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September 28, 2015

Via Electronic Filing & Federal Express

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 Redacted Response Brief of the Industrial Customers of Northwest Utilities ("ICNU").

Pursuant to Protective Order No. 10-069, the sealed confidential portions of ICNU's Response Brief will follow to the Commission via Federal Express and will be sent via First Class U.S. Mail to the parties that have signed Order No. 10-069

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

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the confidential portions of the **Response Brief of the Industrial Customers of Northwest Utilities** upon the parties shown below by sending copies via First Class U.S. Mail, postage prepaid.

Dated at Portland, Oregon, this 28th day of September, 2015.

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 296

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

CONFIDENTIAL RESPONSE BRIEF

OF THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

September 28, 2015

REDACTED VERSION

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I. INTRODUCTION

The Industrial Customers of Northwest Utilities ("ICNU") respectfully submits this Response Brief to provide the Oregon Public Utility Commission ("OPUC" or the "Commission") with support for its recommendation to reduce PacifiCorp's (or the "Company") Oregon-allocated net power costs ("NPC") and associated Company rates by approximately $4.3 million.[1/] During a period in which fuel costs have declined significantly and the Company's participation in the California Independent System Operator Corporation's ("CAISO") Energy Imbalance Market ("EIM") is now producing long-awaited benefits, ratepayers should be looking forward a welcome rate reduction through the 2016 Transition Adjustment Mechanism ("TAM"), a reduction which would be only the second rate reduction in the history of the TAM.

ICNU will demonstrate throughout this Response Brief that support for the Company's proposed $12.4 million rate increase is unsupported and unwarranted. ICNU's recommendation to reduce the Company's rates by $4.3 million consists of the following specific adjustments detailed in filed testimony:

1/ ICNU/200, Mullins/3, Table 1-CA.

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TABLE 1-CA
NPC Recommendation

	$000 Total-Company	$000 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)**

II. LEGAL STANDARD

PacifiCorp has the burden of proof to establish that its proposed rate increase is just and reasonable.[2/] The Commission also has the independent responsibility to ensure that PacifiCorp's customers are only charged just and reasonable rates.[3/] The burden of proof and persuasion is borne by the Company throughout the proceeding and does not shift to any other

2/ ORS § 757.210(1); Pac. Nw. Bell Tel. Co. v. Sabin, 21 Or App 200, 213-14 (1975).
3/ ORS § 756.040(1); Pac. Nw. Bell Tel. Co., 21 Or App at 213.

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party.[4/] PacifiCorp also has the responsibility to provide the parties and the Commission with sufficient evidence to meet its burdens, and it is inappropriate for the Company to wait to provide both evidence and arguments until late in proceedings to prevent other parties from having a sufficient opportunity to respond.[5/]

III. ARGUMENT

A. The Commission Should Reject PacifiCorp's System Balancing Adjustment

ICNU agrees that the primary NPC issue in the 2016 TAM is the Company's proposed system balancing adjustment.[6/] As ICNU's expert has maintained throughout this proceeding, PacifiCorp's proposed adjustment is premised on the fundamentally unsound notion that there is a systematic cost associated with system balancing, while the mechanics of the Company's adjustment are equally unsound—including reliance upon sale and purchase volumes that do not correspond to historical volumes and the employment of a grossly excessive bid-ask spread that also double counts the market liquidity function of PacifiCorp's market caps. Rejecting PacifiCorp's system balancing adjustment will decrease the Company's requested rate increase by about $7.7 million[7/]

1. The Company Proposes to "Correct" a System Bias which Does Not Exist

a. Principles Supporting ICNU's Position

As noted by ICNU's expert witness Bradley G. Mullins, an axiomatic principle behind power cost forecasting for ratemaking purposes is "that there is no systematic bias

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4/ Re PGE, Docket No. UE 228, Order No. 11-432 at 3 (Nov. 2, 2011).

5/ Id. at 8.

6/ This statement is intended to reflect ICNU's focus in this case upon NPC issues; while ICNU did not sponsor substantive analysis on direct access matters in this proceeding, ICNU continues to support the recommendations of Noble Americas Energy Solutions LLC as reasonable accommodations to the Company's direct access programs.

7/ ICNU/200, Mullins/3, Table 1-CA (line 1a).

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between forward market prices and spot market prices."[8/] Rather, power cost forecasts in Oregon have traditionally been established based on the assumption that the market prices at which utilities transact in forward markets to balance their systems represent a median expectation of what ultimate spot prices will be, with forward prices expected to be sometimes higher, sometimes lower, but ultimately equaling out over the course of time.[9/]

The Company claims that this concept is irrelevant to its proposal to include additional system balancing costs in normalized NPC.[10/] This additional balancing concept, however, is critical to the conceptual basis of the Company's system balancing adjustment proposal since the action of system balancing—i.e., the action of purchasing and selling power over time in order to rebalance the Company's system—only results in additional costs to the extent that market prices change unfavorably in the periods between which the Company purchases and sells power to rebalance its system.[11/]

Thus, notwithstanding the flawed mechanics of the Company's proposal, the very concept of assigning cost to system balancing activities improperly presumes that prices are changing in a manner that is systemically unfavorable towards the Company. This is inconsistent with the use of a forward price curve that is intended to be a median representation of what the ultimate spot market price will be.[12/]

b. Specific Deficiencies in the Proposed System Balancing Adjustment

ICNU opposes the Company's system balancing adjustment because, in concept, PacifiCorp's proposal cannot be aligned with traditional Oregon ratemaking standards presuming

8/ ICNU/100, Mullins/10:5-6.
9/ Id. at 10:8-15.
10/ PAC/500, Dickman/28:21-29:14.
11/ ICNU/100, Mullins/11:21-23.
12/ Id. at 9:3-12:3.

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no systematic bias: "What it appears that the Company has attempted to do in its [system balancing] proposal is to incorporate the losses [in rates] that it has historically experienced as a result of changes in market prices between the forward period and the prompt period."[13/] While the Company will not directly acknowledge that its system balancing proposal is predicated on such an attempt to "correct" an alleged systematic bias between forward and spot market prices, the time differentiation element central to its adjustment is still apparent. PacifiCorp "adjusted forward market prices" through a "price adder" and due 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."[14/] Such statements by the Company show that the system balancing adjustment is, at root, an attempt to "correct" an alleged forward-spot price bias.

But, according to the Company, "ICNU's reasoning fails because system balancing transactions are not simply the Company closing forward positions in the spot market."[15/] Instead, the Company alleges that balancing costs are distinct from forward-spot price differences because "[b]alancing occurs when system conditions change in many ways (*e.g.*, changes in loads or changes in resource dispatch), not simply because spot prices differ from forward prices."[16/]

This statement actually serves to demonstrate, however, that a variety of factors may exist which could cause the Company to elect to close a forward position through a spot market purchase.[17/] The system balancing impacts of "changes in load" and "changes in resource dispatch," however, are already accounted for in the system balancing integration

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13/ Id. at 11:23-12:1.
14/ ICNU Prehearing Memorandum at 3 (quoting PAC/500, Dickman/29:10-12).
15/ PacifiCorp's Opening Brief at 20:5-6.
16/ Id. at 20:7-10.
17/ Id. at 20:10-11.

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adjustment included in normalized NPC results.[18/] In all events, the Company's explanations do not comprise a refutation of "ICNU's reasoning," or a defense against the improper systematic bias foundation of PacifiCorp's proposal, designed to incorporate into rates the recent "losses that it has historically experienced as a result of changes in market prices between the forward period and the prompt period."[19/]

PacifiCorp also attempts to discredit ICNU testimony by disassociating the Company's proposed adjustment from its hedging activity, alleging that its proposed "adjustment does not determine the quantity or cost of forward hedging transactions during the test period."[20/] In reply testimony, Mr. Dickman suggests that the Company's adjustment does not concern hedging transactions because "the Company's adjustment is based on the cost of balancing transactions done in daily and hourly markets."[21/] Mr. Dickman also seeks to justify his argument that the adjustment does not concern hedging transactions by suggesting that "[t]he Company limited the calculation of its adjustment to transactions with a delivery period of less than one week."[22/] These statements, however, are inaccurate and are in direct conflict with the actual mechanics of the Company's proposal. That is, only a few pages prior, Mr. Dickman stated that "[t]he result of the Company's adjustment is to include additional *monthly*, daily, and hourly transactions, in the form of offsetting sales and purchases representing [the system] balancing process."[23/] Thus, the Company's proposal includes additional cost for not only daily

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18/ PAC/901 at 38; PAC/902 at 26.
19/ ICNU/100, Mullins/11:23-12:1.
20/ PacifiCorp's Opening Brief at 19:3-10.
21/ PAC/500, Dickman/30:8-9.
22/ Id. at 30:22-31:1
23/ Id. at 15:7-9 (emphasis added)

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and hourly transactions, but also includes additional costs for monthly transactions—transactions which, by the Company's own definition, constitute hedging transactions.

Specifically, PacifiCorp asserts: "Hedging occurs when the Company closes a portion of its open position at a fixed price, rather than waiting and closing it a[t] a future price."[24/] In short, making forward monthly transactions rather than waiting to make a spot market transaction constitutes a form of hedging. These monthly transactions are the same transactions that Mr. Mullins identified in reference to the Company's Semi-Annual Hedging report,[25/] and that the Company has described in discovery requests as hedging transactions.[26/] Contrary to its claims, therefore, in assigning additional costs to monthly transactions, PacifiCorp's system balancing proposal does, in fact, assign cost to hedging contracts in the normalized NPC forecast, costs which are not appropriately borne by ratepayers.

Given that the Company's proposed adjustment is specifically designed to incorporate into normalized NPC losses associated with monthly transactions, PacifiCorp's attempt to distinguish hedging as something irrelevant to the system balancing adjustment is unpersuasive. Accordingly, ICNU's analysis of the Company's hedging activity, especially as it relates to historic forward transactional relationships,[27/] is material to this case and for the purposes of demonstrating the mechanical deficiencies in the Company's system balancing adjustment (as described in further detail in the next section).

24/ PacifiCorp's Opening Brief at 19:5-7.
25/ ICNU/100, Mullins/7:3-15.
26/ ICNU/303 at 2 [redacted]
27/ ICNU/100, Mullins/15:3-18.

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2. The Mechanics of the System Balancing Adjustment Are Unsupportable

PacifiCorp claims that "undisputed historical evidence shows that purchase prices systematically exceed sales prices," and proposes to correct past modeling "inaccuracies by including separate purchase and sale prices in the forward price curve and adding transactions and costs."[28/] As demonstrated below, the Company's claims as to "undisputed" evidence are, at best, a serious mischaracterization. Regardless, and independent of the conceptual inadequacies of the system balancing proposals noted above, the central mechanics of the Company's adjustment—the out-of-model adjustment and the proposed bid-ask spread (i.e., the separate purchase and sale price modeling)—should be rejected as unsupported by the Company in this case and unsupportable as presented. Simply put, the Company has failed to meet the burden of proof and persuasion that the mechanics of its preproposal result in an accurate and reasonable calculation of normalized NPC.

a. Impropriety in the Company's Out-Of-Model, "Bookout" Adjustment

The first (and most troubling) mechanical aspect of the Company's system balancing adjustment is an extraneous, or out-of-model GRID adjustment that increases total-Company NPC by $14.5 million, while also adding equal and offsetting volumes of 2,594 gigawatt-hours each of additional sales and purchases which have no effect upon NPC.[29/] The Company claimed that these volumes represent "additional monthly, daily, and hourly transactions," not previously reflected in the GRID model.[30/] While the Company made no mention of the term "bookout" transaction in its initial filing, the Company now contends that

28/ PacifiCorp's Opening Brief at 1:12-13, 1:15-2:1.
29/ ICNU/100, Mullins/12:7-13.
30/ PAC/500, Dickman/15:7-10.

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these additional, offsetting transactional adjustments are "proxies for bookouts."[31] The Company's newfound characterization of these out-of-model transactions as "bookout" transactions is troubling, and appears to have been made largely in response to Mr. Mullins' plain demonstration that the Company's proposal would severely overstate the level of sales and purchases in normalized NPC relative to the volumes included in historical actual NPC results, which do not include bookout transactions.[32]

The Company's assignment of $14.5 million in cost outside of the GRID model to these bookout proxies is especially troubling because such cost is neither historically representative nor harmless in relation to actual NPC. The historical data provides persuasive evidence that bookout transactions do not result in systematic losses to the Company.[33] As acknowledged by PacifiCorp, the actual historical accounting data unequivocally shows that in some years the Company has recorded a loss with respect to bookout transactions and in other years has recorded a gain with respect to bookout transactions.[34] In fact, the Company admits that over the period 2008 to 2014 it actually recorded approximately [redacted] in net gains associated with bookout transactions.[35] Thus, based on the Company's position that additional bookout volumes should be included in the normalized NPC, it would be more consistent with the historical data to include a net gain associated with the book-out volumes, rather than the $14.5 million net loss included in the Company's self-created system balancing adjustment.

In acknowledging the [redacted] in historical net bookout gains over the period 2008 to 2014, the Company also suggested that [redacted]

[31] PacifiCorp's Opening Brief at 17:17-18.
[32] ICNU/100, Mullins/13:11-14:7.
[33] Id.
[34] ICNU/303 at 1 (answering "Yes" in response to ICNU Data Request 0074(a)).
[35] Id. at 1-2.

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[redacted][36/] Thus, not only is the Company's out-of-model adjustment inconsistent with historical accounting data, it is also an admitted attempt to incorporate costs and volumes associated with hedging transactions into normalized NPC, despite the Company's noted claims to the contrary.

Further, a review of PacifiCorp GRID forecasting over the past decade also confirms the up-and-down nature of power cost forecasting results, as well as the inconsistent positions that the Company has taken with regard to the level of volumes in the GRID model.[37/] For example, the Company now complains of under forecasting system balancing volumes in recent years, but in 2012 the Company testified to "the facts" of such up-and-down variance in GRID: "The facts in [Docket UE 191, in 2007] showed that GRID *underestimated* wholesale sales volume when compared to 2006 actual wholesale sales volumes. However, as Table 5 above shows, the GRID model now consistently *overestimates* the volume of wholesale sales …."[38/]

The Company's complaint regarding ICNU's inconsistent use of bookouts is both inapt and misleading.[39/] A better and far more transparent way to address any finding that transactional volume is too low in GRID modeling would be to eliminate the market cap mechanism which presently constrains transactional volume in GRID.[40/] Creating a second artifice in the proposed systems balancing adjustment (i.e., on top of the current, artificial market

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36/ Id. at 2.

37/ ICNU/100, Mullins/12:15-13:2.

38/ Re PacifiCorp, 2013 TAM, Docket No. UE 245, PAC/100, Duvall/22:17-20 (emphasis added). ICNU respectfully requests that the Commission take official notice of the cited Company testimony, and of all such similarly cited material cited and quoted in this Response Brief per OAR § 860-001-0460(1)(d). Cf. PacifiCorp's Opening Brief at nn. 20, 95, 130, 244.

39/ PacifiCorp's Opening Brief at 18:1-2.

40/ ICNU/100, Mullins/13:6-10.

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cap constraint), in the form of non-historical, out-of-model volume adders, accomplishes precisely the opposite of a directive for the Company "to *refine* its modeling to produce the best possible estimates," as PacifiCorp claims.[41/]

b. The Company's System Balancing Adjustment Proposal Contains a Mechanically Inappropriate and Grossly Excessive Spread

Mr. Mullins testified that the Company's incorporation of a bid-ask spread into the proposed system balancing adjustment "does not make sense" because "[m]odeling a bid-ask spread … has no relationship to the Company's alleged cost of balancing its system."[42/] PacifiCorp claims that it "has not modeled a bid-ask spread in its proposal,"[43/] with Mr. Dickman testifying that the Company's adjustment does not "even make sense as a bid-ask spread."[44/] Regardless of what the Company may have intended, however, the structural mechanics of the $7.25/MWh spread which the Company proposes to incorporate into hourly GRID market prices does, in fact, function as a bid-ask spread in GRID, and is far beyond any acceptable measure of expected differences between contemporaneous hourly purchase and sale prices.

As Mr. Dickman testified on behalf of the Company, "[a] bid-ask spread is the difference between the highest price that a buyer is willing to pay for an asset and the lowest price for which a seller is willing to sell it," with emphasis placed upon a buyer and seller "bidding in the same market at the same time."[45/] In other words, a bid-ask spread features two fundamental components under the Company's definition: 1) a contemporaneous market; and 2) a differentiation between sale and purchase prices.

41/ PacifiCorp's Opening Brief at 4:12-14 (quoting Re PacifiCorp, Docket No. UE 245, Order No. 12-409 at 7 (Oct. 29, 2012)) (emphasis added).
42/ ICNU/100, Mullins/18:2, 18-19.
43/ PacifiCorp's Opening Brief at 14:10-11.
44/ PAC/500, Dickman/32:20-21.
45/ Id. at 32:6-9 (emphasis omitted).

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Notwithstanding the Company's claims that it has not modeled a bid-ask spread—and that the use of such a spread makes no sense—the integral components of a bid-ask spread are central to the Company's own description of the system balancing adjustment, thereby supporting Mr. Mullins' assertion that PacifiCorp has, in fact, incorporated the structural mechanics of a bid-ask in its proposed adjustment. Mr. Dickman alleges that GRID does not produce realistic "purchase prices or sales prices for its *day-ahead and real-time transactions*," and claims that PacifiCorp's proposal results in more accurate "purchase prices and sales prices *for these transactions*," i.e., spot or hourly market transactions.[46/] This shows the contemporaneous market component of the Company's adjustment.

In briefing, the Company claims that it formerly modeled the same hourly transactional prices even though "historical evidence shows that purchase prices systematically exceed sales prices," but that now its "system balancing proposal corrects *these inaccuracies*."[47/] This demonstrates the purchase/sale price differentiation component of a bid-ask spread under the Company's definition. Putting both the contemporaneous market and sale/price differentiation together, Mr. Dickman explained how the proposed adjustment would work: "For instance, the Mid-C HLH price in January is increased by $2.20/MWh for purchases and decreased by $3.45/MWh for sales."[48/]

PacifiCorp attempts to bring the mechanical functionality of its proposal back out of its own bid-ask spread definition by arguing that the Company's spot market sales and purchases "will not be concurrent transactions and will not be subject to the same market

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46/ Id. at 32:15-19 (emphasis added).
47/ PacifiCorp's Opening Brief at 1:11-16 (emphasis added).
48/ PAC/100, Dickman/28:20-21.

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conditions."[49] This attempted distinction is misleading as well as erroneous. As Mr. Mullins has explained, the bid-ask spread measures what "the Company *can* buy and sell in the market;"[50] that is, it measures the potentiality encompassing uncertain spot market transactions, because the actual timing of when the Company makes its transactions in the spot market can and always will vary to some degree.[51]

i. The Company's Proposal Inappropriately Includes Anomalous Costs from Historical Weather Events

ICNU continues to maintain that the Company's $7.25/MWH spread proposal is based upon historical weather and market anomalies which should not be reflected in a normalized NPC forecast.[52] This is true for any proposed spread mechanism, whether designated a "bid-ask" spread or some other form of market spread. The impacts of unusual or atypical historical weather and market conditions are traditionally eliminated from the normalized NPC used to establish rates, as forward-going rates should be set based on normal conditions. As detailed in Mr. Mullins' testimony, however, the mechanics of the Company's proposal would improperly incorporate costs into normalized NPC that can plainly be attributed to historical weather events.[53] For example, Mr. Mullins noted that the large market spreads in the month of February were driven by unusually cold weather in the Northwest in February of 2014, a period when market prices were in excess of $200/MWh at the Mid-Columbia market in certain hours.[54]

49/ Id. at 15:9-11.
50/ ICNU/100, Mullins/17:5-6 (emphasis added).
51/ Id. at 16:17-23.
52/ ICNU/100, Mullins/17:9-18:15.
53/ Id. at 18:7-19:15.
54/ Id. at 18:8-15.

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The Company also contends that ICNU's position "is undermined" through an ICNU proposal in the recent general rate case (Docket No. UE 294) filed by Portland General Electric Company ("PGE").[55/] First, the Company mischaracterizes ICNU's PGE proposal as "a system balancing adjustment made outside PGE's power cost model."[56/] As Mr. Mullins explained at hearing, however, ICNU's proposal regarding California-Oregon border ("COB") trading in PGE's case not only "has nothing to do with system balancing," but it also was not intended as an out-of-model adjustment, since "the proposal and the idea is to build in a new component to [PGE's] MONET model."[57/] Indeed, this testimony, that ICNU sought an intrinsic modeling change, was verified three days after the 2016 TAM hearing, when a partial stipulation was filed in UE 294 including an agreement by ICNU, PGE, and all other stipulating parties that "PGE will propose a method for forecasting California trading margins in its next Annual Power Cost Update filing."[58/]

Moreover, the Company's attempt to lump together the use of historical data in the PGE and TAM cases is misleading. ICNU advocated for the use of historic data reflecting COB market benefits in PGE's case because PGE was not using such data, despite significant COB transactional activity.[59/] Accordingly, the use of COB benefits data was recommended in order to produce a more normative result than the exclusion of such data would produce, i.e., "a fair estimate of the level of economic benefits attributable to COB market activity expected in

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55/ PacifiCorp's Opening Brief at 12:11-13.
56/ Id. at 12:19-20.
57/ TR. 35:21-22, 37:1-9 (Mullins).
58/ Re PGE, Docket No. UE 294, Second Partial Stipulation at 4 (Aug. 28, 2015); accord Docket No. UE 294, Joint Testimony in Support of Partial Stipulation, Stipulating Parties/200, Gardner-McGovern-Mullins-Townsend-Wenzel/14 (Aug. 28, 2015).
59/ ICNU/311 at 6:13-16.

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the test period."[60/] Ultimately, the parties in the PGE rate case recognized that there was merit in including the normalized benefits of the COB market in the MONET model and settled on a value that reflected normalized benefits of PGE's access to COB. Conversely, parties oppose the adoption of the Company's proposal in this case because it would incorporate historical weather and market anomalies, which should be addressed in the company's power cost adjustment mechanism.

ii. The Company's Proposal Double-Counts System Balancing Integration Costs Already Included in NPC

Mr. Dickman disagrees with ICNU's suggestions that "the Company's inter-hour wind and load integration charges already capture the costs associated with balancing the Company's system"[61/] These inter-hour wind and load integration costs—actually referred to as "system balancing" integration costs in the Company's wind integration studies[62/]—are already included in the Company's NPC results, and account for the day ahead balancing impacts related to changes in load and wind. According to the Company's own IRP, the system balancing integration costs that are already reflected in NPC are calculated to "represent[] the total cost of day-ahead balancing on PacifiCorp's BAAs."[63/] This is a nearly identical definition to the cost that the Company describes with respect to its proposed system balancing adjustment, i.e., that it "developed [its] modeling refinements to more accurately capture the true cost of balancing its system in the short-term markets."[64/] On its face, approval of the Company's system balancing

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60/ Id. at 11:15-16.
61/ PAC/500, Dickman/37:23-38:1.
62/ E.g., PAC/902 at 25.
63/ PAC/901 at 38.
64/ PAC/500, Dickman/14:7-9.

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modeling adjustment would double-count costs that are already included in the normalized NPC results through the system balancing integration adjustment.

iii. The Company's Proposal Double-Counts the Impact of Market Liquidity in GRID

The adoption of the mechanics of a bid-ask spread into GRID modeling would be inappropriate unless the Company's market caps were simultaneously removed. As Mr. Mullins explained in testimony, a bid-ask spread is used to model market liquidity in conventional power cost forecasting.[65] Likewise, as the Company itself states, "the Commission affirmed the use of market caps to model market liquidity."[66] Hence, the adoption of a bid-ask spread in GRID modeling would create a duplicative scenario which would "double count the impact of market liquidity in the GRID model. Accordingly, to the extent that a bid-ask spread methodology is approved, the Company's market cap methodology must be removed."[67]

PacifiCorp contends that the Commission should not reconsider the "fully-litigated issue" of market caps because the OPUC required "some form of market caps" in the 2013 TAM.[68] But, assuming the Commission was faced with a scenario in which two mechanisms were double counting the impact of market liquidity in GRID modeling, the Company's position does not bear up under scrutiny. In the 2013 TAM, the Commission made a determination on market caps specific to the record in that case and the then-current construct of

65/ ICNU/100, Mullins/18:19-20; accord Application of S. Cal. Edison Co., Cal. Pub. Util. Comm'n Decision 10-07-049, 2010 WL 3064965 at 15 (July 29, 2010) (stating, according to S. Cal. Edison, that "[t]he magnitude of the bid-ask spread depends on the liquidity of the product at the delivery point in question").
66/ PacifiCorp's Opening Brief at 11:6-7.
67/ ICNU/100, Mullins/19:5-7.
68/ PacifiCorp's Opening Brief at 16:12-15.

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GRID: "Based upon the *evidence presented in this proceeding*, we conclude that some form of market caps continue to be needed in GRID *as it is now constructed*."[69/]

In this light, reconsideration of the need for market caps is not an issue that the Commission can never readdress. This is especially true, given the OPUC's further admonition, explicitly directed to the Company, regarding the future use of market caps: "Pacific Power should understand, however, that as the company and others continue to raise questions about the accuracy and reasonableness of GRID forecasts, we will expect Pacific Power to refine its modeling to produce the best possible estimates of all components of net power costs."[70/]

3. Alternatively, ICNU Supports an Adjustment to Model a Bid-Ask Spread in GRID in Place of Market Caps

ICNU recommends an alternative adjustment of a $0.50/MWh bid-ask spread incorporated into GRID, consistent with what was previously reported by the Company, in order to better model the liquidity constraints experienced by the Company in actual operation.[71/] As just discussed, ICNU recommends replacement of PacifiCorp's present market cap liquidity constraint in favor of the bid-ask spread mechanism, in order to avoid double counting of the impact of market liquidity in the GRID model.

The Company argues that ICNU's alternative proposal "lacks any theoretical foundation."[72/] Such argument lacks basis, however, given that Mr. Mullins testified that "the price to purchase incremental power may exceed the price at which it can be sold," as a result of illiquidity in a market.[73/] From this theoretical foundation (a perspective shared in the investor-

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69/ Docket No. UE 245, Order No. 12-409 at 7 (emphasis added).
70/ Id.
71/ ICNU/100, Mullins/19:17-20:8.
72/ PacifiCorp's Opening Brief at 15:13-14.
73/ ICNU/100, Mullins/18:20-22.

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owned utility world),[74] Mr. Mullins agreed "that it may be reasonable" for a bid-ask spread to model market liquidity actually being experienced by the Company, in line with PacifiCorp's own estimation of an explicit $0.50/MWh bid-ask spread—i.e., "the GRID model will be capable of selling at a price that is $0.25/MWh below the average market prices and will be capable of buying at a price that is $0.25/MWh above the average market prices."[75]

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 90% Predictive Confidence Interval

ICNU maintains that a $2.8 million, Oregon-allocated reduction to the Company's NPC is warranted, based on the recommended use of a 90% predictive confidence interval in GRID modeling.[76] The 90% predictive confidence interval is a very conservative reflection of the Company's actual reliability performance. Ratepayers should not have to absorb the costs of the Company's inflated 99.7% predictive interval. PacifiCorp complains that "ICNU has proposed a drastic reduction to the Company's regulating margin in this case,"[77] but ICNU's proposal is necessary to ensure that ratepayers receive at least partial benefits to match PacifiCorp's drastic reduction in actual reserve costs under the new North American Electric Reliability Corporation ("NERC") reliability standard BAL-001-2 ("BAAL").

NERC introduced its Reliability Based Control ("RBC") Field Trial in the Western Interconnection in 2010, through which the new BAAL reliability formula was implemented, and under which the Company was allowed to waive compliance with the former

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[74] See Application of S. Cal. Edison Co., 2010 WL 3064965 at 15 (stating, according to S. Cal. Edison, that "[t]he magnitude of the bid-ask spread depends on the liquidity of the product at the delivery point in question").

[75] ICNU/100, Mullins/20:3-5.

[76] Id. at 23:3-29:4.

[77] PacifiCorp's Opening Brief at 22:6-7.

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Control Performance Standard 2 ("CPS2").[78/] Nonetheless, NERC still requires utilities to report CPS2 performance,[79/] which provides an extremely useful measure of actual Company reliability operations under the new BAAL standard.

Specifically, as measured by the CPS2, the Company's actual reliability performance has fallen drastically from a 97% predictive confidence interval, to predictive intervals averaging 61.7% to 65.2% across PacifiCorp's western and eastern balancing areas, respectively.[80/] This is not, however, an indication of any reliability failings on the Company's part; quite the opposite, the drastic, recent reduction in PacifiCorp's predictive intervals are proof positive that, under the RBC Field Trial and the new BAAL standard, "the Company has been able to maintain a high degree of system reliability while operating at a reliability metric that is much lower."[81/] Indeed, this result is exactly what had been expected under NERC's new reliability standard. That is, the BAAL represents a significant improvement over the former standard, which failed to recognize offsetting regulation requirements between balancing authorities, thereby driving up costs in forcing utilities to hold an unnecessarily high level of reserves in order to maintain regional reliability.[82/]

Contrary to all expectations and confirming evidence that the BAAL has, in fact, allowed for actual reliability operations at much lower predictive intervals, PacifiCorp has *increased* its predictive confidence interval to 99.7%. The Company's election to increase, rather than decrease, its predictive interval has resulted in a proposed increase to rates which cannot be justified by the reserve benefits the Company has experienced under the BAAL

78/ ICNU/100, Mullins/25:3-13.
79/ Id. at 25:9.
80/ Id. at 24:13-16 & 25, Table 3.
81/ Id. at 23:9-11.
82/ Id. at 25:6-13.

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standard. Moreover, the Company's recent entrance into the EIM has resulted in a *second* drastic decline in the level of reserves now held, achieved through incremental operational efficiencies afforded by the CAISO dispatch model—all without any negative impact to the high degree of system reliability PacifiCorp provides.[83/]

Taking all such recent benefits into account, ICNU's recommendation for use of a 90% predictive confidence interval in GRID modeling may even be overly conservative in regard to reflecting actual ratepayer benefits expected in the test period. Nevertheless, ICNU recommends such gradual movement toward a more accurate predictive interval, in order to allow for additional study and to ensure that the results are not punitive in any way to the Company.[84/]

The Company argues against a reduction to its predictive confidence interval by suggesting that ICNU "proposes using a 90 percent confidence interval under the CPS2 standard, even though the Company has historically used a 97 percent confidence interval under the CPS2 standard."[85/] This is a significant mischaracterization of ICNU's testimony and recommendation. As noted, ICNU recognizes that NERC has permitted the Company to waive CPS2 *compliance* in favor of the BAAL standard, while still requiring that the Company report CPS2 *performance*. In other words, CPS2 performance is still a relevant metric of actual reliability operations under BAAL compliance, such that the significant relaxation in Company reserve requirements (while continuing to maintain high reliability) under the BAAL standard justifies a lower predictive confidence interval in GRID modeling using the still relevant CPS2 metric. Likewise, the Company again resorts to mischaracterization when stating "ICNU

83/ Id. at 27:7-28:5.
84/ Id. at 28:6-14.
85/ PacifiCorp's Opening Brief at 23:13-15.

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contends that the Company's wind integration studies continue to rely on the CPS2 standard."[86/] In written testimony cited by the Company in support of this statement, however, Mr. Mullins explains that, "[i]n *previous* wind integration studies, the confidence interval used to calculate reserves was tied directly to historical CPS2 performance."[87/]

Notwithstanding, Mr. Mullins' explanation helps clarify why a CPS2 metric in GRID modeling continues to be relevant. That is, the drastic reduction in CPS2 performance under the BAAL standard reflects massive benefits meriting drastically lower reserves calculations for use in GRID—just as much higher levels of CPS2 performance, under far less efficient and more costly CPS2 compliance standards, formerly justified much higher reserve requirement calculations used in GRID. Moreover, as Mr. Mullins testified at hearing, CPS2 standard concepts still form the basis of even current wind integration study calculations, including such fundamental concepts as the L_{10} threshold and 10-minute intervals,[88/] providing still further rationale for reference to the CPS2 in addition to being "the only measurement that we have to see, over time, how the Company's reliability performance has been going."[89/] In fact, the Company's 2014 wind integration study states that, notwithstanding the new BAAL standard, "the L_{10} is used for the bandwidth in both directions of the ACE [area control error].[90/] Similarly, the 2014 wind integration study states "10 minute interval load and wind data to estimate the amount of regulating margin reserves," and not the 30-minute period permitted under BAAL.[91/]

86/ Id. at 23:16-17.
87/ ICNU/100, Mullins/23:22-23 (emphasis added).
88/ TR. 18:6-10 (Mullins).
89/ TR. 58:10-12 (Mullins).
90/ PAC/902 at 9.
91/ Id.

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The Company also dismisses Idaho Power Company's use of the same 90% predictive confidence interval recommended by ICNU in arguing that Idaho Power was "modeling reserves using a CPS2 standard, which is not applicable to the Company."[92/] But, as ICNU noted in its opening testimony, the Technical Review Committee ("TRC") for PacifiCorp's 2012 wind integration study—the first conducted after the BAAL standard replaced CPS2 compliance—still found that the Company's "2010 wind integration study was superior because the tolerance target used was loosely driven by CPS2."[93/] More specifically, the 2012 TRC found that while representatives from the Company "insist that the reserve exceedence should be 99.7%, their effective CPS2 performance during RBC is probably closer to 65-70% … PacifiCorp has not persuasively justified the 99.7-L_{10} tolerance level."[94/]

The Company does not address the findings of the 2012 TRC in its Opening Brief. Instead, PacifiCorp notes that the TRC for the Company's 2014 wind integration study concluded that the 99.7% predictive interval "was reasonable and the findings and conclusions were sound."[95/] As Mr. Mullins explains in testimony, there is no apparent reason for this complete change in TRC analysis, given that the 2014 study itself "provides little explanation regarding the 99.7% confidence interval other than it corresponds to three standard deviations."[96/] Upon closer examination, however, this otherwise inexplicable and unsupported reversal by the TRC is readily explained by the replacement of long-time independent utility analyst Randall Falkenberg from the TRC, in an otherwise unchanged TRC membership.[97/] In

92/ PacifiCorp's Opening Brief at 24:18-19.

93/ ICNU/100, Mullins/26:26-27 (quoting 2012 Wind Integration Study TRC, PacifiCorp 2012 Wind Integration Study Technical Memo ("2012 TRC Memo") at 7-8).

94/ Id. at 26:19-21 (quoting 2012 TRC Memo at 7-8).

95/ PacifiCorp's Opening Brief at 23:1-4.

96/ ICNU/100, Mullins/26:4-5.

97/ Compare 2012 TRC Memo at 2, with PAC/902 at 35.

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this light, little reliance should be placed on what amounts to a rubber-stamped approval by the reconstituted 2014 TRC, one which crucially failed to address or explain material deficiencies spotted by its predecessor and never rectified by the Company.

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

ICNU has proposed a $0.3 million Oregon-allocated reduction to NPC to reflect benefits flowing from increased dynamic transfer capability between Company balancing authority areas ("BAAs") as a result of the Idaho Power Asset Exchange.[98/] Similarly, Staff recommends a $1.07 million NPC reduction on an Oregon basis to reflect increased dynamic transfer capability between PacifiCorp's BAAs.[99/] The Company opposes both adjustments, however, on the contention that "Staff's adjustment and ICNU's adjustment are mutually exclusive to the extent that they assume different uses for the same dynamic transfer capability."[100/]

The Company's position in this case is contrary to its recent testimony before the OPUC, when applying for authorization to enter into the Idaho Power Asset Exchange. That is, the Company testified in December 2014 to "a number of customer benefits provided by PacifiCorp Energy's new firm transmission rights following the close of the asset exchange."[101/] More specifically, PacifiCorp testified to the following customer benefit: "The Company's dynamic transfer rights from PacifiCorp's east Balancing Authority Area (PACE) to PacifiCorp's west Balancing Authority Area (PACW) will increase from 200 megawatts (MW)

98/ ICNU/100, Mullins/31:18-33:15.
99/ Staff/200, Ordonez/2:6-12, 7:13-10:11.
100/ PacifiCorp's Opening Brief at 27:17-28:1.
101/ Re PacifiCorp, Docket No. UP 315, PAC/400, Duvall/1:18-19 (Dec. 19, 2014).

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to 400 MW."[102/] According to the Company, this additional 200 MW "will allow for increased flexibility in system operations. This dynamic transfer can be used for numerous purposes, including increased system integration between PACE and PACW or for future Energy Imbalance Market transfers."[103/]

Notwithstanding, the Company has not modeled the promised additional flexibility in the GRID model in this case, in any capacity.[104/] In this light, the Company lacks credibility in opposing ICNU and Staff proposals to reflect such benefits, especially on the basis of an alleged mutual exclusivity and the Company's improper attempts to shift focus away from its own failings and toward claimed differences between ICNU and Staff proposals. The Company's present opposition to ICNU's adjustment on the merits also cannot be squared with its prior testimony. PacifiCorp claims that "ICNU's adjustment lacks foundation because the EIM does not allow the Company to transfer flexibility reserves between its BAAs."[105/] This contradicts prior Company testimony that additional "dynamic transfer can be used for numerous purposes, including … for future Energy Imbalance Market transfers."[106/]

Thus, ICNU's recommendation to reflect the benefit of a conservative flexibility reserve transfer between BAAs of 50 MW continues to stand on solid evidence,[107/] in addition to being supported by the Company's initial testimony describing the benefits flowing from increased dynamic transfer capability in direct relationship to the EIM. Further, ICNU's proposed adjustment does not overlap with any regulating reserve adjustment proposals, as the

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102/ Id. at 2:7-9.
103/ Id. at 6:2-5.
104/ ICNU/100, Mullins/32:3-4.
105/ PacifiCorp's Opening Brief at 27:4-5.
106/ Docket No. UP 315, PAC/400, Duvall/6:2-5.
107/ ICNU/100, Mullins/32:18-33:15.

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Company contends,[108] because flexibility reserves and regulating reserves are two separate and distinct reserve categories, as Mr. Mullins explained at hearing.[109]

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

ICNU continues to believe that its proposal to account for seasonality in EIM inter-regional dispatch benefits is preferable to the Company's approach, which recognizes only a $9.0 million benefit in comparison to ICNU's proposed $9.9 million benefit.[110] At hearing, Mr. Mullins agreed that PacifiCorp's seasonality approach in its rebuttal case "partially" addressed ICNU's concerns.[111] ICNU acknowledges that the Company's reply proposal is better than its original approach, but it still does not fully address important seasonality concerns and should be rejected.

PacifiCorp inaccurately seeks to discredit ICNU's recommendation by stating that its benefit calculation used "only two months of actual EIM data extrapolated to a full year based on the price spread between Mid-C and COB markets."[112] A more fair characterization would be to describe ICNU's calculation as based on nothing but actual data, including all the EIM data available when ICNU submitted its testimony plus a full year's worth of relevant market data.[113]

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[108] PacifiCorp's Opening Brief at 27:5-6.
[109] TR. 24:22-25:13 (Mullins).
[110] PAC/500, Dickman/62:2-6.
[111] TR. 57:17-21 (Mullins).
[112] PacifiCorp's Opening Brief at 31:16-18.
[113] ICNU/100, Mullins/35:9-36:3.

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The Company then mischaracterizes its own recommendation as "actual results" in comparison to ICNU's "reasonable approximation of expected benefits."[114/] The Company's proxy method is no more "actual" than ICNU's, however, whether considering the seven months relied upon by Mr. Dickman, or even if contemplating ten months of data in PacifiCorp's Final Update. ICNU's approach using regional spreads between market prices "should reflect a fair indication of the incremental economic margins *that will be achieved in future months*,"[115/] i.e., during the relevant test period, the Company's sole reliance upon initial EIM results does nothing to account for differences between initial EIM results and those that could be experienced in the test period. This is a significant concern, especially given various anomalies which occurred when the Company originally entered the EIM.

Contrary to the Company's allegation, ICNU does not "acknowledge that using actual EIM data is superior" in such simplistic terms,[116/] especially without any concern for fair estimation of test period expectations. PacifiCorp claims that ICNU cannot support the reasonableness of its adjustment because Mr. Mullins has recently "concocted" a more refined market-based approach to estimating future test period benefits.[117/] Moreover, his updated calculation of a $3 million adjustment in a Wyoming proceeding plainly highlights the conservatism of ICNU's recommendation in Oregon and is not a change in position.[118/]

2. PacifiCorp Understates New EIM Participant Benefits

The Company recommends crediting customers with only half of the $0.8 million Oregon-allocated inter-regional dispatch benefits associated with new EIM participants, as

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114/ PacifiCorp's Opening Brief at 31:19-32:1.
115/ ICNU/100, Mullins/36:2-3 (emphasis added).
116/ PacifiCorp's Opening Brief at 32:6-7.
117/ Id. at 32:8-10.
118/ ICNU/200, Mullins/4:3-15.

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proposed by ICNU.[119] The Company claims that ICNU "acknowledged" that its proposed benefits were "grossly overstated."[120] To this end, PacifiCorp argues that, instead of allocating "benefits identified in the E3 reports, ICNU developed a model that produced benefits so inflated that its witness could not defend them at hearing."[121] Such allegations are not supported by the record.

At hearing, Mr. Mullins explained that the E3 studies contain "actually a range" of estimates, in which "they calculated a number of scenarios."[122] Mr. Mullins' testimony then demonstrates that the Company relies upon benefits estimation *below* the average in the range considered in E3 reporting—e.g., focusing on $1.4 million when the range of $0.6 to $3.0 million was included in E3 analysis.[123] Further still, Mr. Mullins plainly stated that he disagreed with the scenario approach used by PacifiCorp, explained the presumption behind the Company's estimation, and proceeded to offer his opinion that "a better factor to use would be the relative transfer capability between [a] particular entity and PacifiCorp."[124] For PacifiCorp to ignore all such testimony and claim that Mr. Mullins "acknowledged" that his proposal was "grossly overstated," and "could not defend" his position at hearing is a serious mischaracterization.

119/ Compare ICNU/100, Mullins/39:1-8 & Table 4 (recommending a $3.2 million total Company, $0.8 million Oregon-allocated benefit), with PAC/500, Dickman/12:15-17 (recommending a $1.6 million total Company benefit).

120/ PacifiCorp's Opening Brief at 33:1-2.

121/ Id. at 33:12-14.

122/ TR. 50:20-24 (Mullins).

123/ Id. at 51:11-19 (Mullins).

124/ Id. at 51:20-52:1, 52:14-21 (Mullins).

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D. The Company's Analysis of the Hermiston Purchase Contract Should Be Deemed Imprudent

In testimony, ICNU relied upon citation to the Company's 2015 IRP filing and data produced by PacifiCorp in discovery to assert that the Company failed to properly analyze its winter peaking needs in resource planning, including a PacifiCorp memorandum expressly analyzing whether to extend the Hermiston Purchase contract.[125] More particularly, Mr. Mullins recommended that the Commission find that the Company's decision to terminate the Hermiston Purchase contract be found imprudent, since the Company did not analyze the winter peaking benefits of the Hermiston Purchase contract, despite the fact that a winter peaking resource may be needed as early as 2020 to meet western balancing area loads.[126] In its prehearing memorandum, ICNU cited to Mr. Mullins' testimony in support of the recommendation for an imprudence finding.[127]

On brief, the Company relies on mischaracterization to defend the prudency of its Hermiston Purchase contract decision. After citing to ICNU's prehearing memorandum regarding the recommendation for imprudence (in which no reference or characterization was made to the Company's reply testimony), PacifiCorp argues: "ICNU's characterization misstates the Company's reply testimony …."[128] But, ICNU's analysis and continuing recommendation purposefully rely upon documentation prepared in advance of this proceeding—not the post hoc rationalizations supplied in Company reply testimony to contend that PacifiCorp "properly accounted for the west-side winter peak."[129]

125/ ICNU/100, Mullins/39:9-42:13; ICNU/103, Mullins/1-9.
126/ Id. at 42:1-13.
127/ ICNU's Prehearing Memorandum at 12-13 & nn.61-63.
128/ PacifiCorp's Opening Brief at 36:12-14.
129/ Id. at 36:14-16 (citing PAC/500, Dickman/73-76).

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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

The Company could and should have made a determination to extend the full amount of the Hermiston point-to-point transmission contract only after determining whether the full amount was necessary in regard to its decision on whether to extend the Hermiston Purchase Power Agreement contract. The timing and coordination of the necessary internal analyses relevant to both contracts were completely within the Company's control to conduct in a prudent manner. Since the Company failed to do so, leaving at least a portion of the transmission contract no longer used and useful after the Hermiston Purchase contract expires, ICNU continues to recommend that the Commission find the Company's decision to extend the full capacity of the transmission contract imprudent and reduce Oregon-allocated NPC by $652,000.[130/]

The Company opposes this recommendation by alleging that ICNU made a "complete reversal of position."[131/] This is a mischaracterization of the facts which ignores the Company's culpability, no matter what sequence of possible events actually occurred. "According to the Company's workpapers," stating that the Hermiston point-to-point transmission contract "[redacted]" Mr. Mullins determined that PacifiCorp "appears to have renewed the full amount of capacity for [the transmission] contract after the decision not to extend the Hermiston Purchase contract had been made," i.e., [redacted].[132/] This sequence supports a finding of imprudence, because the Company would have had no rational basis to extend the unneeded portion of the transmission contract. In reply to Mr.

130/ ICNU/100, Mullins/42:14-43:13; ICNU/200, Mullins/2:6-16 & 3 at Table 1-CA, line 4b.

131/ PacifiCorp's Opening Brief at 37:7.

132/ ICNU/100, Mullins/43:3-10; ICNU/103, Mullins/2-3.

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Mullins' testimony, however, the Company alleged that it had "elected to renew the [transmission] contract in September 2013," or before the decision to extend the Hermiston Purchase contract was made.[133/] Even considering this new information from the Company, ICNU still maintained that an imprudence finding should be made, given that the Company now contended that it renewed the transmission contract "prior to performing any analysis of whether it would extend the underlying capacity contract."[134/]

In other words, either of the following event sequences would demonstrate plain imprudence on PacifiCorp's part: 1) extending the full capacity of transmission contract after it was known that the full capacity was unnecessary; or 2) extending the full capacity of a transmission contract before the Company had prudently determined whether the full capacity was necessary. In all events, the Company's imprudence and the propriety of eliminating one-half of the cost of the transmission contract from rates beginning on July 1, 2016, as recommended by Mr. Mullins,[135/] is confirmed by the Company's own analysis: "[redacted][136/]

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

ICNU continues to support an Oregon-allocated reduction of $0.2 million to NPC by reverting to UM 1355 methodology in favor of the Company's proposal to model outages dynamically based on discrete outage events over a four-year period, for the reasons supplied in

133/ PAC/500, Dickman/77:6.
134/ ICNU's Prehearing Memorandum at 13; but cf. Docket No. UE 228, Order No. 11-432 at 8 (finding it inappropriate for the Company to wait to provide evidence and arguments until late in proceedings).
135/ ICNU/100, Mullins/43:11-13.
136/ ICNU/103, Mullins/6 (emphasis added).

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Mr. Mullins' testimony.[137/] The Company alleges that its new methodology should be approved on the assertion that in UM 1355 the Commission encouraged modeling alternatives in future rate cases.[138/] But, the Company improperly contends that its new methodology "produces results that more accurately reflect actual operations" than UM 1355 methodology.[139/] This claim is unsupportable given the pattern of frequent, short outages produced under the Company's proposal which is not at all representative of outage patterns experienced in reality.[140/] Moreover, the unrealistic pattern produced under the Company's methodology would result in greater costs than expected under UM 1355 methodology reflecting the longer, less frequent outages experienced in actual operations, while also introducing the potential for skewed outage schedules.[141/]

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 maintains that the Company should be required to continue using the same planning assumptions originally used to justify PacifiCorp's Wyoming wind facilities (Glenrock and Seven Mile Hill) and reject the Company's proposal to increase NPC on an Oregon-allocated basis by $0.1 million based on newly proposed avian protection curtailment modeling.[142/] PacifiCorp claims that this recommendation was "specifically rejected" by the Commission.[143/] Contrary to the Company's claim, however, ICNU's proposal accords with both the Commission's specific findings in UE 200, as well as the rationale supporting those findings.

137/ ICNU/100, Mullins/43:14-45:2.
138/ PacifiCorp's Opening Brief at 35:7-11.
139/ Id. at 35:15-16.
140/ ICNU/100, Mullins/44:1-4.
141/ Id. at 44:4-13.
142/ Id. at 45:4-20.
143/ PacifiCorp's Opening Brief at 38:1-3 (citing Re PacifiCorp, Docket No. UE 200, Order No. 08-548 at 21 (Nov. 14, 2008).

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Specifically, the record establishes that the Company's new modeling proposal is in response to a federal court order and additional federal authority mandating wind production curtailment.[144/] This means that the Company is now trying to increase NPC to account for wind curtailment requirements occasioned by its own failings. Shareholders, not ratepayers, should not be burdened with such costs.[145/]

Finally, the Company improperly relies on settlement positions to argue against ICNU's recommendation for a $1.4 million, Oregon-allocated NPC reduction to accompany the rejection of PacifiCorp's four-year rolling average wind output calculation proposal. The Company mischaracterizes prior ICNU testimony in alleging that it "has supported a five-year rolling average to forecast PGE's wind generation."[146/] In fact, ICNU submitted testimony in the cited proceeding, UE 266, opposing PGE's recommended use of a five-year rolling average methodology (much less a four-year average as proposed by PacifiCorp).[147/] The Commission expressly noted that ICNU recommended against using "less than ten years' worth of actual data," and "instead proposed that the planning numbers from PGE's earlier consultant study be used."[148/] That testimony perfectly accords with ICNU's current recommendation that PacifiCorp "use the same profiles for ratemaking that it originally used," since "[f]our years is too short of a period to estimate a normalized level of output from wind resources."[149/]

While the Commission approved a stipulated agreement in UM 266 allowing for a five-year rolling average as a settlement compromise, the Commission also pointed out that

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144/ PAC/100, Dickman/39:9-40:7; ICNU/300.
145/ ICNU/100, Mullins/46:1-23.
146/ PacifiCorp's Opening Brief at 38:9-11 (citing Re PGE, Docket No. UE 266, Order No. 13-280 (Aug. 5, 2013)).
147/ Docket No. UE 266, Order No. 13-280 at 9.
148/ Id.
149/ ICNU/100, Mullins/46:9-10, 16-17.

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"parties did not agree as to whether a 5-year average is appropriate for future proceedings."[150/] If this were not sufficient to discredit PacifiCorp's claim that "[t]here is no principled basis for ICNU's objection to the Company's wind modeling proposal in this case,"[151/] the UM 266 settlement stipulation upon which PacifiCorp relies contains the following provisions: 1) "This settlement is not precedential as to any issue or party, except as otherwise provided in the settlement"; and 2) "The Stipulating Parties agree that this Stipulation represents a compromise in the positions of the parties."[152/]

III. CONCLUSION

For the reasons stated above, in addition to the evidence and arguments previously filed by ICNU in this proceeding, ICNU respectfully requests that the Commission adopt ICNU's briefing recommendations and reduce the Company's NPC by $4.3 million.

Dated this 28th day of September, 2015.

Respectfully submitted,

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150/ Docket No. UE 266, Order No. 13-280 at 9.
151/ PacifiCorp's Opening Brief at 38:11-12
152/ Docket No. UE 266, Stipulation at ¶¶ 10, 13.