



Oregon

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June 19, 2014

Via Electronic Filing

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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**RE: Docket No. UE 287 – In the Matter of PACIFICORP, dba
PACIFIC POWER, 2015 Transition Adjustment Mechanism.**

Enclosed for electronic filing in the above-captioned docket is the Public
Utility Commission Staff's Opening Testimony.

/s/ Kay Barnes

Kay Barnes

Filing on Behalf of Public Utility Commission Staff

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**PUBLIC UTILITY COMMISSION
OF OREGON**

UE 287

STAFF OPENING TESTIMONY OF

JORGE ORDONEZ

**In the Matter of PACIFICORP, dba
PACIFIC POWER,
2015 Transition Adjustment Mechanism.**

June 19, 2014

CASE: UE 287
WITNESS: JORGE ORDONEZ

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Opening Testimony

June 19, 2014

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Jorge Ordonez. I am employed by the Oregon Public Utility
4 Commission (OPUC) as a Senior Financial Economist in the Energy
5 Resources and Planning Section of the Energy Division. My business address
6 is 3930 Fairview Industrial Drive SE, Salem, Oregon 97302-1166.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
8 **EXPERIENCE.**

9 A. My Witness Qualification Statement is found in Exhibit Staff/101.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A. The purpose of my testimony is to review Pacific Power's (Company) 2014
12 Transition Adjustment Mechanism (TAM) for Net Power Costs (NPC) for the
13 2015 calendar year.

14 In conducting the aforementioned review, Staff referred to the Company's initial
15 filing¹ and 18 initial and follow-up data requests (DRs).

16 **Q. HAVE YOU PREPARED AN EXHIBIT FOR THIS DOCKET?**

17 A. Yes, I have prepared Staff Exhibit/101 consisting of one page (Witness
18 Qualification Statement).

19 **SUMMARY RECOMMENDATION**

20 **Q. WHAT ARE YOUR SUMMARY FINDINGS AND RECOMMENDATIONS?A.**

21 Based upon the company's filing and related DR responses, Staff
22 initially had one issue concerning the operation of Unit 3 of the Naughton

¹ See <http://edocs.puc.state.or.us/efdocs/UAA/ue287uaa8327.pdf>.

1 Coal-Fired Generating Plant (Naughton Unit 3). However, at the conclusion
2 of settlement discussions with the Company and the intervening parties, the
3 Company agreed to make a supplemental filing that would resolve Staff's
4 Naughton Unit 3 issue. While Pacific Power's supplemental filing has not
5 been made at the time Staff prepared this testimony, Staff is relying upon
6 the company's promise that it will complete its supplemental filing in the very
7 near future. As such, Staff finds that PacifiCorp's 2015 TAM is reasonable;
8 however, based upon the discussions at the settlement conference, Staff
9 anticipates that one, or more, of the intervening parties may present
10 additional issues in their opening testimony. Staff reserves the opportunity
11 to testify regarding these additional issues in its next round of testimony.

TESTIMONY ORGANIZATION

Q. HOW IS YOUR TESTIMONY ORGANIZED?

14 A. My testimony is organized as follows:

- 15 – Overall Description of Staff's Review
- 16 – Naughton Unit 3

OVERALL DESCRIPTION OF STAFF'S REVIEW

Q. PLEASE SUMMARIZE PACIFICORP'S 2014 TAM FILING.

19 A. On a system basis, the Company's April 1, 2014, filing requested an increase
20 of \$81.2 million in NPC for calendar year 2015 over the NPC in the 2014 TAM.
21 In the 2014 TAM, the Company's estimated 2015 NPC of \$1.530 billion is
22 higher than the 2014 NPC of \$1.449 billion.²

² See Exhibit PAC/100, Dickman/3, lines 10-13.

1 **Q. WHAT IS THE EFFECT ON AN OREGON BASIS?**

2 A. On an Oregon basis, the 2015 NPC of \$378.3 million is higher than the 2014
3 NPC of \$361.1 million, representing a \$17.1 million increase.³

4 **Q. WHAT ARE THE MAJOR DRIVERS FOR THE 2015 NPC?**

5 A. As the Company represented in Table 1 of Exhibit/100, Dickman/7, shown
6 below, the increase in NPC is driven mainly by a reduction in wholesale sales
7 revenue and an increase in natural gas fuel expenses.

8 Table 1⁴

	Total Company (\$ million)	\$/MWh
OR TAM CY 2014	1,449	24.31
<i>Increase /Decrease (-)</i>		
<i>Wholesale Sales Revenue</i>	<i>41</i>	
<i>Purchased Power Expense</i>	<i>13</i>	
<i>Coal Fuel Expense</i>	<i>(4)</i>	
<i>Natural Gas Fuel Expense</i>	<i>27</i>	
<i>Wheeling, Hydro and Other Expense</i>	<i>4</i>	
<i>Total Increase (+)/Decrease (-)</i>	<i>81</i>	
OR TAM CY 2015	1,530	25.53

9

10 **Q. FOCUSING ON THE MAIN DRIVERS OF THE POWER COST INCREASE**
11 **(I.E., REDUCTION ON WHOLESALE SALES REVENUE AND INCREASE**
12 **NATURAL GAS FUEL EXPENSE), PLEASE ELABORATE.**

13 A. The Company's power plant operations in the 2015 NPC are changing from the
14 2014 NPC. The 2015 NPC includes:

³ See Exhibit PAC/100, Dickman/3, lines 4-7.

⁴ See Exhibit PAC/100, Dickman/7.

- 1 - A full year of operation of the Lake Side 2 natural-gas-fired power
2 plant (Lake Side 2);
3 - Retirement of the Carbon coal-fired generating plant (Carbon Power
4 Plant); and
5 - Conversion of Naughton Unit 3 from coal to natural gas.

6 **Q. PLEASE COMMENT ON LAKE SIDE 2.**

7 A. Lake Side 2 is 645 MW gas-fired generating plant located adjacent to Lake
8 Side 1 in Vineyard, Utah County, Utah.⁵ In the 2013 TAM, the Company
9 included in the estimation of its 2014 NPC only seven months of Lake Side 2
10 operations (i.e., from June to December 2014). In the current 2014 TAM,
11 PacifiCorp included in the estimation of its 2015 NPC the full 12 months of
12 operations of this plant.⁶ This explains, in part, the increase in natural gas fuel
13 expenses.⁷

14 **Q. PLEASE COMMENT ON THE CARBON POWER PLANT.**

15 A. The Carbon Power Plant is a 172 MW coal-fired generating plant located near
16 Helper, Utah.⁸ PacifiCorp represented that the plant will be retired on April 15,
17 2015.⁹ The retirement of this plant explains, in part, the reduction in wholesale
18 sales revenue because it is part of PacifiCorp economic thermal resources.¹⁰

19 **Q. PLEASE COMMENT ON NAUGHTON UNIT 3**

⁵ See Docket No. UE 263, Exhibit PAC/200, Bird/2 at <http://edocs.puc.state.or.us/efdocs/UAA/ue263uaa11547.pdf>.

⁶ See Exhibit PAC/100, Dickman/7, lines 7-8.

⁷ See Exhibit PAC/100, Dickman/10, lines 16-17.

⁸ See

http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/EnergyGeneration_FactSheets/RMP_GFS_Carbon.pdf.

⁹ See Exhibit PAC/100, Dickman/7, lines 11-12.

¹⁰ See Exhibit PAC/100, Dickman/10, lines 6-8.

1 A. Naughton Unit 3 is a 330 MW coal-fired generating plant located near
2 Kemmerer, Wyoming.¹¹ Unit 3 is part of the Naughton generating plant, which
3 has a total generating capacity of approximately 700 MW.¹²
4 In the Company's April 1, 2014 filing, Naughton Unit 3 is assumed to cease
5 coal-fired operations on December 31, 2014, and to resume operations as a
6 gas-fired unit effective June 1, 2015.¹³ Similar to the Carbon Power Plant,
7 Naughton Unit 3 is anticipated to not be operating as an economic thermal
8 resource for five months of 2015, which contributes to the reduction in sales
9 revenues.

10 **NAUGHTON UNIT 3**

11 **Q. PLEASE EXPLAIN WHY PACIFICORP IS PURSUING MODIFICATIONS TO**
12 **NAUGHTON UNIT 3.**

13 A. To comply with the State of Wyoming Regional Haze State Implementation
14 Plant (SIP) requirement, the Company must install selective catalytic reduction
15 (SCR) equipment and a baghouse to reduce emissions of nitrogen oxides
16 (NO_x) and particulate matter (PM) on Naughton Unit 3 by December 31,
17 2014.^{14, 15}

18 **Q. DOES THIS MEAN THAT PACIFICORP WILL INSTALL SCR EQUIPMENT**
19 **AND A BAGHOUSE BY DECEMBER 31, 2014?**

¹¹ See page 82 of PacifiCorp 2013 IRP at http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/Integrated_Resource_Plan/2013IRP/PacifiCorp-2013IRP_Vol1-Main_4-30-13.pdf

¹² See http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/EnergyGeneration_FactSheets/RMP_GFS_Naughton.pdf

¹³ See Exhibit PAC/100, Dickman/7, lines 12-13 and Dickman/8, lines 1-2.

¹⁴ See Exhibit PAC/100, Dickman/8, lines 5-8.

¹⁵ See part "a" of PacifiCorp response to Staff DR 3.

1 A. No. The Company assessed the economics associated with these
2 requirements in a certificate of public convenience and necessity docket before
3 the Wyoming Public Service Commission and determined that natural-gas
4 conversion is in the best interest of the Company's customers.^{16, 17} Therefore,
5 the "Company is not pursuing installation of SCR and baghouse equipment at
6 [Naughton Unit 3]."¹⁸

7 **Q. HAS THE ENVIRONMENTAL PROTECTION AGENCY (EPA) APPROVED**
8 **THE WYOMING REGIONAL HAZE SIP?**

9 A. Yes. In its final action on the Wyoming Regional Haze SIP, the EPA approved
10 the SIP requirements for Naughton Unit 3, assuming an installation of SCR
11 equipment and a baghouse. The EPA expressed its support of the gas
12 conversion of Naughton Unit 3, but noted that because the SIP documentation
13 did not include a gas conversion option, the EPA cannot consider that option
14 until the Wyoming SIP has been changed by the State of Wyoming DEQ.¹⁹

15 **Q. IS PACIFICORP AMENDING ITS SIP WITH THE STATE OF WYOMING**
16 **DEQ?**

17 A. Yes. PacifiCorp is currently working with the State of Wyoming DEQ to amend
18 the permit requiring installation of SCR equipment and a baghouse. Once the
19 amended permit has been issued, the gas conversion can be delayed until
20 June 30, 2018.²⁰

¹⁶ See Exhibit PAC/100, Dickman/8, lines 8-11.

¹⁷ See part "a" of PacifiCorp response to Staff DR 4.

¹⁸ See part "b" of PacifiCorp response to Staff DR 3.

¹⁹ See Exhibit PAC/100, Dickman/8, lines 11-16.

²⁰ See Exhibit PAC/100, Dickman/8, lines 16-19.

1 **Q. WHEN IS THE AMENDED WYOMING SIP EXPECTED TO BE ISSUED?**

2 A. In PacifiCorp's response to Staff DR 6, PacifiCorp represented that "[t]he
3 Company's current expectation is that PacifiCorp will be issued and amended
4 BART permit by the end of June 2014; however the Company also represented
5 that that timing is entirely contingent upon timely processing of the permit
6 amendment and administration and closure of the associated public comment
7 period by the State of Wyoming DEQ, which are beyond the Company's
8 control.²¹

9 It is unlikely that the Company's request to amend the permit will be denied,
10 since the EPA supports the gas conversion of Naughton Unit 3, the State of
11 Wyoming has issued the air quality permit that reflects the conversion of
12 Naughton Unit 3 to natural gas in June of 2018,²² and PacifiCorp is actively
13 pursuing the amended BART permit with the State of Wyoming DEQ.

14 **Q. DO YOU HAVE AN ADJUSTMENT FOR THE ISSUE YOU RAISED?**

15 A. No, Company has agreed in principle that in its next update it will assume
16 Naughton Unit 3 will continue operating as a coal unit in the 2015 calendar
17 year.

18 **Q. EARLIER IN YOUR TESTIMONY YOU MENTIONED A SUPPLEMENTAL**
19 **FILING PACIFICORP IS EXPECTED TO MAKE REGARDING NAUGHTON 3.**

20 **WHAT IS THE NATURE OF THIS FILING?**

²¹ See part "b" of PacifiCorp response to Staff DR 6.

²² See the EPA's final ruling on Wyoming's SIP which was published in the Federal Register, Volume 79, No. 20, Rules and Regulations (Thursday, January 30, 2014), page 5,045. This document was provided as attachment to PacifiCorp response to Staff DR 5.

1 A. As of the date of writing this testimony, parties agreed that PacifiCorp will
2 provide a letter reflecting this agreement and that the agreement contemplates
3 that, if PacifiCorp does not obtain the amended permit in 2014, or if follow-on,
4 compliance-related administrative actions do not proceed successfully,
5 PacifiCorp may file a petition for deferred accounting for the increased net
6 power costs associated with a 2015 conversion of Naughton Unit 3. In this
7 situation, the other parties agree not to oppose PacifiCorp's filing for deferred
8 accounting, but reserve their rights to challenge the prudence of the deferred
9 costs at the time PacifiCorp seeks amortization of the deferred amounts in
10 rates. Per the Company's April 1, 2014 filing, this represents a system-wide
11 reduction of \$32 million²³ to the Company-proposed \$1.530 billion and an
12 Oregon basis reduction of \$7.8 million to the Company-proposed 2015 NPC of
13 \$378.3 million.

14 **Q. WHAT OTHER MATTER WOULD YOU LIKE TO ADDRESS?**

15 A. Staff anticipates that other parties to this docket may raise additional issues,
16 including proposed adjustments to PacifiCorp's forecasted power costs. Staff
17 reserves the opportunity to testify in its next round of testimony regarding any
18 additional issue or adjustment presented by an intervening party.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes.

²³ See Exhibit PAC/100, Dickman/9, lines 7-10.

CASE: UE 287
WITNESS: JORGE ORDONEZ

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualification Statement

June 19, 2014

WITNESS QUALIFICATION STATEMENT

NAME Jorge D. Ordonez

EMPLOYER Public Utility Commission of Oregon

TITLE Senior Financial Economist, Energy Resources and Planning Section

ADDRESS 3930 Fairview Industrial Drive SE, Salem, Oregon 97302-1166

EDUCATION AND TRAINING

Utility Management Certificate
Willamette University, Oregon, 2008

Certificate in Management of Hydropower Development
Swedish International Development Cooperation Agency, Sweden,
2006 & South Africa, 2007

Fulbright Scholar, MBA, concentration in finance
Willamette University, Oregon, 2005

Certificate in Project Appraisal and Management
Maastricht School of Management, Netherlands, 2002

BS, Mechanical Engineering, thermal power efficiency
Electrical & Mechanical Engineering School
San Antonio Abad University, Peru, 1998

EXPERIENCE

I received a Bachelors of Science degree in Mechanical Engineering from San Antonio Abad University in Cusco, Peru in 1998. Subsequently, as a Fulbright Scholar, I received an MBA with an emphasis in finance from Willamette University in 2005. From 1999 to 2008, I worked for a Peruvian power generation company and was promoted many times, working as an Engineer, Resource Scheduler, Manager of Economic Planning and Vice-President of Generation, Commercial and Trading. Since January 2009, I have been employed by the Public Utility Commission of Oregon as a Senior Financial Economist, evaluating utilities' issuance of securities, cost of capital, mergers and acquisitions, cost of service studies, marginal cost studies, rate spread and rate design, integrated resource plans, purchased natural gas costs, and power costs.

CERTIFICATE OF SERVICE

UE 287

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 19th day of June, 2014 at Salem, Oregon

Kay Barnes

Kay Barnes

Public Utility Commission

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UE 287
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