

### **Powerex Filing Highlights**

The following provides highlights from the expert testimony of Dr. Richard Tabors of Tabors, Caramanis and Associates, a US energy consulting firm, submitted as part of Powerex's April 25, 2003 filing with the US Federal Energy Regulatory Commission (FERC) with regard to FERC's March 26, 2003 Order on California energy refunds.

1. The alternative pricing formula for natural gas that FERC Staff has proposed be used in the calculation of refunds in FERC's March 26<sup>th</sup>, 2003 Order is not supported by the evidence and not justified. FERC has accepted FERC Staff's recommendation without adequate review and without any opportunity for comment or challenge of method or fact.
2. FERC Staff made a set of critical assumptions that are inconsistent with the facts. They also failed to recognize and comment upon critical evidence provided to them in submissions made in respect of their draft report in August 2002. Staff is proposing a substitute price for natural gas that, by their own acknowledgment, does not reflect its true market value.
3. FERC Staff acknowledges that scarcity of natural gas pipeline capacity had a significant impact on the price of natural gas in California during the Refund Period yet it made no effort to measure that impact. Moreover, FERC Staff has ignored critical information and available methodologies that could have been used to estimate that impact.
4. FERC Staff has focused its entire effort on trying to identify alleged dysfunctions in the natural gas market, and to measure their impact. Their conclusions are shown to be unsupportable.
5. FERC Staff has proposed an inequitable solution for recognizing natural gas scarcity costs. By giving gas-fired generators an additional cost allowance and not providing a parallel cost recovery structure to other suppliers, FERC Staff is proposing that the FERC approve blatant and undue price discrimination. Under this approach, suppliers selling exactly the same product at the same time into the same market will receive different prices. In addition, this will send a clear economic signal to generators, traders and potential investors in infrastructure that the risk of participating in electric and gas wholesale markets can only be offset by significant premiums on expected return. Ironically, FERC Staff and the FERC appear also not to recognize the negative impact of their decisions on new investment in price responsive demand management.
6. Powerex provides two alternative methods for calculating a modified gas price in the refund proceeding. These alternatives are consistent with the facts and the Commission's policy objectives.