BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 296

In the Matter of PACIFICORP, dba PACIFIC POWER, 2016 Transition Adjustment Mechanism	**STAFF'S RESPONSE BRIEF**

1. INTRODUCTION

Staff of the Public Utility Commission of Oregon (Staff) responds to the Opening Brief (Opening Brief) submitted by PacifiCorp d/b/a Pacific Power (PacifiCorp or Company). In its Response Brief, Staff replies to PacifiCorp's arguments concerning Staff's two remaining issues that it affirmatively presented in its testimony as well as discussing three issues raised by the intervenors which Staff supported in its Cross-Answering Testimony.[1]

Staff's two primary issues concern: (A) PacifiCorp's "system balancing proposal" (System Balancing Proposal) and (B) "Energy Imbalance Market (EIM) inter-regional benefits related to additional dynamic dispatch transfer capability" (Dynamic Transfer EIM).[2] Further, Staff addresses in its Response Brief the following three issues raised by intervenors which it previously supported: (C) "EIM Seasonal Benefits"[3]; (D) "New EIM Participants"[4]; and (E) "Refined Unit De-Rate Modeling."[5]

[1] Staff previously withdrew its third primary issue, "EIM Within-Hour Benefits," based upon additional information provided by PacifiCorp. *See* Staff/200, Ordonez/2, 10-11.

[2] There is some potential confusion due to the parties' various labels for these two issues in their testimony and briefing. ICNU has referred to the "System Balancing Proposal" issue as "System Balancing Adjustment." Staff has referred to the same issue as "Day-Ahead and Real-Time Modeling Change." To help simply things, Staff will refer to this issue in its Response Brief using PacifiCorp's "System Balancing Proposal" nomenclature. Similarly, Staff previously referred to what PacifiCorp calls the "Dynamic Transfer EIM" issue as "BAAs Nexus Modeling Change." For simplicity, in this Response Brief, Staff adopts PacifiCorp's language.

[3] What Staff now terms as the "EIM Seasonal Benefits" issue was called "EIM Inter-regional Dispatch Benefits" by PacifiCorp. ICNU labeled this issue "Inter-Regional EIM Benefits from Seasonality," CUB referred to it as "EIM Benefits," and Staff previously called it "EIM Inter-Regional Benefits."

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

In brief summary, as to the System Balancing Proposal issue, Staff requests the Commission not approve at this time the Company's proposal to modify its modeling of system balancing costs by including separate purchase and sale prices in the forward price curve and adding transactions and costs to account for standard block purchases and sales. Instead, due to their complexity, Staff recommends the Commission open an investigation to allow Staff and intervening parties a complete and thorough opportunity to explore the Company's proposed modeling changes. The result of Staff's recommendation is to reduce the Company's Net Power Costs by approximately $8 million on an Oregon-allocated basis.

As to the Dynamic Transfer EIM issue, Staff recommends the Commission increase the value of EIM inter-regional benefits arising from the Company's increased "dynamic transfer capability" (DTC) by $4.2 million or $1.07 million on an Oregon-allocated basis.

As to the EIM Seasonal Benefits issue, Staff initially supported the Industrial Customers of Northwest Utilities' (ICNU) and the Citizens' Utility Board of Oregon's (CUB) recommendation to adjust the Company's proposed EIM inter-regional dispatch benefits to incorporate "seasonality," in other words, to reflect inter-regional dispatch benefits based upon more than the two months of data that PacifiCorp originally proposed. Staff appreciates PacifiCorp's responsive proposal to incorporate an additional ten months of actual data, months which include all summer's months for 2015, in its Final Update to the EIM. Based upon the Company's promise of an additional eight months' of data, including the summer months, Staff withdraws its support for a Seasonality adjustment.

As to the New EIM Participants issue, the Company, Staff, ICNU and CUB all agree that there are inter-regional dispatch benefits that arise from the addition of NV Energy, Puget Sound

---

[4] What Staff now terms "New EIM Participants" is referred to by PacifiCorp as "Inter-Regional Benefits from New EIM Participants." ICNU refers to this same issue as "Inter-Regional EIM Benefits from New EIM Participants."

[5] ICNU has referred to this issue as "Outage Modeling," while Staff previously referred to this issue as "Modeling Thermal Plant Forced Outage." Again, for simplicity's sake, Staff adopts PacifiCorp's language for this issue in its Response Brief.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

Energy (PSE), and Arizona Public Service (APS) to the EIM. The sticking point is how to measure the value of this benefit. After further review and analysis, Staff finds PacifiCorp's methodology set forth in the Company's Reply Testimony to be reasonable. As such, Staff supports the Company's proposed adjustment which reduces the Company's Net Power Costs (NPC) by $0.4 million on an Oregon-allocated basis.

Finally, as to the Refined Unit De-Rate Modeling issue, while Staff appreciates the Company's attempt to improve the methodology for de-rating a generating unit's capacity to account for forced outages, Staff agrees with ICNU that such a change should be considered in a generic docket. The result of Staff's support for ICNU's recommendation is a reduction in the Company's NPC by $0.7 million, or $0.2 million on an Oregon-allocated basis.

2. ARGUMENT

A. Legal Standard

PacifiCorp's Transition Adjustment Mechanism (TAM) filing is a ratemaking proceeding under ORS 757.210 in which the Company has submitted tariff sheets to update its NPC and to set transition credits. As a ratemaking proceeding, PacifiCorp has the burden to show that its proposal is fair, just and reasonable.

B. The Commission should adopt Staff's recommendation to create a separate docket to allow for further study PacifiCorp's System Balancing Proposal prior to their implementation.

PacifiCorp proposes to make complex changes to its "Generation and Regulation Initiative Decision" (GRID) Model in order to improve its forecast of the cost of balancing the Company's system in short-term markets. In particular, PacifiCorp's proposed changes are intended to provide a better estimate of the Company's balancing sales and purchases by (1) including separate sales and purchase prices in the forward price curve and (2) adding transactions and costs to account for standard (25 MW) block purchases and sales. The Company's proposed changes to the current GRID Model are calculated to increase the amount of NPC by approximately $8 million on an Oregon-allocated basis. Staff/100, Ordonez/3.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

After reviewing the proposed modeling changes, Staff determined that it fundamentally agreed with PacifiCorp's goal of improving the GRID Model in the two areas described above. Staff/100, Ordonez/23. But, Staff concluded that it could not understand and verify the price and volume component of the proposed changes in the time allowed to process this docket. *Id.* For this reason, Staff recommends the Commission open a separate docket to allow sufficient time to investigate the mechanics of PacifiCorp's proposed modeling changes. Staff/200, Ordonez/14.

In its Opening Brief, PacifiCorp opposes Staff's recommendation on the basis that Staff wishes to investigate "a multitude of issues related to wholesale market activity, most of which have little to do with the merits of the Company's system balancing proposal…" PacifiCorp Opening Brief at 20-21. In support of this allegation, the Company cites to Staff witness Ordonez's Cross-Answering Testimony, where he lists a series of issues raised by CUB and ICNU associated with the Company's System Balancing Proposal. *See, e.g.*, Staff/200, Ordonez/13-14.

While it is true that Staff cited to CUB's and ICNU's modeling concerns as additional support for Staff's recommendation, PacifiCorp's reliance solely upon this part of Staff's testimony ignores Staff's primary concerns that are set forth in its Opening Testimony. *See* Staff/100, Ordonez/19-23.

As to the volume component of the proposed GRID modeling change, Staff witness Ordonez explained that the GRID data from which the Company estimated the monthly, daily, and real-time balancing purchases and sales comprise 1.25 million cells. These cells represent the hourly purchases and sales for "heavy load hours" (HLH) and "light load hours" (LHL) for each market hub in which the Company trades electricity products. Mr. Ordonez testified that the complex formulas and tables presented in the Company's worksheets were "extremely challenging to decipher" even for a person such as himself, a certified MS Excel user with more than ten years of experience working with economic dispatch models. Staff/100, Ordonez/19-20.

///

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

As to the price component of the proposed GRID modeling change, Mr. Ordonez testified that, while he understood the intent and purpose of the proposed model adjustments, he was not able to corroborate the Company's estimates of $4.3 million of higher-than-average purchase prices and $2.8 million lower-than-average sales prices as compared to the values for these components that are produced by PacifiCorp's current GRID Model. Staff/100, Ordonez/22.

Mr. Ordonez referred to the Company's response to Data Request (DR) 39 as an illustrative example for his struggles with the verifying the allegedly problematic GRID Model dollar values. *See* Staff/105, Ordonez/4 (DR 39). In its response to DR 39, the Company set forth the data supporting its alleged purchase and sales values by referring to a confidential MS Excel workbook file. That file, which is approximately 47 megabytes (MB) in size, in turn relies upon data found in a second MS Excel workbook file that is approximately 22 MB in size. The second workbook then obtains data from six other MS Excel files which range in size from 43 MB to 63 MB each. Staff/100, Ordonez/22. Staff witness Ordonez testified that he was not able to corroborate the Company's alleged purchase/sales values, and understand the workings of the proposed modeling changes, in the time available in this docket. Staff/100, Ordonez/23; Staff/200, Ordonez/11-14.

While Staff understands the Company's desire to implement its modeling changes without further delay, Staff counters that it is paramount for the parties to be able to understand and verify the values produced by the proposed changes. Accordingly, Staff recommends that the Commission not adopt these modeling changes at this time. Instead, Staff requests that the Commission open a separate docket to address the proposed modeling changes and to allow the parties sufficient time to explore and resolve their concerns related to these changes.

C. Dynamic Transfer EIM: The Commission should include $1.07 million of Oregon-allocated EIM inter-regional benefits that result from an increased level of "dynamic dispatch transfer capability" (DTC).

Staff recommends the Commission adopt its adjustment to EIM benefits related to increased DTC arising from the Idaho Power Asset Exchange that was approved by the

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

Commission in its Order No. 15-184 (Docket No. UP 315). Staff's adjustment would increase EIM benefits by $1.07 million on an Oregon-allocated basis. *See generally* Staff/100, Ordonez/8-11; Staff/200, Ordonez/5-10.

As a brief background to this issue, Staff witness Ordonez explained that, as a result of the PacifiCorp-Idaho Power Asset Exchange approved by Order 15-184, PacifiCorp's ability to "dynamically schedule" and transfer power over transmission lines increases from 200 MW to 400 MW.[6] Staff/100, Ordonez/8. There are several potential benefits associated with a utility being able to transfer power from one BAA to another in a dependable fashion through DTC. One such benefit identified by Mr. Ordonez is PacifiCorp's ability to transfer relatively inexpensive coal-fired power from its east BAA to its west BAA. PacifiCorp may then sell this relatively cheap coal-generated power from its west BAA at an increased price into the EIM, thus creating a benefit. As such, increasing the DTC from 200 MW to 400 MW as a result of the asset exchange with Idaho Power allows PacifiCorp the potential to increase EIM benefits and this should be accounted for as a reduction in the NPC calculation.

In analyzing this issue, Mr. Ordonez first verified with the Company that it historically made its original 200 MW of DTC available "for use within the Energy Imbalance Market (EIM)." *See* Staff/200, Ordonez/7 (quoting from PacifiCorp's response to Staff's DR 52); Staff/201, Ordonez/4. Next, in Staff DR 53, Staff asked the Company to update its inter-regional benefits to account for the increase level of DTC between its BAAs (from 200 MW to 400 MW). The Company responded by saying that the EIM inter-regional benefits were based upon transmission that was available on the California Oregon Intertie (COI) and that it was not dependent upon the level of DTC between the Company's BAAs. Staff/200, Ordonez/8.

Staff concluded that PacifiCorp's response to DR 53 was inconsistent with its response to DR 52. Staff's reasoning is set forth on a confidential page of its testimony (Staff/200,

---

[6] "Dynamic scheduling" allows transfers of electricity between "balancing authority areas" (BAAs) to be scheduled on an intra-hour basis (i.e. fractions of the hour") as opposed to hour-to-hour scheduling (known as "static scheduling"). Staff/100, Ordonez/9.

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

Ordonez/9). But, without getting into confidential numbers, Staff reviewed the average cost of PacifiCorp's marginal resources in December 2014 and January 2015 (the months at issue in DR 52) and determined that this cost was similar to the average variable cost of the Company's east-side coal plants. From this basis, Staff made the reasonable conclusion that doubling the DTC from 200 MW to 400 MW as a result of the Idaho Power Asset Exchange would double the EIM inter-regional benefits proposed by the Company. Staff/200, Ordonez/9. To account for unknown variables and assumptions, Staff then made the extremely conservative estimate that only 50 percent of the increased DTC between PacifiCorp's BAAs would be used to produce exports to the CAISO, which amounts to an adjustment of $1.07 million to NPC on an Oregon-allocated basis. Staff/200, Ordonez/9-10.

In its Opening Brief, PacifiCorp raises several challenges to Mr. Ordonez's adjustment. None of its arguments have merit.

PacifiCorp first argues that its TAM already reflects $0.6 million in benefits related to reduced "wheeling costs" paid by the Company to Idaho Power that arise from the Idaho Power Asset Exchange. PacifiCorp Brief at 29; *see also* PAC/100, Dickman/42. In response, Staff observes that "wheeling benefits" are only one of the several types of benefits that arise from the Idaho Power Asset Exchange. As Staff testified in its Opening Testimony, "...Docket No. UE (sic) 315...will result in PacifiCorp having ownership and wheeling rights of 1,600 MW, of which 400 MW could be dynamically scheduled across the three aforementioned transmission lines." Staff/100, Ordonez/8. Staff's testimony recognizes that there are both "wheeling benefits," which PacifiCorp accounts for, and "DTC benefits," for which the Company does not account. Staff's DTC adjustment accounts for increased benefits arising from doubling the DTC on the transmission line that connects the Company's BAAs. This is an additional, and different, adjustment from PacifiCorp's reduced wheeling expense adjustment.

Next, PacifiCorp states that Staff's DTC benefit adjustment in the present docket is somehow not valid because Staff did not rely upon this benefit when Staff recommended

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

Commission approval of the Idaho Power Asset Exchange in Docket No. UP 315. PacifiCorp Brief at 29. This is a curious argument. Nothing precludes Staff from identifying in the current docket an *additional* benefit to PacifiCorp arising from the Idaho Power Asset Exchange agreement that it analyzed in Docket UP 315. In Docket UP 315, Staff identified sufficient benefits to the then-proposed transaction to warrant recommending its approval. Staff is not somehow precluded now by its work in UP 315 from identifying additional benefits to the Exchange in the current docket.

PacifiCorp's third challenge to Mr. Ordonez's analysis is that it is based upon a series of assumptions that may or may not be true. PacifiCorp identifies the need to account for "greenhouse gas" (GHG) adders in the average variable cost of its coal plants when comparing the cost of these plants to the average cost of marginal resources in December 2014 and January 2015. PacifiCorp Brief at 29-30. According to PacifiCorp, when the GHG adder is incorporated, it increases the variable cost of the Company's coal plants, which then allegedly undermines Staff's assumption that the Company's coal plants supported nearly all of the EIM exports. PacifiCorp Brief at 30. PacifiCorp also complains that Mr. Ordonez allegedly incorrectly assumed that all of the DTC will be dedicated exclusively to EIM exports to the CAISO. The Company surmises that Mr. Ordonez's conclusion arose from his misinterpretation of its response to Staff's DR 52.

In response to the GHG adder, Staff stresses that, as noted above, it knew that there could be unknowns involved with its DTC adjustment. To account for this uncertainty, Staff conservatively proposed a NPC reduction that is only 50 percent of what the adjustment could have been. *See* Staff, 200, Ordonez/10. This in itself more than accounts for whatever impact the GHG adder may have to the calculation of the average variable cost of the coal plants.

As to the confusion surrounding the meaning of the Company's response to DR 52, Staff first observes that, like the GHG adder, its conservative 50 percent adjustment allows for the Company to use a part of the increased DTC for its own balancing purposes. As to

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

misinterpreting the Company's response to DR 52, reasonable persons could disagree as to what the Company intended by its response. *See generally* Hearing Transcript (TR) at 75-78 (Ordonez). PacifiCorp's customers should not be deprived, because of the Company's ambiguous response to DR 52, of the benefits arising from increased DTC benefits resulting from the Idaho Power Asset Exchange.

Staff's proposed $1.07 million DTC benefit adjustment is conservative and well-founded and Staff recommends the Commission adopt it.

D. EIM Seasonal Benefits: PacifiCorp's new proposal to incorporate an additional ten months of data to reflect EIM inter-regional "seasonal" dispatch benefits satisfies Staff's concerns on this issue.

Staff initially supported ICNU's and CUB's recommendation to adjust the Company's proposed EIM inter-regional dispatch benefits to incorporate "seasonality," in other words, to reflect inter-regional dispatch benefits based upon more than two months of data taken only from winter months. Staff appreciates PacifiCorp's responsive proposal to incorporate an additional ten months of actual data, months which include all summer's months for 2015, in its Final Update. *See* PAC/500, Dickman/61-62. The Company's promise of eight additional months of data satisfies Staff's concern about the Company's original filing. As such, Staff withdraws its support for a proposed EIM Seasonal Benefit adjustment.

E. New EIM Participants: PacifiCorp's proposed adjustment reasonably accounts for the benefits arising from new EIM participants.

ICNU proposes an adjustment to account for the increased inter-regional dispatch benefits once NV Energy, PSE and APS join the EIM. *See generally* ICNU/100, Mullins/36-39. ICNU estimated this inter-regional dispatch benefit as approximately $0.8 million on an Oregon-allocated basis. ICNU/100, Mullins/39.

In its Reply Testimony, PacifiCorp witness Dickman testified that he agreed "in principle" with ICNU's proposal. He then stated that in its Reply Update, the Company estimated this inter-regional dispatch benefit to be $1.5 million on a total company basis ($0.4

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

million on an Oregon-allocated basis). PacifiCorp/500, Dickman/63. Mr. Dickman then set forth a detailed critique of ICNU's methodology, challenging it in several respects. PacifiCorp/500, Dickman/62-72.

In its Cross-Answering Testimony, Staff stated that it agreed with ICNU that some level of benefit should be included to reflect increased inter-regional dispatch capabilities once the three new EIM participants join the EIM. Staff further noted that if the Company did not propose adequate benefits, it would support ICNU's $0.8 million adjustment. *See generally* Staff/200, Ordonez/17-19.

Staff has reviewed PacifiCorp's witness Dickman's analysis on this issue (something it was not able to do prior to filing its Cross-Answering Testimony) and the Company's proposed $0.4 million level of inter-regional dispatch benefits. After concluding its review and analysis, Staff finds on balance that the Company's proposed adjustment is reasonable. Accordingly, Staff supports PacifiCorp's proposed $0.4 million adjustment for the New EIM Participants issue.

F. Refined Unit De-Rate Modeling: The Commission should not adopt PacifiCorp's proposed change to the forced outage methodology set forth in Commission Order No. 10-414 (UM 1355).

PacifiCorp proposes to modify the forced outage model adopted by the Commission for the Company in its Order No. 10-414. PacifiCorp argues that its proposed modifications "more realistically reflect the impact of outages on the Company's operations in the forecast period…" PacifiCorp/100, Dickman/32. According to ICNU's witness Mullins, the Company's new methodology would increase NPC by $0.7 million on a total company basis. ICNU/100, Mullins/3.

Mr. Mullins further testified that the Company's proposal would result in a pattern of more frequent, short outages that were not representative of the outage pattern shown by actual operations. ICNU/100, Mullins/44. Shorter, more frequent outages that result from the proposed modeling changes are expected to be more costly than the longer, less frequent outages that are

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

predicted under the current forced outage methodology. *Id.* Mr. Mullins recommended that, due to the number of issues involved, the Commission set aside the Company's proposal for further study in a generic docket. ICNU/100, Mullins/44-45. The result of not adopting PacifiCorp's recommended change in forced outage methodology would be a reduction to its NPC of $0.2 million on an Oregon-allocated basis. ICNU/100, Mullins/45.

Staff supports ICNU's recommendation. While the Company's proposal may have some merit, because the current methodology was adopted through a broad, generic docket proceeding (i.e. Docket No. UM 1355), the same type of docket should be employed to consider methodology changes such as those proposed by PacifiCorp. *See* Staff/200, Ordonez/24.

3. CONCLUSION

For the reasons stated, Staff recommends the Commission resolve Staff's five outstanding issues as follows:

(A) System Balancing Proposal: Not accept the Company's proposed modifications to its GRID Model, with the result that the Company's NPC is reduced by approximately $8 million on an Oregon-allocated basis, and open a new docket to further consider the proposed modeling changes;

(B) Dynamic Transfer EIM: Increase the value of EIM inter-regional benefits by $1.07 million to capture benefits arising from the Company's increased dynamic transfer capability;

(C) EIM Seasonal Benefits: Resolve the issue in recognition of the Company's promise to include eight additional months of data in its Final Update;

(D) New EIM Participants: Adopt PacifiCorp's proposed $0.4 million reduction to NPC (Oregon-allocated basis) to account for the three new EIM participants; and

/ / /

/ / /

/ / /

/ / /

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784

(E) Refined Unit De-rate Modeling: Not adopt the Company's proposed changes to the Commission-adopted forced outage model, with the result that the Company's NPC is reduced by $0.2 million on an Oregon-allocated basis.

DATED this 28th day of September, 2015.

Respectfully submitted,

ELLEN F. ROSENBLUM
Attorney General

Michael T.

Michael T. Weirich, #82425
Assistant Attorney General
Of Attorneys for Staff of the Public Utility Commission of Oregon

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
(503) 947-4520 / Fax: (503) 378-3784