BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 191

In the Matter of PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY PacifiCorp's 2008 Transition Adjustment Mechanism.	STAFF'S OPENING BRIEF

INTRODUCTION

Consistent with the briefing schedule in this proceeding, the Public Utility Commission of Oregon Staff (Staff) submits its opening brief.

In Staff's direct testimony, Staff witness, Mr. Wordley proposed three adjustments to PacifiCorp's power costs filing. PacifiCorp's rebuttal testimony accepted two of Mr. Wordley's proposed adjustments, but disagreed with his adjustment for the margin from market transactions not included in PacifiCorp's GRID power cost model or accounted for in customer rates ("margin adjustment").

In addition to Staff's margin adjustment, Staff also agrees with and supports the Industrial Customers of the Northwest Utilities (ICNU) adjustment to recognize the correct amount of power costs in current rates.

DISCUSSION

I. <u>Staff's Margin Adjustment</u>

There are advantageous characteristics of PacifiCorp's system that result in PacifiCorp consistently realizing a positive margin on additional sales and purchases not included in GRID, PacifiCorp's power cost model. These characteristics are described in Staff's direct testimony, but generally are the wide-reaching nature of PacifiCorp's six-state power system, allowing access to a number of regional power markets and some 200 different power-trading entities, according to PacifiCorp's 2006 FERC Form 1 annual report. Because PacifiCorp's system is

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paid for by customers, customers should receive the benefit, or at least a large percentage of the benefit, consistently realized as a result of the advantages of the customer-purchased system. *See* Staff/100, Wordley/5, line 21 through Staff/100, Wordley/6, line 6. Although the power system is paid for by customers, Staff recognized that the Commission may desire to recognize and provide an incentive to PacifiCorp to continue to realize the positive margins from the benefits of PacifiCorp's system by sharing a portion of the margin adjustment with PacifiCorp shareholders. *See* Staff/200, Wordley/6, lines 13-17.

The purpose of PacifiCorp's GRID power cost model is to simulate the actual operation of PacifiCorp's power supply system. However, GRID systematically fails to capture one important dimension of actual system operations. GRID fails to capture nearly 75 percent of all short-term sales and purchase transactions. *See* Staff/201, Wordley/3. The magnitude of this omission from the GRID model, and from customers' rates, is very significant. The omission averaged more than $16 million of profit margin on sales and purchase transactions as allocated to Oregon in the three years of available relevant history. *See* Staff/100, Wordley/6 – 7. Staff's proposed margin adjustment represents the net dollar margin of this omitted sales and purchase activity.

As defined by Staff in this docket, as well as in UE 116, UE 134, UE 147, UE 170, and UE 179, margin is the difference between the average sales and the average purchase price times the average volume of omitted sales and purchase transactions. The volume of omitted sales and purchases is the difference in the MWh volume included in GRID, and the actual MWh volume that occurs in the actual operation of the system. This definition is reasonable because the volume of omitted sales nearly equals the volume of omitted purchases (within 2 percent). *See* Staff/201, Wordley/3. This means that the source of supply to make the omitted sales was the omitted purchases, thus the margin adjustment to account for the omitted sales and purchase transactions is simply (average sales $/MWh-average purchase $/MWh)*(sales MWh + purchase MWh)/2.

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In response to PacifiCorp's rebuttal testimony, Staff filed supplemental testimony. In its supplemental testimony, Staff recommended an updated -$16.2 million dollar adjustment to PacifiCorp's Oregon power costs to account for the systematic positive margin received from wholesale transactions not included in the GRID modeled power costs. *See* Staff/200, Wordley/1, lines 10-16.

In response to PacifiCorp's rebuttal testimony that the Commission's Order No. 07-015 in UE 180 is applicable to this proceeding (PPL/204, Widmer/11-15), Staff demonstrated that it has never proposed a margin adjustment for Portland General Electric Company (PGE). *See* Staff/200, Wordley/1 through Staff/200 line 22, Wordley/2 line 1. In fact, Staff demonstrates that PacifiCorp's power system has the capability to systematically produce positive margins on the additional wholesale transactions not captured by GRID, while PGE's power system and respective power cost model (MONET) does not have such a capability. *See* Staff/201, Wordley/1; Staff/200, Wordley/2, lines 1-7.

In response to PacifiCorp's rebuttal testimony that diverts attention to the irrelevant total wholesale margin data and misrepresents Staff's margin adjustment (PPL/204, Widmer/18), Staff demonstrated that while the total actual wholesale margin may be negative, the relevant margin (Staff's margin adjustment) on the "additional" MWhs of sales and purchases not included in the GRID modeled power costs, is positive. *See* Staff/200, Wordley/2, line 14 through Staff/200, Wordley/3, line 5; Staff/201, Wordley/2.

Staff distinguishes between power cost forecast errors and systematic power cost forecast errors. PacifiCorp details a long list of various power cost forecast errors it claims should be accounted for in determining any margin adjustment. For example, forecast versus actual differences for such things as planned power plant maintenance and resource availability, are random. This means that in some years more planned maintenance occurs in actual operation than was forecast and in some years less planned maintenance than forecast occurs. In some years, more resources are available in actual, versus forecast operation, and vice versa. These

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are random differences due to the unpredictability of actual system operation and will generally balance over time. *See* TR.[1] at 127, line 18 through 128, line 4.

However, the omitted wholesale sales and purchase error is systematic – it occurs every year. *See* PPL/204, Widmer/16. Staff demonstrates that PacifiCorp always makes a positive margin on the GRID-omitted sales and purchases because of the spread out, diverse, and advantageous characteristics of its power system. *See* Staff/100, Wordley/5-6; Staff/200, Wordley/5. Staff demonstrated the dollar margin benefit to PacifiCorp from the sales and purchase activity not captured by GRID, by evaluating the available and relevant actual power costs results compared to the GRID forecasts in rates. *See* Staff/100, Wordley 6-7.

PacifiCorp's rebuttal testimony suggests that the different levels of resources and different levels of planned maintenance between the GRID filed and actual results and updates of "as filed" GRID cause a mismatch of costs and benefits. *See* PPL/204, Widmer/18-21. Staff has demonstrated that these claims are diversionary "noise," which do not significantly impact the margin on wholesale transaction not included in GRID. *See* Staff/200, Wordley/3, lines 6-17; Staff/201, Wordley/3; TR. at 125, line 14 - 126, line 1; TR. at 126, line 18 – 125. Furthermore, Staff demonstrated the independence of the margin adjustment from any extrinsic value considerations, because extrinsic value comes from undispatched flexible power resources, not from wholesale sales and purchase activity. *See* Staff/200, Wordley/2, lines 8-13; Staff/200, Wordley/3, lines 17-20; Staff/201, Wordley/3.

PacifiCorp is developing a stochastic power cost model. In its rebuttal testimony, PacifiCorp committed to providing the Commission with a report after the completion of this docket. *See* PPL/204, Widmer/7. While stochastic modeling will address the extrinsic value issue Staff has raised in prior PacifiCorp cases, it will not address the problem of omitted sales and purchases that Staff's margin adjustment addresses.

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[1] TR., as used herein, refers to the transcript of proceedings from the August 20, 2007 hearing.

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Because Staff was aware that PacifiCorp was working on the development of stochastic modeling, it did not propose an extrinsic value adjustment in this docket. However, because of the inability of power cost models to capture the volatility of actual operations and, importantly, because PacifiCorp's power cost model does not capture most profit-opportunity based sales and purchase transactions, stochastic modeling will not fix the problem of omitted sales and purchases that Staff's margin adjustment addresses. *See* PPL/204, Widmer/16; Staff/200, Wordley/5, line 20 through Staff/200, Wordley/6, line 12.

While PacifiCorp's sur-surrebuttal presents various calculations, which it asserts to be recalculations using Staff's previous methodology with a mismatch of data (PPL/208, Widmer/1-9; PPL/209, Widmer/1), none of these calculations are relevant to this proceeding. While PacifiCorp continuously calculates and uses margin comparisons based upon **total** actual short-term sales and purchase activity, Staff maintains that its proposed adjustment pertains only to the sales and purchases **not** captured by GRID and only margins calculated on the omitted (from GRID) transactions are the relevant issue.

The omitted transactions are total actual, less what is included in GRID forecast and included in rates. Currently, there are three years of useful data, UE 134, UE 147, and UE 170 test years, where GRID was used to make the forecast of power costs and the actual results for the test period are known. This is the data that Staff employed and PacifiCorp's calculations are only diversions, and irrelevant, to distract from the merits of Staff's adjustment.

In PacifiCorp's sur-surrebuttal testimony, it finally admits the opportunity based for-profit trading that occurs in actual operations. *See* PPL/500, Apperson/1. PacifiCorp's testimony demonstrates that nearly 1000 average megawatts, in 2006, of arbitrage and trading occurred, versus a retail load of approximately 6000 average megawatts. This activity contributes to Staff's proposed margin adjustment. While Staff's margin adjustment does not attempt to distinguish between what PacifiCorp terms its "Arbitrage and Trading Programs" from all sales and purchases not captured by GRID, the relevant evidence in this docket indicates

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that PacifiCorp consistently receives a positive margin from wholesale transactions not included in GRID.

As mentioned earlier, Staff accepts that the realization of these margins takes effort and competent work on the part of PacifiCorp. As a result, the Commission may consider sharing the advantageous benefits of the customer-paid for system by sharing some part of the adjustment with PacifiCorp's shareholders as an incentive for it to continue competent work to realize the benefits resulting from the capability of its diverse and wide-spread power system. Nonetheless, customers should reap most, if not all, the benefits of a customer-purchased system that creates systematic benefits as a result of its advantages.

II. Staff supports and agrees with ICNU's proposed Schedule 200 price increase adjustment to reflect the correct amount of NVPC in current rates.

When PacifiCorp received its $10 million increase in net variable power costs (NVPC) in rates in UE 179 (Order No. 06-564), it reflected an Oregon allocation for the increase in total system NVPC from $796.5 million in UE 170 to $834.4 million in UE 179. However, this did not reflect the $7.5 million decrease from the declining Oregon allocation (from 26.99 percent in UE 170 to 26.09 percent in UE 179). Consequently, current Oregon rates include $225 million of NVPC (26.99 percent of $834.4 million) and the request in UE 191 is for an increase of $22 million in PacifiCorp's rebuttal, not the $29.6 million to $247 million. Therefore, Staff supports and agrees with ICNU's proposed $7.5 million adjustment for NVPC in rates.

CONCLUSION

Staff respectfully requests that the Commission adopt Staff's margin adjustment. If the Commission wishes to provide PacifiCorp an incentive to continue its prudent operation of its advantageous power system, Staff requests the Commission adopt a sharing of Staff's margin adjustment. Staff also respectfully requests that the Commission adopt ICNU's proposed $7.5 million adjustment for NVPC in rates.

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For the foregoing reasons, Staff respectfully requests that the Commission adopt the two adjustments to PacifiCorp's power costs discussed herein.

DATED this 5th day of September 2007.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that on September 5, 2007, I served the foregoing upon all parties of record in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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