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August 17, 2015

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE
Salem OR 97301

Re: In the Matter of PACIFICORP, dba PACIFIC POWER
2016 Transition Adjustment Mechanism
Docket No. UE 296

Dear Filing Center:

Enclosed for filing in the above-referenced docket, please find the Industrial Customers of Northwest Utilities' Prehearing Memorandum.

Thank you for your assistance. If you have any questions, please do not hesitate to call.

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 296

In the Matter of	)	
	)	THE INDUSTRIAL CUSTOMERS OF
PACIFICORP, dba PACIFIC POWER,	)	NORTHWEST UTILITIES'
	)	PREHEARING MEMORANDUM
2016 Transition Adjustment Mechanism.	)	
	)	
	)	

I. INTRODUCTION

The Industrial Customers of Northwest Utilities ("ICNU") submits this prehearing memorandum summarizing ICNU's positions in this Transition Adjustment Mechanism ("TAM") proceeding that will set PacifiCorp's (or the "Company") net power cost rates and transition adjustment credits for the 2016 calendar year. Despite declining coal costs and the significant benefits received from participation in the California Independent System Operator Corporation's ("CAISO") Energy Imbalance Market ("EIM"), the Company is requesting a rate increase of $12.4 million, or 1.0% overall.[1/]

The Company's requested rate increase is due in no small measure to sweeping modeling changes opposed by Oregon Public Utility Commission ("OPUC" or the "Commission") Staff, the Citizens' Utility Board of Oregon ("CUB"), and ICNU. These parties have also challenged the Company's failure to properly account for customer benefits in other aspects of the TAM filing, especially in regard to the EIM. For its part, ICNU recommends that the Commission reduce PacifiCorp's proposed Oregon net power costs ("NPC") by

[1/] PAC/500, Dickman/5:9-10.

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approximately $16.0 million, to ensure that customers receive fair, just, and reasonable rates which are also fully sufficient for the Company. ICNU's recommended adjustments are summarized below:

TABLE 1[2/]

	$000	
	Total-Company	Oregon-Allocated
2015 TAM	1,472,643	363,705
Company Filing	1,537,484	374,516
NPC Increase	64,842	10,811
Other Revenue Adjustment	8,803	2,296
EIM Costs Reduction	(2,088)	(547)
Load Adjustment	-	(808)
Company Proposed Rate Increase	**71,557**	**11,752**
Recommended Adjustments:		
1a Reject System Balancing Adj.	(31,300)	(7,739)
1b Market Liquidity Proposal	(6,862)	(1,697)
2a *Reserves - Regulation Correction*	-	-
2b *Reserves - Reliability Metric*	*(11,202)*	*(2,770)*
2c Reserves - PSE & APS Reserve Diversity	(61)	(15)
2d Reserves - Idaho Power Asset Exchange	(1,327)	(328)
3a EIM Disp. Benefit - Seasonality	(1,471)	(364)
3b EIM Disp. Benefit - New Participants	(3,158)	(781)
4b *Hermiston - PTP Contract*	*(2,637)*	*(652)*
5 Outage Modeling	(789)	(195)
6a Wind Profile - Avian Protection	(211)	(52)
6b Wind Profile - Rolling Average	(5,758)	(1,424)
Total Adjustments	(64,775)	(16,015)
Recommended Rate Increase (Decrease)	**6,782**	**(4,263)**

2/ ICNU/200, Mullins/3. Note that ICNU's updated recommendations, submitted in cross-answering testimony, were derived from the Company's initially filed proposed rate increase of $11.8 million.

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II. ARGUMENT

A. The Commission Should Reject PacifiCorp's System Balancing Adjustment and Adopt ICNU's Alternative Modeling Change

The Company claims that its system balancing adjustment is designed "[t]o more accurately model system balancing transactions."[3/] To this end, PacifiCorp "adjusted forward market prices" and "also adjusted system balancing transaction volume,"[4/] pointing to the alleged "fact that a forward market does not supply a product precisely shaped to the Company's purchase position and/or sale position for each month."[5/] The Company further explains, in offering a "simplified" example of how its proposed adjustment would work, that a "price adder" would be calculated and then "used to adjust prices in the GRID model."[6/] Thus, from both a conceptual and mechanical perspective, at root the system balancing adjustment is an extraneous, unilateral adjustment to the Company's power cost modeling designed to correct a purported systematic bias between the forward market prices included in the GRID model and spot market prices.

In keeping with the Commission's long-standing policy of rejecting adjustments designed to impute an extrinsic or marginal value on balancing transactions,[7/] the Company's system balancing adjustment should be rejected. Specifically, the very use of power cost forecasting in ratemaking depends upon the principle that forward prices are an *unbiased* estimate for future spot prices—otherwise, power cost forecasting becomes nothing more than an

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3/ PAC/100, Dickman/22:22.
4/ Id. at 22:22-23:3.
5/ PAC/500, Dickman/29:10-12.
6/ Id. at 21:11-12, 20-22.
7/ See e.g., Re PacifiCorp, 2008 TAM, Docket No. UE 191, Order 07-446 at 5-11 (Oct. 17, 2007).

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arbitrary exercise in pure speculation.[8] If the Company's unilateral adjustments to forward market prices and system balancing transaction volumes were to go into effect, then the basic construct underlying the use and suitability of power cost forecasting for ratemaking purposes would unravel.[9]

1. The Company's Out-of-Model Cost Adjustment Is Unsupported

The first component of the Company's proposed adjustment is an extraneous, $14.5 million NPC increase adjustment coupled with 2,594 GWh of additional sales and purchases also added outside the GRID model.[10] The Company explains that these additional "volumes are priced so the overall cost of the Company's day-ahead and real-time balancing transactions relative to the forecasted monthly market prices is equal to the historical average."[11]

Such adjustments cannot be supported, however, given the Company's own prior testimony and years of power cost reporting filed with the Commission. For instance, although the Company now claims that GRID is under forecasting—i.e., forecasts "need to be increased by" these additional volumes to match actual transactions[12]—such "support" flatly contradicts the Company's statements in the 2013 TAM proceeding, in which the Company performed comparisons over a multi-year span between modeled and actual sales volumes in order to conclude that "GRID *over forecasts* wholesale power sales in every year."[13] Similarly, comparison of sale and purchase volumes over the last five years, based on historical data from

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[8] See, e.g., ICNU/100, Mullins/10:3-12:3.
[9] Id. at 10:21-11:2.
[10] Id. at 12:7-13.
[11] PAC/100, Dickman/30:1-3.
[12] Id. at 29:15-17.
[13] Re PacifiCorp, 2013 TAM, Docket No. UE 245, PAC/100, Duvall/20:16-18 (emphasis added).

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the Company's actual NPC reports, reveals that the Company's proposed out-of-model adjustment does not correspond to historical levels.[14/]

The Company has criticized ICNU for not positively adding in bookout transaction volume to historical levels of power cost reporting, arguing that ICNU has used an "apples-to-oranges" approach.[15/] But, the real problem lies in the Company's proposed out-of-model adjustment. Like ICNU in this docket, the Company also did not positively add in bookout transaction volumes when comparing historical sales levels to GRID modeling in the 2013 TAM.[16/] The critical difference between the 2013 TAM and this proceeding, however, is that the Company has proposed to alter its modeling to incorporate extraneous system balancing transactions "outside the GRID model."[17/] In other words, nothing has changed in regard to the comparative treatment of historical transaction volumes—both the Company and ICNU have treated actual NPC reporting in precisely the same way respective to the Company's GRID modeling, in the 2013 and 2016 TAM proceedings. Rather, the Company has now inconsistently modified its approach in relation to the 2013 TAM, inflating both costs and volumes through extraneous GRID adders.

2. The Bid-Ask Spread Proposed by the Company Is Excessive

As the second component of the proposed system balancing adjustment, the Company would implement a bid-ask spread averaging $7.25/MWh.[18/] Derived from spread modeling as high as $33.80/MWh due to recent weather anomalies, PacifiCorp's proposed bid-ask spread bears no relationship to the rates at which the Company can buy and sell in the

14/ ICNU/100, Mullins/13:3-14:7.
15/ PAC/500, Dickman/25:1-28:11.
16/ Docket No. UE 245, PAC/300, Duvall/14:9-16:5.
17/ PAC/500, Dickman/25:4-5.
18/ ICNU/100, Mullins/17:8-9.

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market, and is a grossly excessive and unreasonable departure from prior Company estimations at around $0.50/MWh.[19/] Additionally, the inclusion of a bid-ask spread component in the Company's system balancing adjustment is unjustifiable from a ratemaking perspective, given that a bid-ask spread is used to model market liquidity—a function already fulfilled by the Company's use of the market caps constraint in GRID.[20/] As ICNU explained in testimony, to the extent that a bid-ask spread is approved, the Company's market cap methodology must be removed to avoid double counting market liquidity impact in the GRID model, thereby reducing the impact of the proposed system balancing adjustment by $6.4 million on a total-Company basis.[21/]

While the Company denies that it is proposing to include a bid-ask spread as a component of its system balancing adjustment,[22/] the actual mechanics of the proposed adjustment refute this position. Simply put, the Company is proposing to model a higher price for purchases than for sales in the same market at the same time, which is the essence of a bid-ask spread according to the Company's own definition.[23/]

3. ICNU Would Support an Alternative Adjustment to Model a Bid-Ask Spread in GRID

In order to better model the Company's actual liquidity constraints, ICNU has indicated its support for an alternative adjustment to incorporate a bid-ask spread into GRID in the amount of $0.50/MWh.[24/] This amount would be consistent with the prior estimation of the

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19/ Id. at 17:1-18:15.
20/ Id. at 18:16-19:9.
21/ Id. at 19:5-9.
22/ PAC/500, Dickman/32:3-4.
23/ Id. at 32:5-9.
24/ ICNU/100, Mullins/19:17-20:8.

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Company. The adoption of this alternative proposal would reduce NPC by $1.7 million on an Oregon-allocated basis.[25/]

Moreover, since modeling both a bid-ask spread and market caps would double count the impact of market liquidity in GRID, the Company's market caps would need to be removed from GRID if this alternative adjustment were approved.[26/] Although the Company argues that the Commission requires "some form" of market caps in GRID (regardless of the potential adoption of this alternative proposal), the Company also acknowledges that the purpose of the OPUC's adoption of market caps was to model "market liquidity."[27/] Accordingly, ICNU maintains that it would be entirely appropriate and necessary to remove market caps from GRID if a bid-ask spread were approved.[28/]

B. The Commission Should Adopt ICNU's Reserves Modeling Adjustments to Ensure Customers Receive Reasonable Benefits

1. Hourly Reserve Calculations Should Be Based on a Ninety Percent Predictive Confidence Interval

The Company does not actually operate at the 99.7% predictive confidence interval upon which its following and regulation reserve requirements are based; accordingly, ICNU recommends that hourly reserve calculations performed for purposes of GRID modeling should be based on a 90% predictive interval.[29/] In fact, ICNU's proposal to reduce NPC by $2.8 million thereby (on an Oregon basis) is very conservative, given that the Company's recent reliability performance has been measured, based on a Control Performance Standard ("CPS") 2,

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25/ Id. at 20:7-8.
26/ Id. at 19:5-7.
27/ PAC/500, Dickman/39:11-13.
28/ ICNU/100, Mullins/19:6-7.
29/ Id. at 23:3-28:14.

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to average between 62-65%, and due to the expectation that PacifiCorp will be able to operate at an even lower interval due to EIM participation.[30/]

The Company opposes ICNU's adjustment primarily on the argument that it is no longer subject to the CPS2, and now must comply with the Western Electricity Coordinating Council's ("WECC") Reliability Based Control ("RBC") Field Trial standard requiring the correction of all area control error ("ACE") deviations within a 30-minute period.[31/] But, ICNU fully acknowledges that the Company is able to waive compliance with the CPS2 under the RBC Field Trial.[32/] The real issue is whether the Company has reflected customer benefits as a result of moving to the new WECC standard—i.e., because the RBC Field Trial produces a more favorable formula to measure reliability performance, by recognizing offsetting regulation requirements between balancing authorities, utilities are no longer required to hold the same high level of reserves as formerly had been mandated under the CPS2 requirement.[33/]

The Company concedes that the shift to a longer, 30-minute period permitted for response to ACE deviations means that "many deviations in the Company's ACE no longer require immediate action on the part of the Company."[34/] Accordingly, the Company's actual CPS2 performance at recent levels at or below 65% is a very good indicator of the significant reserve reductions that have been realized as a result of the Company's participation in the RBC Field Trial.

30/ E.g., id. at 23:11-19; id. at 28, Figure 2.
31/ PAC/500, Dickman/48:10-19.
32/ ICNU/100, Mullins/25:4-6.
33/ Id. at 25:6-11.
34/ PAC/500, Dickman/49:3-4.

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2. Full Reserve Diversity Benefits for New EIM Participants Should Be Recognized

ICNU's recommended adjustment to recognize the reserve diversity benefits associated with the 2016 entrance of Puget Sound Energy ("PSE") and Arizona Public Service Company ("APS") into the EIM has been accepted by the Company.[35/] The Commission should approve this adjustment because, just as such benefits have already been included by the Company to account for NV Energy's entrance into the EIM in 2015, the flexibility reserve savings associated with PSE and APS will also accrue in 2016 due to the resulting aggregation of the systems' load, wind, and solar variability and forecast errors.[36/]

In conjunction with ICNU's recommendation to base hourly reserve calculations at a 90% predictive confidence interval, PSE and APS reserve diversity benefits would reduce NPC by $15,020 on an Oregon basis.[37/] If ICNU's predictive interval recommendation is not adopted, then the additional reserve levels modeled by the Company would produce savings higher than ICNU's proposal, calculated by PacifiCorp to be $213,000 on a total-system basis.[38/]

3. Increased Dynamic Transfer Capability Resulting from the Idaho Power Asset Exchange Reduces Net Power Costs

The Company doubled its dynamic transfer rights between its balancing authority areas ("BAAs"), from 200 MW to 400 MW, after entering into the Idaho Power Asset Exchange in 2014.[39/] Notwithstanding, and despite having testified before this Commission that the exchange would significantly increase the Company's operational flexibility between BAAs,[40/]

35/ Id. at 43:15-17.
36/ ICNU/100, Mullins/29:5-31:12.
37/ Id. at 31:13-17.
38/ PAC/500, Dickman/13:15-21.
39/ ICNU/100, Mullins/31:20-32:1.
40/ Re PacifiCorp and Idaho Power Company Request for Approval to Exchange Certain Transmission Assets Associated with the Jim Bridger Generation Plant, Docket No. UP 315, PAC/400, Duvall/5:21-6:20.

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PacifiCorp has failed to model this additional flexibility and has actually further restricted the flexibility requirements between BAAs.[41/]

To ensure that customers receive the flexibility reserve benefits promised by and now accruing to the Company through the Idaho Power Asset Exchange, ICNU performed modeling runs to analyze the net variable cost benefits of bi-directional reserve transfers between BAAs.[42/] Although the Company now has the capability under the Idaho Power Asset Exchange to transfer up to 400 MW of reserves between BAAs, ICNU conservatively modeled transfers of only 50 MW, resulting in a calculated customer benefit of a $0.3 million reduction to NPC on an Oregon basis.[43/] Similarly, Staff has recommended a $1.07 million Oregon-allocated reduction to NPC based on the Company's increased dynamic transfer capability.[44/]

The Company opposes ICNU's (and, presumably, Staff's) recommendation by stating that "it is not clear that benefits proposed by ICNU can be realized in actual operations."[45/] Nevertheless, the Company acknowledges that it "can transfer contingency reserves from one BAA to the other."[46/]

C. The Commission Should Reject the Company's Flawed Calculation of EIM Inter-regional Dispatch Benefits and Adopt ICNU Methodologies that Account for Seasonality and New EIM Participants

1. ICNU's Seasonality Adjustment Is Already a Conservative Recommendation that Should Not Be Further Undercut by the Company

Rather than basing benefit calculations on two months of data, as the Company originally did, ICNU proposes to reflect seasonality by accounting for inter-regional EIM

41/ ICNU/100, Mullins/32:3-6.
42/ Id. at 32:18-33:3.
43/ Id. at 33:4-15.
44/ Staff/200, Ordonez/5:21-10:11.
45/ PAC/500, Dickman/55:14-15.
46/ Id. at 55:3.

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dispatch benefits over the course of an entire year, using the relative market spreads between Mid-Columbia ("Mid-C") and California-Oregon Border ("COB") market prices between the Company's measurement period (December 2014 and January 2015) and the test period.[47/] Based upon this methodology, ICNU has recommended an Oregon-allocated $0.4 million reduction to NPC.[48/]

In reply testimony, the Company has proposed to account for ICNU's (and CUB's) seasonality concerns by recommending a smaller customer benefit—i.e., separating EIM benefit results on a total-Company basis into two seasons, thereby recognizing a $9.0 million benefit instead of ICNU's recommended $9.9 million benefit.[49/] The Company arrives at this lesser benefit, however, by relying still on only a partial year's worth of data (seven months).[50/] Moreover, the Company critiques ICNU's use of the Mid-C and COB spread in recommending a more significant NPC reduction;[51/] yet, in so doing, PacifiCorp ignores the conservatism of ICNU's approach. That is, while neither ICNU nor PacifiCorp have a full year's worth of actual EIM operational data to use—and therefore some form of proxy must be employed—the proxy method more recently employed in Wyoming to determine EIM inter-regional dispatch benefits produces an adjustment larger than ICNU's present recommendation by about $3 million.[52/] Thus, while any proxy can be critiqued, by definition, for failing to precisely replicate what it approximates, ICNU's recommended methodology is a conservative middle ground between proxy alternatives.

47/ ICNU/100, Mullins/35:4-19.
48/ Id. at 36:4-7.
49/ PAC/500, Dickman/62:2-6.
50/ Id. at 59:16-18.
51/ Id. at 59:9-14.
52/ ICNU/200, Mullins/4:4-16.

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2. PacifiCorp Understates New EIM Participant Benefits

The Company agrees with ICNU that additional inter-regional dispatch benefits will be realized when NV Energy, PSE, and APS join the EIM.[53/] ICNU once more adopted a conservative approach in recommending a corresponding reduction to NPC of just $0.8 million to account for such benefits,[54/] using only one-third of available EIM transfer capability and actual Company economic margins earnings in calculating benefits.[55/] ICNU determined the transfer capabilities of NV Energy based upon NV Energy's own federal tariff filing,[56/] while using Energy Environmental Economics, Inc. ("E3") studies for both PSE and APS.[57/]

Nonetheless, although the Company also relies upon E3 studies in developing its recommendation,[58/] it proposes to recognize only a $0.4 million Oregon-allocated benefit related to new EIM participants. The Company contends that the "primary flaw" in ICNU's calculation of benefits "is to assume that more transmission capacity automatically translates into increased export volumes."[59/] Yet, ICNU's assumptions regarding actual transfer volumes are directly patterned after the Company's own transfer volume experience with CAISO.[60/] In this light, the flaw in the calculation of benefits appears to be with the Company, in understating the expected transfer volumes of new EIM participants contrary to its own experience.

D. The Company's Analysis of the Hermiston Purchase Contract Was Imprudent

ICNU maintains that the Company, in performing its analysis not to extend the Hermiston Purchase contract, acted imprudently in that it analyzed the potential contract

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53/ PAC/500, Dickman/63:6-7.
54/ ICNU/100, Mullins/39:4-8
55/ Id. at 38:11-17; id. at 39, Table 4.
56/ Id. at 37:6-15.
57/ Id. at 37:16-38:6.
58/ E.g., PAC/500, Dickman/63:20.
59/ Id. at 66:19-20.
60/ ICNU/100, Mullins/36:22-37:3.

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extension only on the basis of satisfying its summer peak.[61] This is a significant concern because capacity additions in the Company's 2015 integrated resource plan ("IRP") consist primarily of summer peak purchases, providing no winter peaking capacity to Oregon.[62] Given that the Company also concluded in the 2015 IRP that a winter peaking resource may be needed in the near-term to meet peak loads,[63] ICNU requests that the Commission acknowledge this imprudent planning.

E. The Decision to Extend the Full Amount of the Hermiston Point-to-Point Transmission Contract Was Imprudent and the Contract Is Not Used and Useful

Since the Company has chosen not to extend the Hermiston Purchase contract, the Company will no longer have full rights to capacity from the Hermiston plant. As a result, half of the capacity acquired under the Hermiston point-to-point transmission contract will no longer be used and useful, beginning July 1, 2016.[64] The Company admits that it renewed the Hermiston point-to-point transmission contract in September 2014, prior to performing any analysis of whether it would extend the underlying capacity contract.[65] As a result of this evidence of imprudence, ICNU recommends a corresponding reduction to Oregon-allocated NPC of about $54,336.[66]

F. The Commission Should Reject the Company's Proposed Outage Modeling and Maintain the Methodology Approved in Docket No. UM 1355

The Company's proposal to dynamically model outages based on discrete events over a four-year base period would result in a pattern of frequent, short outages not

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61/ Id. at 41:22-23; see generally id. at 39:10-42:13.
62/ Id. at 41:13-15
63/ Id. at 42:1-3.
64/ Id. at 43:5-8.
65/ PAC/500, Dickman/77:1-14.
66/ ICNU/100, Mullins/42:21-22.

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representative of the outage pattern experienced in actual operations, while also introducing the potential for a skewed outage schedule which contrasts with normalized operations.[67/] While ICNU believes there could be some merit in modeling a schedule of forced outages, any potential benefits are presently outweighed by these and other issues raised by the Company's proposed modeling change.[68/] As a result, ICNU recommends that the Company continue to use the outage methodology approved by the Commission in UM 1355, thereby reducing NPC by $0.2 million on an Oregon basis.[69/]

G. The Company's Avian Protection Proposal and its Proposed Use of a Four-Year Rolling Average to Calculate Wind PPA Generation Output Should Be Rejected

ICNU believes that it would be fair and reasonable to hold the Company to the planning assumptions originally used to justify Wyoming wind facilities which have recently been subject to energy loss as a result of avian protection curtailments.[70/] On this basis, ICNU recommends that the Commission reject the Company's avian protection proposal, resulting in an Oregon-allocated reduction to NPC of $0.1 million.[71/]

Likewise, the Commission should reject the Company's proposal to begin using a four-year rolling average to calculate wind power purchase agreement ("PPA") generation output, owing again to the Company's obligation to use the same profiles for ratemaking that were originally used to justify entering into the wind PPAs.[72/] Moreover, the Company's proposed four-year period is too short to remove the impacts of recent weather patterns, and should be rejected as insufficient to produce a reasonable estimate of normalized generation

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[67/] Id. at 44:2-13.
[68/] Id. at 44:15-18.
[69/] Id. at 44:22-45:2.
[70/] Id. at 45:5-16.
[71/] Id. at 45:17-20.
[72/] Id. at 46:8-13.

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output.[73/] Thus, ICNU recommends that PacifiCorp's NPC should be reduced by $1.4 million on an Oregon basis.[74/]

III. CONCLUSION

ICNU respectfully submits that a reduction to the Company's NPC of approximately $16 million would be appropriate based on the adoption of the adjustments proposed herein. ICNU also supports the direct access recommendations of Noble Americas Energy Solutions LLC as reasonable accommodations to the Company's program.

Dated this 17th day of August, 2015.

Respectfully submitted,

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73/ Id. at 46:16-20.
74/ Id. at 46:4-7.