SIERRA CLUB
FOUNDED 1892

March 17, 2015

Via Electronic Filing and FedEx

Public Utility Commission
Attn: Filing Center
3930 Fairview Industrial Drive SE
Salem, OR 97308

Re: Docket No. UM 1712: Sierra Club Notice of Errata in Pre-Filed Direct Testimony

Please find enclosed Sierra Club's Notice of Errata in Pre-Filed Direct Testimony and Attachment 1 in the above-referenced docket.

The redacted version of this filing has been e-filed with the Commission and served upon parties via email. The confidential version of this filing is being filed with the Commission via FedEx and served pursuant to Protective Order No. 14-431 upon all eligible party representatives via FedEx.

Please let me know if you have any questions. Thank you.

Respectfully submitted,

/s/ Derek Nelson

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BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

UM 1712

In the Matter of PacifiCorp d/b/a Pacific Power Application for Approval of Deer Creek Mine Transaction.	SIERRA CLUB NOTICE OF ERRATA IN PRE-FILED DIRECT TESTIMONY

Sierra Club hereby provides this notice of errata to correct the March 5, 2015 pre-filed direct testimony of Dr. Jeremy Fisher on behalf of Sierra Club. Sierra Club discovered an error in calculation related to the adjustment for "CO_2 Effect on Coal Price." Attachment 1 to this notice contains confidential corrected pages 7, 8, 27, 29, and 30, which reflect the correction of this error.

Dated: March 17, 2015

Respectfully submitted,

/s/ Travis Ritchie

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Attachment 1

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

In the Matter of PacifiCorp d/b/a Pacific Power Application for Approval of Deer Creek Mine Transaction.	Docket UM-1712

Direct Testimony of
Jeremy I. Fisher, PhD
On Behalf of
Sierra Club

REDACTED

~~March 5, 2015~~

Errata March 17, 2015

Market Case. After this adjustment, the benefit of the transaction is reduced by $[redacted], to $[redacted].

Third, the coal spot market price used by the Company in the Market Case assessment assumes no carbon dioxide (CO_2) regulations, even though Company witness Mr. Seth Schwartz provided coal prices in the presence of CO_2 regulations and the Company's reference position in the current Integrated Resource Plan (IRP) process is that CO_2 regulations will be enacted. Adjusting to use the correct market coal prices further reduces the benefit of the Transaction over the Market Case by $[redacted], to $[redacted].

Finally, the Company has assumed that, in the Market Case, achieving the correct quality specifications will require blending activities at Hunter that were previously performed at the Coal Preparation Plant, a separate facility owned by PacifiCorp. The Company adds a blending cost to Hunter in the Market Case, but not in the Transaction Case, effectively assuming that such services will be provided for free [redacted], even though Hunter has no contractual obligation [redacted] after this date. Correcting the assumption that blending services would be provided free of charge further reduces the benefit of the transaction over the market case by $[redacted], to just $[redacted]. Table 1, below, summarizes each of these adjustments.

Table 1. Present Value of Revenue Requirements difference ("PVRR(d)") between Transaction and Market cases (millions 2015$).

Adjustment	**Change in PVRR(d)**	**Benefit of Transaction (PVRR(d))**
Company Case		[redacted]
Retiree Med. Obligation	[redacted]	[redacted]
CO_2 Effect on Coal Price	[redacted]	[redacted]
Blending Costs at Hunter	[redacted]	[redacted]
Total	[redacted]	[redacted]

Overall, I find that the Company has overstated the value of the transaction compared to the market case by $[redacted], or ~~77~~ 69%. These adjustments leave an estimated benefit to customers of only $[redacted] in exchange for committing customers to 15-years of burning coal at Huntington. Even in the absence of my concern that the long-term contract reduces the Company's optionality and binds the operations of Huntington, it is not clear that the Transaction would substantially outperform the Market. This contract is one of the largest single investments of the Company in the last decade, worth at least $[redacted].[2] The relatively small benefit realized from the Transaction (about ~~6~~ 8% of the value of the CSA) is strongly outweighed by the risk of take-or-pay penalties if the Company closes Huntington prior to the end of the CSA term.[3] For example, if the unit were closed for economic reasons in 2021, PacifiCorp could incur $[redacted] in penalties.

[2] Net present value of CSA at [redacted] prices with [redacted] from 2016-2029, 2015$.
[3] Assumes Huntington is closed in 2021, and CSA penalties are realized from 2022-2029, 2015$.

include an explicit assumption that CO_2 emissions will be regulated after 2020.[38]

Based on these filings and the ongoing IRP process, I believe that the Company's reference position is that CO_2 regulations will be enacted. In this filing, Witness Schwartz does not explain why only the No Carbon forecast was used in evaluating the benefits of the Transaction.

Q How does the use of the No Carbon coal price forecast bias the estimate of benefits from the Transaction?

A The use of a No Carbon (i.e. higher) market price forecast biases the estimate of benefits in favor of the Transaction by making the coal spot market appear less favorable. Correcting for this error reduces the relative value of the Bowie Transaction by $[redacted]. Combined with the correction for the RMO, the value of the Transaction compared to the Market Case after this correction is only $[redacted].

[38] 2015 IRP Stakeholder Materials. November 14, 2014. "Handout - Core Case Fact Sheets with Draft Results" See page 1, "DRAFT Case Fact Sheets – Overview" http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/Integrated_Resource_Plan/2015IRP/PacifiCorp_2015IRP_DRAFTCoreCase_FactSheets_11-14-14.pdf

has assumed that they can obtain blending services for free from Bowie, inconsistently with the Market case.

In the Transaction case, after the contract with Bowie ends, the cost of Hunter coal would be subject to the coal spot market price plus an adder for incremental blending costs. One way or another, the Company and its ratepayers will bear the costs of blending coal used at Hunter.

Correcting for this error reduces the relative value of the Bowie Transaction by $[redacted]. Combined with the correction for the RMO and using the correct cost of coal with a carbon assumption, the value of the Transaction after this correction is only $[redacted] compared to the Market Case, indicating an error of over $[redacted] and reduction of nearly ~~77~~ 69% relative to the assumed benefit in this application. Noting that a $[redacted] change in the expected market price of coal over six years altered the benefit of the Transaction by ~~over~~ $[redacted], I conclude that the remaining $[redacted] value in the CSA is tenuous, at best.

6. Conclusions and Recommendations

Q What do you conclude from your analysis?

The Company's analysis severely overstated the value of the Transaction Case compared to the Market Case. Although there remains some estimated value between the Transaction Case and the Market Case, that relatively small value is substantially outweighed by the risk associated with the 15-year take-or-pay requirements in the Huntington CSA. This CSA will commit ratepayers to a $[redacted]