BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 296

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In the Matter of	)
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PACIFICORP, dba PACIFIC POWER	)
	)
2016 Transition Adjustment Mechanism	)
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RESPONSE BRIEF OF THE

CITIZENS' UTILITY BOARD OF OREGON

September 28, 2015

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Pursuant to Administrative Law Judge (ALJ) Rowe's May 1, 2015 Prehearing Conference Memorandum, CUB submits its Response Brief in docket UE 296.

I. Introduction

CUB continues to oppose the Company's forecast of EIM benefits, which is not inclusive of a full year of data, and the Company's proposed modeling change related to day-ahead and real-time balancing transactions, which the Company calls its "System Balancing Proposal." In this proceeding, the Company argues that the current GRID design has led to a systematic under-forecast of NPC in the TAM, which the Company has been unable to recover in the PCAM due to its deadbands, sharing and earnings test mechanisms.[1] The System Balancing Proposal is one of six modeling changes recommended by the Company in an attempt to improve the accuracy of forecast net

[1] UE 296 – PAC/100/Dickman/22.

power costs (NPC) so that rates are reflective of the "real costs" of balancing PacifiCorp's system.[2]

With the System Balancing Proposal, the Company proposes to (1) adjust the forward market prices of system balancing transactions to reflect historical variations from average actual market prices for purchases and sales volumes selected by GRID, and (2) include an adjustment to the system balancing transaction volumes to reflect transacting on a forward basis using standard block products, balanced on an hourly basis in real time markets.[3] Fundamentally, the Company's proposal fails because it conflates rate recovery traditionally reserved for the PCAM with the TAM forecast, contrary to established, sound ratemaking principles.

For the reasons discussed in more detail below, the Commission should reject the Company's System Benefit Proposal and should order the Company to defer EIM benefits until a at least a full year of data is available.

II. Argument

A. The Commission should reject PacifiCorp's System Balancing Proposal.

CUB opposes the System Balancing Proposal because it is incompatible with the purpose of both the TAM and PCAM, is inconsistent with prior Commission precedent, and would not improve the long-term accuracy of the GRID model. Additionally, the System Balancing Proposal could lead to ratepayers overpaying for NPC and double-recovery of some components of NPC for the Company.[4] Accordingly, PacifiCorp's System Balancing Proposal should be rejected.

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[2] UE 296 - PAC/100/Dickman/21-22.
[3] UE 296 – PAC/100/Dickman/22-23.
[4] UE 296 – CUB/100/Jenks-Hanhan/7.

i. The Company's System Balancing Proposal is not consistent with the TAM and PCAM.

Although this is a TAM proceeding, considering the entire context of rate recovery for net power cost ("NPC") is important to the evaluation of the Company's System Balancing Proposal.[5] As stated by the Company, "[t]he goal of the TAM is to forecast the actual NPC the Company expects to incur during the test period as accurately as possible."[6] The Company forecasts net power costs via its power cost model, GRID, on a weather and hydro normalized basis.[7] But the TAM is only half of the rate recovery equation. The Power Cost Adjustment Mechanism ("PCAM") compares the TAM forecast to actual net power costs, which includes actual power costs under actual weather and hydro conditions.[8] Rate recovery through the PCAM is subject to deadbands, an earnings test and sharing.[9] In adopting PacifiCorp's PCAM, the Commission made several policy determinations about cost recovery for net power costs, including that the risk of normal variation of power costs should remain with PacifiCorp and that customers should not pay for higher-than-expected power costs when PacifiCorp's earnings are reasonable.[10] Despite this, the Company openly admits that its under-recovery of NPC is due to the PCAM design, and attempts to remedy its problem by shifting certain components of NPC out of the PCAM and into the TAM.[11]

The implications of PacifiCorp's System Balancing Proposal could be significant. Consider the following: PacifiCorp owns or purchases 1281 MW of Hydro capacity,

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[5] *See* UE 296 - CUB/100/Jenks-Hanhan/2-5.
[6] UE 296 – PAC/500/Dickman/2.
[7] UE 296 – CUB/100/Jenks-Hanhan/2-3.
[8] *Id.* at 3-4.
[9] *In re PacifiCorp*, OPUC Docket No. UE 246, Order 12-439 at 14 (Dec. 2012).
[10] *Id.* at 15.
[11] UE 296 - PAC/100/Dickman/22.

which is equivalent to about 10% of its total generating capability.[12] In a low hydro year the Company would be forced to replace a significant portion of its supply with market purchases. If the Commission were to adopt the System Benefit Proposal, PacifiCorp would be permitted to recovery, through the TAM, 1/3 of these lost hydro volumes for each of the following three years--all without the PCAM's ratepayer safeguards.[13] Furthermore, this illustrates that one bad hydro year would lead to over-forecasting of system balancing purchases in each of the next three years because those additional purchases were caused by an unusual event (poor hydro conditions) rather than the need to buy standard market products.

It is CUB's impression that PacifiCorp is again attempting to chip away at the PCAM design imposed by the Commission by shifting actual costs out of the PCAM and into the TAM.[14] PacifiCorp should not be permitted to skirt the customer safeguards in the PCAM for costs that the Commission has explicitly deemed are appropriately recovered in the PCAM.

PacifiCorp also argues that CUB is incorrect in its assertion that the TAM is not expected to accurately account for actual costs in light of the Commission direction that the TAM "be refined to accurately forecast actual power costs."[15] CUB's statement, however, was specifically about weather-normalized forecasting:

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[12] LC 57 - PacifiCorp 2013 Integrated Resource Plan at 85.
[13] UE 296 – CUB/100/Jenks-Hanhan/7.
[14] UE 296 - CUB/100/Jenks-Hanhan/5.
[15] UE 296 – PacifiCorp Opening Brief at 12.

> The TAM is not designed to forecast actual power costs—it is designed to dispatch PacifiCorp's system in a weather normalized manner to establish a forecast of power costs. Because it is weather normalized, it is not expected to accurately account for actual costs.[16]

And this statement is wholly consistent with the Commission's direction to PacifiCorp—the one thing that we know about forecasts is that they are always wrong,[17] and therefore one should not expect the TAM to perfectly forecast actual net power costs.[18] That does not mean that forecasts should not be refined, however, if doing so would lead to the best possible estimate of all components of net power costs.[19] In the present case, as CUB has demonstrated in the example above, the natural variances of the hydro system necessarily mean that the Company's System Balancing Proposal will not systematically lead to the best possible estimate of this component of net power costs. In fact, if one were to add to a future forecast volumes of purchases that were made because of unusual weather or hydro conditions, the forecast would de facto be less accurate because unusual events do not usually occur. Accordingly, it should be rejected.

ii. Commission precedent does not support the System Balancing Proposal

PacifiCorp also argues that it is standard Commission practice to use historical data to improve the accuracy of the NPC forecast and accuses CUB of being inconsistent in its support of the use of historical data in discrete NPC adjustments.[20] The Company relies on a number of cases in support of its argument,[21] but fails to appropriately distinguish the Commission's use of historical data to forecast NPC in other cases from

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[16] UE 296 - CUB/100/Jenks-Hanhan/5-6.
[17] *See e.g.* Fred C. Schweppe et al., Spot Pricing of Electricity 298 (Kluwer Academic Publishers 2000) (1988) ("The forecast is always wrong!").
[18] *See also* UE 296 – ICNU/200/Mullins/7-8.
[19] *See In re PacifiCorp*, OPUC Docket No. UE 245, Order No. 12-409 at 7 (Oct. 2012) ("[W]e will expect Pacific Power to refine its modeling to produce the best possible estimates of all components of net power costs.")
[20] UE 296 – PacifiCorp Opening Brief at 9-12.
[21] *See* UE 296 - PacifiCorp Opening Brief at fn. 43.

the circumstances in this case and appears to over-generalize CUB's objection to the use of historical data in forecasting NPC.

First, the Commission has previously addressed rate recovery of variations caused by changes in hydro conditions. In Order 05-1261, the Commission laid out design criteria for power cost adjustment mechanisms that deal with hydro variation.[22] The Commission concluded that recovery should not be limited to "extreme events," but should include "unusual" events.[23] The Commission also concluded that recovery should be subject to an earnings test with deadbands and that the mechanism should have "revenue neutrality" over the long-term.[24] PacifiCorp's System Balancing Proposal, which would add a true-up of historic hydro volumes to the TAM, is not consistent with the Commission's design criteria for cost-recovery of variations articulated in Order 05-1261.

Second, the Commission has used historical averages in several cases, but those cases are distinguishable from the present case. As the Company states, the Commission has used historical averages as follows: (1) a three year historical average was used to calculate arbitrage revenue,[25] (2) three year historical average used to forecast uncollectible expense and rate,[26] (3) historical averages to forecast insurance expense,[27] (4) historical average to forecast outage rates,[28] (5) historical average to forecast

[22] *In re Portland General Elec. Co.*, OPUC Docket Nos. UE 165/UM 1187, Order No. 05-1261 at 8-10 (Dec. 2005).
[23] *Id.* at 9.
[24] *Id.* at 9-10.
[25] *Id.* citing *In re PacifiCorp*, OPUC Docket No. UE 191, Order No. 07-446 (Oct. 2007).
[26] *Id.* citing *In re Avista*, OPUC Docket No. UG 246, Order No. 14-015 (Jan. 2014).
[27] *Id.* citing *In re PacifiCorp*, OPUC Docket No. UE 217, Order No. 10-473 (Dec. 2010).
[28] *Id.* citing *Investigation into Forced Outage Rates*, OPUC Docket No. 1355, Order No. 10-414 (Oct. 2010).

employee levels,[29] and (6) historical average to forecast wind generation.[30] CUB did not testify in this proceeding that historical averages have no place in ratemaking, generally. CUB is perplexed, however, by the Company's use of most of these cases as support for its claim that the Commission has routinely used historical averages in setting normalized NPC--several of the cases cited are general rate cases and one case relates to a gas utility.

Nevertheless, as the Company goes on to argue, the Commission has relied on historical averages to forecast certain aspects of NPC, some of which CUB has supported.[31] The Company's claim that its System Balancing Proposal is also "entirely consistent"[32] with this precedent is a stretch at best. The System Balancing Proposal responds to unusual events by adjusting for historic purchases and power purchases. Poor hydro conditions can be a driver of market purchases.[33] Unusual events, such as equipment failure, can also increase power purchases.[34] While the Commission has appropriately used historical averages to project future costs in certain circumstances,[35] PacifiCorp has not cited to authority supporting the use of historical averages when the variable is highly influenced by non-normal conditions, such as weather and hydro.

PacifiCorp also relies on several previous TAM dockets in support of its System Balancing Proposal. First, the Company cites to the 2008 TAM in which the Commission concluded that short-term wholesale transactions attributed to PacifiCorp's arbitrage and wholesale trading activities were appropriately included in the calculation

[29] *Id.* citing *In re Portland General Electric*, OPUC Docket No. UE 197, Order No. 09-020 (Jan. 2009).
[30] *Id.* citing *In re Portland General Electric*, OPUC Docket No. UE 266, Order No. 13-280 (Aug. 2013).
[31] UE 296 - PacifiCorp Opening Brief at 10.
[32] UE 296 – PacifiCorp Opening Brief at 12.
[33] *See* UE 257 - Idaho Power/200/Wright/6.
[34] *See e.g. In re Portland General Electric Co.*, OPUC Docket No. UE 204, Order No. 10-020 (Jan. 2010); *In re Portland General Electric Co.*, OPUC Docket No. UE 196, Order No. 10-051at 7 (Feb. 2010).
[35] UE 296 – PacifiCorp Opening Brief at 10-11.

of net variable power costs.[36] This case involved an attempt to identify and forecast the use of assets in rate base, including transmission assets, in arbitrage and wholesale trading in order to ensure that the customers who were financing the assets were receiving the benefits of the full use of those assets.[37]

To ensure this matching, Staff proposed a margin adjustment to reflect the fact that the GRID model significantly under-forecasted sales and purchases.[38] Because the under-forecast was on both sales and purchases, Staff argued that the source of the sales was the purchases, and the difference represented margin that the Company was earning on rate based assets.[39]

The Company disagreed with the Staff adjustment, arguing that it is inappropriate to mix historical results with normalized forecasting.[40] The Commission summarized the Company's argument as follows:

> Staff's margin adjustment is problematic regulatory policy, because it imputes an actual cost model into a normalized ratemaking paradigm. The problem is compounded by Staff's failure to compensate for differences in actual results in variables that impact volume and margin on short term wholesale transactions, such as new resources not included in rates, hydro generation, fuel costs, and thermal availability.[41]

The Commission ultimately rejected Staff's proposed adjustment, finding it to be too broad because it included transactions that were designed to balance the system and limited the adjustment to transactions that truly represented arbitrage opportunities:

> We do not adopt Staff's adjustment. Staff's approach attributes all of the "excess" 1 volumes to Pacific Power's wholesale trading activities and derives a margin from the difference in the average prices of purchases

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[36] *In re PacifiCorp*, Docket No. UE 191, Order No. 07-446 at 11 (Oct. 2007).
[37] *Id.* at 6.
[38] *Id.* at 5.
[39] *Id.* at 5-6.
[40] *Id.* at 7.
[41] *Id.*

> and sales that is the basis for its adjustment. The record does not support Staff's treatment of all wholesale transactions as "trades."
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> The record shows that 87 percent of Pacific Power's short-term transactions are for balancing. Pacific Power buys or sells energy to balance load and supply. At any time, Pacific Power may be a net buyer or seller of energy to balance its system. There is no evidence of a systematic tendency toward either role, or of any net margin on such transactions.[42]

In other words, the Commission declined to adopt an adjustment wherein historic transactions, influenced by weather and hydro conditions, were meant to balance load. Interestingly, the Company objected to such a proposal in that case but has not carried that principle forward in the present case. CUB also notes that because PacifiCorp's System Balancing Proposal is designed to include all system balancing sales, it does not lend itself to the same remedy that the Commission applied to the Staff proposal in 2007.[43]

Second, the Company cites to the 2012 TAM, in which the Commission accepted the Company's proposal to use hourly scalars derived from historical data to improve the accuracy of valuing the Company's short-term market purchases and sales.[44] The Company used the scalers to shape monthly forward prices into hourly prices.[45] Notably, the prices themselves were based on a forward price curve and the purchases and sales were weather-normalized.[46] CUB's objection to PacifiCorp's System Balancing Proposal would not apply to the scalars at issue in the 2012 TAM because the historical data used for the scalars was simply used to shape hourly prices -- a forecast based on normal weather and normal hydro was still used to develop loads and forward price curves. CUB also notes that Staff and CUB settled this case with the Company via an $8

[42] *Id.* at 10-11.
[43] *See Id.* at 31.
[44] *In re PacifiCorp*, Docket No. UE 227, Order No. 11-435 at 18-20 (Nov. 2011).
[45] *Id.* at 18.
[46] *See Id.*

million black box settlement[47] and there is no evidence on the record that CUB supported the Company's proposed scalars. To claim that CUB specifically supported the use of scalars is also explicitly contrary to the stipulation.[48]

Third, the Company cites to the 2013 TAM, in which the parties evaluated the Company's proposal to revise the market caps that had always been included in GRID to model market liquidity.[49] PacifiCorp uses this case to argue that "no party in that case argued that market caps violated normalization because they relied on historical data."[50] This case is distinguishable from the present case on several grounds. First, these market caps have *always* used historical information "to limit sales based on a range of past market transactions."[51] Second, the market caps are an attempt to correct a problem with GRID's assumption that if PacifiCorp has one MWh to sell, it is always feasible to transact.[52] To address this problem, the Commission found that using historic information and hourly market caps to limit the total size of each wholesale market was reasonable and would improve the forecast.[53] But, as CUB has testified, adding to the forecast significant volumes of historic actual purchases that were caused by non-normalized weather and hydro conditions will not improve the forecast.[54] Notably, in evaluating whether the use of market caps should continue, the Commission pondered whether using market caps as a patch to address the limitations of GRID was preferable

[47] *Id.* at 3.
[48] UE 227 – Stipulation at ¶ 5.
[49] *In re PacifiCorp*, Docket No. UE 245, Order No. 12-409 at 7-8 (Oct. 2012).
[50] UE 296 – PacifiCorp Opening Brief at 11.
[51] Order No. 12-409 at 3.
[52] *Id.*
[53] *Id.* at 7-8.
[54] UE 296 – CUB/100/Jenks-Hanhan/5-7.

to simply fixing GRID.[55] The same line of inquiry applies to the Company's System Balancing Proposal.

Finally, the Company cites to the 2014 TAM, in which the Commission affirmed the use of historical averages to model wind generation profiles and permitted the Company to use actual historical energy output data to shape hourly wind generation profiles.[56] This case is distinguishable from the Company's current System Balancing Proposal in that historical data was used to shape a normalized forecast—historical volumes related to weather and plant performance were not used. The volume of forecasted wind did not change. In that case, CUB also objected to the Company's use of less than one year of data.[57]

Aside from the specific reasons articulated above, these cases are distinguishable from the Company's current proposal in two important ways. First, these historical averages were generally not tied to the same variables that are explicitly part of the PCAM. Second, these historical averages have been found to be helpful in more accurately forecasting the variable at issue in the future. As applied to this case, the use of historical information would not necessarily serve to improve the forecast over the long-term but would absolutely allow for the recovery of the volumes associated with non-normalized weather events over a three year period, as discussed above.

iii. PacifiCorp's System Balancing Proposal does not improve the accuracy of the GRID model

The Commission has encouraged PacifiCorp to "refine its modeling to produce the best possible estimates of all components of net power costs" as the accuracy and

[55] Order No. 12-409 at 7.
[56] *In re PacifiCorp*, OPUC Docket No. UE 264, Order No. 13-387 at 2-4 (Oct. 2013).
[57] *Id.* at 3-4.

reasonableness of GRID is questioned.[58] The Company has provided evidence of certain problems with the mechanics of GRID related to day-ahead and real-time balancing transactions, as detailed below, but CUB does not believe that the Company has carried its burden in establishing that its System Balancing Proposal is the appropriate remedy. The practical implications of the proposal, as they relate to variations in hydro and weather, make it unworkable.[59]

The Company claims that its System Balancing Proposal would address two deficiencies in the current GRID model.[60] First, adjusting forward market prices in this way would allow the Company to "create[] a more accurate forecast of market prices used for system balancing in the GRID model"[61] because the GRID model would no longer include only a single monthly average price and would no longer use the same prices for purchases and sales.[62] Second, adjusting the system balancing transaction volumes, calculated outside of GRID, would improve accuracy by reflecting operational limitation of 25 MW blocks for monthly and daily products used for system balancing transactions and would better reflect the prices that PacifiCorp incurs, as a price taker, in the real-time market for hourly purchases necessary for system balancing.[63]

With regard to adjusting the forward market prices, CUB's objections have centered on the fact that it would fundamentally mix PCAM-style true-ups with TAM-

[58] Order No. 12-409 at 7.
[59] UE 296 – CUB/100/Jenks-Hanhan/5-6.
[60] UE 296 – PacifiCorp Prehearing Memorandum at 7-9.
[61] UE 296 - PAC/500/Dickman/14.
[62] The Company proposes one exception to separate prices for purchases and sales--when the Company's average monthly purchase costs are lower than its average monthly sales in the same market, a single price adjustment would be used for both sales and purchases based on the volume-weighted average of the historical sales and purchases. This, the Company argues, would prevent a scenario where GRID would buy and sell arbitrarily large volumes of power when in reality the volumes would be very limited. PAC/100/Dickman/29.
[63] UE 296 - PAC/500/Dickman/15.

style forecasts in a way that unfairly shifts risks (and potentially costs) onto customers.[64] Additionally, there is no evidence on the record that the use of historical averages related to the prices of system balancing purchases and sales, which the Company admits are influenced by weather and hydro,[65] would systematically improve the long-term forward market price for these transactions. Conversely, as previously discussed, the Company's proposal would allow for the recovery of costs caused by variations in hydro and weather that should be addressed in the PCAM.

CUB did not offer testimony challenging the Company's claim that forecasted volumes of system balancing transactions are consistently smaller than actual. CUB has taken issue, however, with the Company's proposed solution because it does not address the problem. The Company's volume mechanism is based on the recovery of actual purchases that would be recovered over the past three years, rather than improving the forecast. This begs the question articulated by the Commission in Order 12-409—rather than engaging in out of model adjustments should the Company be considering whether GRID itself should be fixed?[66] The Company did not offer any testimony discussing whether the GRID model itself could be adjusted to purchase and dispatch the actual "standard" products that are available in the market.

[64] UE 296 – CUB/100/Jenks-Hanhan/5-7.

[65] UE 296 – PAC/200/Graves/9-10 (referring to Confidential Figure 3, Mr. Graves states "This graph shows that purchases have occurred at a premium to average prices and sales at a discount per MWh. When looking at the month-by-month source data for this graph, a somewhat more complex pattern emerges that is partly seasonal and varies by trading hub, and that is erratic year on year in absolute magnitudes.").

[66] *See* Order 12-409 at 7.

iv. PacifiCorp's System Balancing Proposal is not conceptually similar to PGE and Idaho Power

PacifiCorp argues that CUB's support for Idaho Power's use of separate on-peak and off-peak forward prices for purchases and sales is inconsistent with its objection to PacifiCorp's proposal to use separate prices for purchases and sales.[67] CUB's positions, however, are not inconsistent. First, CUB recognized that Idaho Power was more hydro dependent than most utilities.[68] Idaho Power was not dispatching gas plants based on the spread between gas prices and electric prices, but was dispatching excess hydro generation or purchasing power to augment insufficient hydro generation.[69] Second, while CUB proposed using forecasted on-peak prices for power purchases and forecasted off-peak prices for power sales, CUB took great care to choose forecasts that were not influenced by actual hydro conditions.[70]

Furthermore, the Company over-generalizes the similarities between PacifiCorp's proposal for separate prices and Idaho Power's current practice--they are not "fundamentally the same adjustment."[71] Importantly, the Company's proposal to use actual historical data (i.e. non-normalized data) to refine a forecast is meaningfully distinct from Idaho Power's use of different normalized prices for purchases and sales.[72] PacifiCorp attempts to dismiss CUB's reliance on the Commission's statement that "it is worth noting that we set rates on a normalized basis, without consideration of specific and immediate hydro conditions" because it "ha[s] nothing to do with the development of

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[67] UE 296 - PacifiCorp Opening Brief at 5-6.
[68] UE 167 – CUB/100/Jenks-Brown/2-5.
[69] UE 167 – CUB/100/Jenks-Brown/2-5.
[70] *See* UE 167 – CUB/100/Jenks-Brown/2-5.
[71] UE 296 - PacifiCorp Opening Brief at 6.
[72] *See In re Idaho Power Company*, OPUC Docket No. UE 167, Order No. 05-871 at 5-8 (Jul. 2005).

a forward price curve based on historical differences between purchase and sale prices."[73] But within the context of Order 05-871, it is clear that the Commission is setting forth a general maxim for forecasting NPC in rates--one that is directly contrary to PacifiCorp's System Balancing Proposal in this case. In fact, the Commission elaborates that:

> [It] has not defined normalized ratemaking in the past, but the definitions provided by other commissions and the parties are generally consistent. "Normalized ratemaking***means that, over time, variations caused by weather or stream flow will balance out." Idaho Power defines normalization as "a process that considers the potential *variation* in future net power supply expenses," and does not predict the actual expenses. At oral argument, Staff defined a normalized price as that which is expected to prevail under normal hydro conditions.[74]

Similarly, PacifiCorp argues that its proposal is "functionally equivalent" to PGE's modeling of "a super-peak contract with a purchase price greater than the forecast on-peak Mid-Columbia (Mid-C) prices" because it "recognizes that purchases do not always correspond to the monthly average forward price."[75] PGE's super-peak contract was an issue in PGE's currently pending rate case, in which several parties raised concerns, including that it is not necessary under normalized conditions and is inconsistent with normalized forecasting.[76] The Second Partial Stipulation speaks for itself, and resolves that issue along with several other power costs issues by reducing the forecast by $7.5 million.[77]

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[73] UE 296 - PacifiCorp Opening Brief at 6.
[74] Order No. 05-871 at fn. 4 (internal citations omitted).
[75] UE 296 - PacifiCorp's Opening Brief at 7.
[76] *See* UE 294 – ICNU/100/Mullins/15-16; Staff/100/Crider/12-15; CUB/100/Jenks-McGovern/7-10.
[77] *See* UE 294 – Second Partial Stipulation and Testimony in Support of Second Partial Stipulation. CUB notes that the Commission has not yet issued an Order addressing this Stipulation.

B. The Commission should order PacifiCorp to defer benefits associated with its participation in EIM.

The Company's forecast of EIM benefits in the TAM test year is unsupported because there is not a full twelve months of data upon which to base a forecast.[78] In light of this fact, CUB set forth potential options for the Commission's consideration in addressing this issue, ultimately recommending that the Commission accept the Company's forecast (or another forecast) and defer the difference between that forecast and the actual results for later ratemaking treatment for lack of a better option.[79] Despite the Company's most recent proposal to include 10 months of actual data,[80] CUB continued to urge the Commission to authorize a deferral.[81] In response, PacifiCorp incorrectly argues that CUB's recommendation is unnecessary, inconsistent with its position in other cases, and functionally impossible.[82]

First, PacifiCorp's conclusion that a deferral of EIM benefits is now unnecessary because the Company has proposed to use 10 months of actual operational data is unsupported. Fundamentally, the Company advocates for the use of a forecast containing a full year of EIM benefits that is based on less than a full year of data.[83] Power costs are greatly impacted by seasonal variations of demand and stream flow.[84] The Company provides little evidence to support the idea that 10 months of actual data is enough to forecast EIM benefits for 2016. Although forecasts are not expected to be perfect, they should be well reasoned.

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[78] UE 296 - CUB/100/Jenks-Hanhan/8.
[79] UE 296 - CUB/100/Jenks-Hanhan/8-9.
[80] UE 296 - PAC/500/Dickman/57-58.
[81] UE 296 - CUB's Prehearing Memorandum at 7.
[82] UE 296 – PacifiCorp's Prehearing Memorandum at 22; UE 296 – PacifiCorp's Opening Brief at 32 (referencing PAC/500/Dickman/72-73).
[83] UE 296 – PAC/500/Dickman/62.
[84] UE 296 – ICNU/100/Mullins/35.

Additionally, CUB's position is not inconsistent with its position in UM 1662. The biggest distinguishing factor is that CUB's recommendation to defer EIM benefits would be temporary, until at least a full year of actual data becomes available.[85] CUB is not proposing a deferral as a permanent ratemaking mechanism, as is the case with PGE's and PacifiCorp's proposed NPC carve-out in UM 1662. CUB was clear that its recommendation was less than ideal, while recognizing that "[t]he normal business risk associated with forecasting costs and revenues, *which rightly belongs in the PCAM deadband*, assumes that there is a basis for the forecast that can be verified by evidence."[86] CUB's one-time recommendation was clearly predicated on the deficiency of historical information supporting the forecast.[87]

Finally, in response to CUB's deferral recommendation, PacifiCorp states that "it is not clear that EIM benefits could be carved out and addressed in the later docket as CUB proposes because the total Company EIM benefit includes inter-regional benefits, as well as reserve diversity benefits. These benefits are not specifically identified in actual NPC results and could be difficult to quantify for later true up."[88] This is perplexing. How can the Company purport to confidently forecast EIM benefits for purposes of the TAM based on 10 months of "actual" data but find it "unworkable"[89] to carve these benefits out and address them in a separate ratemaking proceeding?

[85] UE 296 – CUB/100/Jenks-Hanhan/9.
[86] UE 296 – CUB/100/Jenks-Hanhan/9 (emphasis added).
[87] UE 296 – CUB/100/Jenks-Hanhan/9.
[88] UE 296 – PacifiCorp's Prehearing Memorandum at 22 (citing PAC/500/Dickman/72-73).
[89] UE 296 – PacifiCorp's Prehearing Memorandum at 22.

III. Conclusion

For the foregoing reasons, CUB urges the Commission to reject the Company's System Balancing Proposal and require the Company to defer the benefits associated with the Company's participation in the EIM for later ratemaking treatment.

Dated this 28th day of September, 2015.

Respectfully submitted,

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