Case, the amount of that existing rate base cancels
3 out and makes no difference in which strategy is least cost.

4 **Q. Does this conclude your surrebuttal testimony?**

5 A. Yes, it does.