

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 296

In the Matter of)
)
PACIFICORP, dba PACIFIC POWER)
)
2016 Transition Adjustment Mechanism)
_____)

**PREHEARING MEMORANDUM OF THE
CITIZENS' UTILITY BOARD OF OREGON**

August 17, 2015



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I. Introduction

Pursuant to Administrative Law Judge (“ALJ”) Rowe’s May 1, 2015 Prehearing Conference Memorandum, CUB submits its prehearing memorandum. On April 1, 2015, PacifiCorp, dba Pacific Power (“PacifiCorp” or “Company”) filed its 2016 Transition Adjustment Mechanism (“TAM”), the purpose of which is to “update net power costs for 2016 and to set transition credits for Oregon customers who choose direct access in the November open enrollment window.”¹ The Company’s proposal would result in an average increase of approximately \$4 million for residential customers.² This prehearing memorandum will briefly provide the legal standard applicable to this proceeding and summarize the two issues raised in CUB’s Opening Testimony.

¹ PacifiCorp Advice No. 15-005, pg. 1.
² UE 296 – PAC/401/Radenour/1.

1 **II. Legal Standard**

2 The TAM is a ratemaking proceeding in which PacifiCorp has filed tariff sheets
3 to update its net power costs and to set transition credits. Rate revisions proposed by a
4 utility are subject to ORS 757.210, which requires a utility to establish that its proposal
5 will result in rates that are fair, just and reasonable.³ The utility bears the burden of
6 showing that a proposed rate is just and reasonable throughout the proceeding.⁴ The
7 Commission also has an independent obligation to ensure that a utility’s rates are just and
8 reasonable.⁵

9 **III. CUB’s Recommendations**

10 CUB’s Opening Testimony in this case focused on its concerns with two issues:
11 (1) methodology changes related to day-ahead and real-time balancing transactions, and
12 (2) forecast of EIM benefits. CUB also reviewed the opening testimony of both
13 Commission Staff and the Industrial Customers of Northwest Utilities (“ICNU”), but
14 declined to file cross-answering testimony in response to the issues raised by Staff and
15 ICNU. CUB’s recommendations remain unchanged from its Opening Testimony.
16 Namely, CUB urges the Commission to reject PacifiCorp’s proposal change its
17 methodology related to day-ahead and real-time balancing transactions and to order
18 PacifiCorp to defer the benefits associated with its participation in the energy imbalance
19 market (“EIM”).

³ ORS 757.210(1)(a); *see also In re Portland General Electric Co.*, OPUC Docket No. UE 288, Order No. 11-432 at 3 (Nov. 2, 2011).

⁴ Order No. 11-432 at 3.

⁵ ORS 756.040(1).

1 **A. The Commission should reject PacifiCorp’s methodology changes related to**
2 **day-ahead and real-time balancing transactions.**

3 Pursuant to the TAM Guidelines, PacifiCorp provided Commission Staff, CUB
4 and other parties with notice of its proposed methodology changes for its 2016 TAM. In
5 its TAM filing, the Company stated that the proposed changes to the GRID inputs were
6 an attempt to “improve the accuracy of forecast [net power costs],”⁶ which the Company
7 felt was necessary in order to address the Company’s systematic under-recovery of net
8 power costs.⁷ Specifically, the Company proposed a total of six methodology changes
9 related to (1) day-ahead and real-time balancing transactions, (2) thermal forced outages,
10 (3) hourly regulation reserves, (4) wind power purchase agreements, (5) compliance
11 curtailment for avian protection, and (6) natural gas plant startup energy.⁸ CUB reviewed
12 the Company’s testimony related to these changes, and in its Opening Testimony,
13 discussed its concerns with the methodology change related to day-ahead and real-time
14 balancing transactions.

15 In this case, PacifiCorp proposes to “adjust[] forward market prices to reflect
16 historical variations from average actual market prices for purchases and sales”⁹ by
17 including in GRID separate prices for purchases and sales, which are “adjusted to account
18 for the historical price differences between the Company’s purchases and sales compared
19 to the average market prices.”¹⁰ The Company recognizes that “load and wind, which are
20 affected by weather, are correlated with market prices.”¹¹ The impact of this

⁶ UE 296 – PAC/100/Dickman/21.

⁷ UE 296 - PAC/100/Dickman/22.

⁸ UE 296 - PAC/100/Dickman/21.

⁹ UE 296 - PAC/100/Dickman/22-23.

¹⁰ UE 296 - PAC/100/Dickman/28.

¹¹ UE 296 - PAC/100/Dickman/26.

1 methodology change for the 2016 TAM is an increase to net power costs of
2 approximately \$8 million.¹²

3 CUB's Opening Testimony took issue with the Company's proposal to adjust
4 forward market prices to include historic variations from average actual market prices for
5 several reasons.

6 First, CUB argued that the proposal was contrary to the original purpose of the
7 TAM. As CUB testified, the purpose of the TAM was to forecast power costs on a
8 weather normalized basis¹³--meaning that actual prices, which PacifiCorp acknowledges
9 are impacted by weather, are not appropriately included.

10 Second, CUB argued that the current structure, which relies on the Power Cost
11 Adjustment Mechanism ("PCAM") to address normal variations of power costs,
12 including weather-related variations, is appropriate.¹⁴ CUB is concerned that deviating
13 from the current methodology would lead to a less accurate net power cost forecast, and
14 would put ratepayers at risk for overpaying power costs.¹⁵

15 Finally, CUB raised concerns about the consistency of the Company's proposal
16 with current ratemaking principles. CUB argued that PacifiCorp's proposal would upset
17 the fundamental principle that normal, weather-related risks are borne by the Company--a
18 risk that is already accounted for in the Company's return on equity.¹⁶ CUB also argued
19 that if the Company's proposal is adopted and costs are large enough to push net power
20 costs outside of the PCAM deadband, the Company would be granted double recovery of

¹² UE 296 - PAC/100/Dickman/30.

¹³ UE 296 - CUB/100/Jenks-Hanhan/3, citing UE 170 - PPL/600/Widmer/4.

¹⁴ UE 296 - CUB/100/Jenks-Hanhan/5.

¹⁵ *Id.*

¹⁶ UE 296 - CUB/100/Jenks-Hanhan/6.

1 these costs, which would be fundamentally unfair to ratepayers.¹⁷ CUB also noted
2 granting PacifiCorp's proposal in this docket, as well as the Company's proposal in
3 docket UM 1662, would also lead to double recovery of some costs.¹⁸

4 PacifiCorp's Reply Testimony claims that CUB's position in this docket is
5 inconsistent with its position in an Idaho Power Company ("Idaho Power") proceeding in
6 which the Commission allowed Idaho Power to recognize the difference between sales
7 and purchases (i.e. different forecasted prices).¹⁹ The issue related to power costs in that
8 proceeding was the value of the energy that Idaho Power was selling on a normalized
9 hydro basis--because Idaho Power had excess hydro, it was selling power into the
10 market.²⁰ The facts of this case are distinct from those that gave rise to CUB's position
11 in the Idaho Power proceeding--Idaho Power did not use a multi-year rolling average of
12 historic prices and loads to adjust its forecast. As recognized by the Commission:

13 it is worth noting that we set rates on a normalized basis, without
14 consideration of specific and immediate hydro conditions. This allows
15 rates to reflect forecasted costs on an on-going basis, rather than actual
16 costs for the short-term future.

17 ...

18 We agree with Staff, however, that there are other regulatory mechanisms
19 to address actual costs that fall outside the normalized costs predicted in a
20 rate case.²¹

21 This is not functionally the same as PacifiCorp's proposal. CUB will expand upon this
22 issue in its post-hearing brief.

¹⁷ UE 296 - CUB/100/Jenks-Hanhan/7.

¹⁸ *Id.*

¹⁹ UE 296 - PAC/100/Dickman/23.

²⁰ *In re Idaho Power Co.*, OPUC Docket No. UE 167, Order No. 05-871 at 3 (Jul. 28, 2005).

²¹ *Id.* at 7 (internal citations omitted).

1 Accordingly, CUB urges the Commission to reject the Company’s proposal to
2 adjust forecast net power costs to include historic variations from average actual market
3 prices for the reasons stated in its Opening Testimony.

4 **B. PacifiCorp’s should be ordered to defer the benefits associated with its**
5 **participation in the EIM.**

6 PacifiCorp’s TAM filing also included \$5.1 million in costs and \$9.4 million in
7 benefits related to its participation in the EIM. CUB has been supportive of PacifiCorp’s
8 participation in the EIM, and believes that the TAM is ultimately the appropriate place to
9 capture the benefits associated with EIM participation. However, CUB’s Opening
10 Testimony raised concerns about the limited data sets available for forecasting the
11 benefits of PacifiCorp’s participation in EIM. In short, CUB does not believe that two
12 months of data is adequate because the limited data sets do not take into account seasonal
13 differences.²² Accordingly, CUB’s Opening Testimony outlined three options available
14 to the Commission: (1) accept the Company’s forecast in this docket, recognizing that the
15 difference between the forecast and the actual EIM results will flow into the PCAM, but
16 are unlikely to be larger than the deadband that represents normal risk; (2) adjust the
17 Company’s forecast upward to reflect that the benefits of EIM over a full year are likely
18 to be greater than the Company’s forecast, recognizing that the difference between the
19 forecast and actual EIM results will flow into the PCAM; or (3) accept the Company’s
20 forecast or another forecast and defer the difference between the forecast and the actual

²² UE 296 – CUB/100/Jenks-Hanhan/8.

1 results for future recovery/refund (effectively removing these costs from the PCAM).²³
2 CUB recommended that the Commission adopt its proposed third option.²⁴

3 In an effort to address CUB's concerns, PacifiCorp's Reply Testimony contained
4 a proposal for several updates and changes to its modeling of EIM benefits. Specifically,
5 the Company proposed to include additional historical results for the EIM through
6 September 2015 via its Final Update and to provide greater weight to the June 2015
7 results to address seasonality concerns.²⁵ Additionally, PacifiCorp's Reply Update
8 provides additional inter-regional dispatch benefits to account for new EIM
9 participants.²⁶ The Company claims that these updates and changes will allow for
10 accurately reflected benefits of EIM for the 2016 test period.²⁷

11 With less than one year of data, CUB continues to recommend the use of a
12 deferral, but recognizes that the Company's proposal to include the additional months of
13 data is an improvement on its initial position in this case.

14 **IV. Conclusion**

15 CUB continues to urge the Commission to reject the Company's proposal to
16 change its methodology related to day-ahead and real-time balancing transactions and to
17 order PacifiCorp to defer the benefits associated with the Company's participation in the
18 EIM.

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²³ UE 296 - CUB/100/Jenks-Hanhan/8-9.

²⁴ UE 296 - CUB/100/Jenks-Hanhan/10.

²⁵ UE 296 - PAC/500/Dickman/58.

²⁶ *Id.*

²⁷ *Id.*

1 Dated this 17th day of August, 2015.

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Respectfully submitted,

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