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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 323

In the Matter of

PACIFICORP, dba PACIFIC POWER

2018 Transition Adjustment Mechanism

STAFF'S CROSS-ANSWERING BRIEF

I. INTRODUCTION

Staff of the Public Utility Commission of Oregon (Staff) responds to the response briefs submitted by intervenors in this proceeding. Staff's brief addresses the following issues raised by other parties in PacifiCorp's 2018 Transition Adjustment Mechanism (TAM) filing:

- (A) GRID model validation;
- (B) Day-Ahead Real-Time Transactions (DART) adjustment;
- (C) Long-term coal contracts & Variable O&M in NPC dispatch;
- (D) Qualifying Facilities; and
- (E) Valuation of Renewable Energy Certificates (RECs).

II. ARGUMENT

(A) Staff concurs with ICNU's recommendation that PacifiCorp be ordered to engage in GRID model validation.

Staff shares concerns raised by Oregon Citizens' Utility Board (CUB) and echoed by Industrial Customers of Northwest Utilities (ICNU) that the TAM may be fundamentally broken, as demonstrated by the addition of several exogenous adjustments, including the DART adjustment.¹ However, like ICNU, Staff finds the need for model validation to be distinct from concerns about the DART adjustment.² Both Staff and ICNU continue to request that the Commission order PacifiCorp to engage in model validation for GRID as directed by

¹ See ICNU Response Brief at 39.

² See ICNU Response Brief at 39.

1 stakeholders.³ Staff agrees that such an analysis is long overdue.⁴ Staff and ICNU further agree
2 that it is necessary in order to ensure the accuracy of the Company's NPC forecast,⁵ and are both
3 confident that they will be able to agree on reasonable parameters to ensure the process is not
4 overly burdensome for the Company.⁶ Staff notes that one significant benefit of model
5 validation may also be to instill confidence in the TAM forecast, which has been the subject of
6 extensive litigation for the past several years.⁷

7 **(B) If the Commission determines that either ICNU's or CUB's DART adjustments are**
8 **appropriate, additional refinements are necessary to the proposed methodologies.**

9 ICNU, CUB and Staff all proposed changes to the DART adjustment in testimony. As
10 indicated in Staff's response brief, if its DART adjustment proposal is adopted, there would no
11 longer be a need to normalize data because there is no evidence that the five year historic
12 correlation between load and prices is not normal.⁸ However, if Staff's adjustments are not
13 adopted, Staff finds it critical that the historic data be normalized.⁹

14 ICNU recommends two refinements to the DART adjustment. First, ICNU proposes that
15 the DART adjustment "be calculated only over the period 2015 to 2016" because "[t]his period
16 encompasses only the time since the Company began participating in the EIM."¹⁰ ICNU argues
17 that this change is appropriate "since the Company has clearly made some changes to the way
18 that it balances its system since it began participating in the EIM."¹¹ Staff generally agrees with
19 ICNU that it is appropriate to exclude abnormal years¹² and that the Company's participation in

20 ³ ICNU Response Brief at 41; Staff Response Brief at 5-6.

21 ⁴ ICNU Response Brief at 40.

22 ⁵ ICNU Response Brief at 39.

23 ⁶ ICNU Response Brief at 41.

24 ⁷ See ICNU Response Brief at 43.

25 ⁸ Staff Response Brief at 11.

26 ⁹ Staff Response Brief at 11.

¹⁰ ICNU Response Brief at 7, quoting ICNU/100, Mullins/13.

¹¹ ICNU Response Brief at 7, quoting ICNU/100, Mullins/13.

¹² Staff/500, Kaufman/24.

1 the EIM may affect the Company's DART costs.¹³ In light of ICNU's testimony, Staff
2 conducted additional analysis on DART volatility, and concluded that there was a spike in 2012,
3 2013 and 2014 that is highly correlated to the volume of real time transactions.¹⁴ Because future
4 real time transactions are anticipated to be low (not high) in the future,¹⁵ Staff finds that ICNU's
5 proposal to normalize DART data results is appropriate but should be refined, if adopted.
6 Specifically, 2013, 2014 and 2015 should be excluded from the DART data because these years
7 represent periods of high real time transactions, which are not anticipated to continue.¹⁶

8 Second, ICNU proposes that the impact of >7 day transactions be included in the DART
9 calculation, because "[s]ince 2015, this class of transactions has settled favorably relative to
10 monthly market prices, and is appropriately considered as a component of the Company's system
11 balancing activities."¹⁷ This has the effect of lowering PacifiCorp's DART costs. Staff
12 continues to believe that the more appropriate remedy to this issue is to exclude the "additional
13 balancing transactions" component of DART altogether, and therefore does not support ICNU's
14 adjustment.¹⁸ Monthly and daily transactions transform how DART costs are realized, but do not
15 create the DART costs themselves.¹⁹ Rather, DART costs are created by the correlation between
16 demand and market price.²⁰ The first component of DART (the price input) is fixed, meaning
17 GRID assumes a fixed real time purchase price. The second component of the DART
18 adjustment adds additional costs for monthly transactions. However, PacifiCorp only incurs a
19 DART cost when the average expected price is too high or too low.²¹ As Dr. Kaufman testifies,

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21 ¹³ Staff/500, Kaufman/26.

22 ¹⁴ Staff/500, Kaufman/24; Staff Response Brief at 13.

23 ¹⁵ Staff/500, Kaufman/26-27; Staff Response Brief at 13.

24 ¹⁶ Staff/500, Kaufman/29; Staff Response Brief at 13.

25 ¹⁷ ICNU Response Brief at 7, quoting ICNU/100, Mullins/13.

26 ¹⁸ Staff/500, Kaufman/32.

27 ¹⁹ Staff/500, Kaufman/33.

28 ²⁰ Staff/500, Kaufman/33.

29 ²¹ Staff/500, Kaufman/30.

1 “If PacifiCorp engages in a monthly transaction in order to partially fill its real time transaction
2 needs, then PacifiCorp is satisfying those real time needs at the monthly average price. The
3 monthly transaction does not add to the real time transaction cost that has already been inflated
4 by the price adders.”²² Therefore, the DART price adder remedies the DART problem, and there
5 is no additional need to price the additional balancing transactions as ICNU proposes.²³

6 In light of the lack of data to date, CUB proposed to normalize historic data underlying
7 the DART adjustment by applying a collar around the mechanism that removes PCAM years
8 from the rolling adjustment.²⁴ PacifiCorp accepted CUB’s proposal in its reply testimony.²⁵
9 CUB’s brief did not address this issue, and so Staff briefly notes that it continues to recommend
10 that CUB’s methodology be adjusted to make the collar symmetrical and eliminate the
11 requirement of an earnings test, meaning that the base years for the DART adjustment would
12 exclude abnormal years using a *symmetric* collar of \$30 million NPC forecast variance.²⁶
13 Effectively, this means that the second half of 2011 and all of 2013 and 2014 would be excluded
14 from the DART data.²⁷

15 **(C) Workshops on long-term coal contracts and modeling of variable O&M in coal**
16 **dispatch are not sufficient to address Staff’s issues.**

17 Both Sierra Club and Staff raised concerns regarding the Company’s coal procurement
18 process and strategy, and how the Company models dispatch of its coal units for purposes of its
19 NPC forecast. Prior to hearing, Sierra Club and PacifiCorp engaged in settlement discussions
20 and agreed to address Sierra Club’s concerns through an informal workshop process.²⁸ In its
21 response brief, Sierra Club recommends that the Commission adopt PacifiCorp’s proposal to

22 ²² Staff/500, Kaufman/30-31.

23 ²³ Staff/500, Kaufman/33.

24 ²⁴ CUB/100, Jenks/13.

25 ²⁵ PacifiCorp Opening Brief at 14.

26 ²⁶ Staff Response Brief at 12-13.

27 ²⁷ Staff Response Brief at 13.

28 ²⁸ Sierra Club Response Brief at 2; PAC/1112.

1 convene workshops on these issues following the conclusion of this proceeding.²⁹ Sierra Club
2 finds that the scope of the agreed-upon workshops will provide beneficial insight into the
3 Company's coal procurement and dispatch planning, and is an appropriate first step in addressing
4 its concerns.³⁰ However, Sierra Club also notes that the workshops alone do not alleviate its
5 concerns.³¹ Although amenable to participating in workshops on these issues, Staff agrees with
6 Sierra Club that workshops alone will not alleviate the concerns raised by it and Sierra Club.

7 The Company's coal procurement strategy was discussed at the workshops following the
8 UE 307 TAM, but did not result in PacifiCorp developing or providing the Company's policies
9 and procedures for entering into long-term coal supply agreements.³² Given the Company's
10 refusal to provide these materials in both the informal workshops following UE 307 and this
11 proceeding, Staff is not confident that workshops will provide meaningful information beyond
12 what has been provided thus far. Though sympathetic that Sierra Club has not previously
13 participated in TAM proceedings, and may therefore find greater benefit from informal
14 workshops, Staff finds that written policies and procedures are necessary to help facilitate
15 evaluation of the Company's coal procurement strategy. Therefore, Staff continues to
16 recommend that the Commission order PacifiCorp to produce a written report detailing its
17 considerations and processes when evaluating long-term coal contracts.³³

18 Furthermore, in light of the Company's insistence on ratemaking treatment in exchange
19 for modeling variable O&M in its NPC forecast, Staff continues to recommend the Commission
20 order PacifiCorp to undertake the modeling in its next TAM proceeding. Although Staff is
21 amenable to participating in a workshop to address specific modeling issues, it continues to
22 recommend that PacifiCorp recover variable O&M in general rates, as Portland General Electric

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24 ²⁹ Sierra Club Response Brief at 1.

25 ³⁰ Sierra Club Response Brief at 2-3.

26 ³¹ Sierra Club Response Brief at 3.

27 ³² Staff Response Brief at 30-31.

28 ³³ Staff's Response Brief at 30-31.

1 (PGE) does currently.³⁴ Given the impasse on ratemaking treatment, Staff does not share Sierra
2 Club's confidence that a workshop will be substantial enough to make progress on its concerns.

3 **(D) The Commission should adopt the Company's proposed contract delay rate**
4 **methodology for Qualifying Facilities, but retain the attestation requirement.**

5 Both Staff and CUB addressed delays for Qualifying Facility (QF) projects and the
6 corresponding concern that delays result in overstated QF costs in forecast rates. CUB notes that
7 it provided ample evidence that the Company is currently over-recovering QF costs, and will
8 likely continue to do so until adjustments to the TAM forecast are made for new QFs.³⁵ In order
9 to address these concerns, CUB proposed that a contract delay rate (CDR) be utilized.³⁶ CUB
10 also clarified that its intent was that a CDR be implemented as a complement to the current
11 attestation methodology, and not in lieu thereof,³⁷ which it argues helps to ensure that the initial
12 forecast is as accurate as possible.³⁸

13 CUB's proposed CDR utilizes a three year rolling average of historical QF commercial
14 operation dates (CODs). To calculate this, the Company would start by calculating QF delays
15 beginning after its November indicative filing, which means that QF contracts between
16 November 1 and January 1 of the following year are accounted for.³⁹ This produces the average
17 length of time that contracts are delayed, which CUB argues improves the accuracy of the
18 forecast.⁴⁰ Next, the Company would adjust only those QF contracts that fall within the TAM
19 year (i.e. January 1 through December 31).⁴¹ Staff and PacifiCorp, on the other hand,
20 recommend that the CDR be calculated by using the same three year rolling average proposed by

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22 ³⁴ Staff's Response Brief at 31-32.
23 ³⁵ CUB Response Brief at 3.
24 ³⁶ CUB Response Brief at 15.
25 ³⁷ CUB Response Brief at 12.
26 ³⁸ CUB Response Brief at 7-8.
³⁹ CUB Response Brief at 14.
⁴⁰ CUB Response Brief at 14.
⁴¹ CUB Response Brief at 15.

1 CUB, but weighting the CDR based on the nameplate capacity of each QF and limiting the
2 contract delay days to the number of days in the TAM year, rather than the total number of
3 days.⁴²

4 CUB's response brief also makes several other recommendations in addition to a CDR
5 methodology.⁴³ First, CUB recommends that the Commission "consider, in an appropriate
6 docket dealing with Oregon QFs, requiring QF project developers to submit monthly updates to
7 more accurately track delays."⁴⁴ Second, CUB recommends the Commission require PacifiCorp
8 to keep better records related to QF contract delays that can be used to support the Company's
9 QF forecast.⁴⁵ Third, CUB recommends the Commission hold PacifiCorp accountable for the
10 information included in its attestations, perhaps including oral testimony and attestation
11 regarding the accuracy of the information at a public meeting.⁴⁶ CUB notes that the inaccurate
12 and incomplete information contained in the attestations is "troubling."⁴⁷

13 Staff has reviewed CUB's testimony and brief on the CDR issue, and remains
14 unconvinced that CUB's methodology will produce a more accurate QF forecast. Staff continues
15 to recommend that the Commission adopt the CDR methodology proposed by PacifiCorp for the
16 2018 TAM with the understanding that Staff will continue to evaluate the merits of this approach
17 in future proceedings. Staff does, however, support CUB's recommendation that the attestation
18 process be continued. Staff finds it important that the attestation process be as accurate as
19 possible, and that PacifiCorp be accountable to the information it submits in attestations.
20 However, Staff has questions about CUB's proposal that attestation take place at a public
21 meeting.

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23 ⁴² Staff Response Brief at 33.

24 ⁴³ CUB Response Brief at 11-12.

25 ⁴⁴ CUB Response Brief at 11.

26 ⁴⁵ CUB Response Brief at 11.

⁴⁶ CUB Response Brief at 12.

⁴⁷ CUB Response Brief at 11.

1 (E) The Commission should adopt PacifiCorp's proposed valuation of Renewable
2 Energy Credits for the 2018 TAM only, and order this issue to be addressed in the
3 appropriate RPS rulemaking proceeding.

4 For the first time in a TAM proceeding, PacifiCorp, Calpine Energy Solutions, LLC
5 (Calpine) and Staff agree that there is value associated with freed-up renewable energy
6 certificates (RECs) from direct access customers. The issue in this case is how to calculate and
7 transfer the value of freed-up RECs to direct access customers. For 2018, Calpine recommends
8 that the Commission value RECs based on the price of RECs recently sold by PacifiCorp.⁴⁸
9 Calpine also recommends that the Commission direct PacifiCorp and parties to develop a
10 mechanism to directly transfer or retire freed-up RECs on behalf of the customer or Electric
11 Service Supplier (ESS) through generic workshops in order to reach a long-term resolution of
12 these issues.⁴⁹

13 Staff testified that there are several legal and policy questions implicated in REC credit
14 valuation, direct transfer to the customer or ESS, and retirement of RECs on behalf of the
15 customer or ESS.⁵⁰ In light of these issues, Staff finds PacifiCorp's proposed valuation
16 methodology appropriate for the 2018 TAM, but agrees with Calpine and PacifiCorp that these
17 issues should be addressed in a separate proceeding, such as the forthcoming RPS rulemaking
18 docket. Staff also notes that PacifiCorp's proposed methodology is likely not the methodology it
19 would support on a permanent basis.⁵¹ However, addressing these issues in a rulemaking
20 proceeding would allow for participation of all interested parties and utilities, and would allow
21 for a more comprehensive approach and solution to this issue.

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25 ⁴⁸ Calpine Response Brief at 2.

26 ⁴⁹ Calpine Response Brief at 2.

27 ⁵⁰ Staff's Response Brief at 34-35.

28 ⁵¹ Staff's Response Brief at 35.

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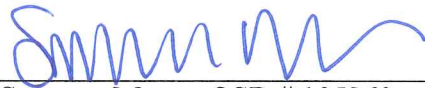
III. CONCLUSION

Staff has reviewed the response briefs filed by other parties to this proceeding, and continues to support and recommend the Commission take the actions it proposed in testimony, and reiterated in briefing.

DATED this 5th day of October, 2017.

Respectfully submitted,

ELLEN F. ROSENBLUM
Attorney General



Sommer Moser, OSB # 105260
Assistant Attorney General
Of Attorneys for Staff of the Public Utility
Commission of Oregon