



KATHERINE MCDOWELL  
Direct (503) 595-3924  
katherine@mrg-law.com

October 5, 2017

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**Re: UE 323– In the Matter PACIFICORP, dba PACIFIC POWER, 2018 Transition  
Adjustment Mechanism**

Attention Filing Center:

Attached for filing in the above-captioned docket is an electronic copy of PacifiCorp's Reply Brief (Redacted). The CONFIDENTIAL copies will be sent via overnight delivery.

Please contact this office with any questions.

Very truly yours,



Katherine McDowell

Attachment

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

In the Matter of:

PACIFICORP d/b/a PACIFIC POWER

2018 Transition Adjustment Mechanism

**UE 323**

**PACIFICORP'S REPLY BRIEF**

**REDACTED**

**October 5, 2017**

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1 **I. INTRODUCTION**

2 PacifiCorp d/b/a Pacific Power respectfully submits this reply brief to the Public  
3 Utility Commission of Oregon (Commission), addressing the response briefs filed by Staff,  
4 the Oregon Citizens' Utility Board (CUB), the Industrial Customers of Northwest Utilities  
5 (ICNU), the Sierra Club, and Calpine Energy Solutions, LLC (Calpine).

6 In the 2018 Transition Adjustment Mechanism (TAM), PacifiCorp seeks a rate  
7 increase of just 0.6 percent overall, subject to the final TAM update.<sup>1</sup> In recent orders, the  
8 Commission has explicitly approved PacifiCorp's net power cost (NPC) modeling on all  
9 contested issues in this case. Indeed, the only modeling changes PacifiCorp included reflect  
10 compromises intended to narrow the issues and reduce NPC. To that end, PacifiCorp:

- 11 • Accepted proposals that reduce the day-ahead and real-time system balancing  
12 transactions (DA/RT) adjustment by expanding the historical data used to calculate  
13 the adjustment;
- 14 • Agreed to workshops to address GRID model validation;
- 15 • Significantly increased forecast energy imbalance market (EIM) benefits by  
16 refining its modeling;
- 17 • Accepted a contract delay rate (CDR) for new qualifying facility (QF) contracts;
- 18 • Agreed to a workshop to address coal plant dispatch and coal supply contracting,  
19 including how to model coal plant variable operations and maintenance (O&M)  
20 expense in future TAMs; and
- 21 • Agreed to a workshop or other process to determine the viability of transfers of  
22 renewable energy certificates (RECs) to energy service suppliers on behalf of direct  
23 access customers.

24 Despite these compromises, parties continue to litigate the same issues relying on  
25 largely the same evidence and same arguments from recent cases. Nothing in the parties'

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<sup>1</sup> PAC/400, Wilding/5. Unless otherwise stated, all values are stated on an Oregon-allocated basis.

1 response briefs, however, provides a basis for the Commission to take a second look (or, on  
2 some issues, a third or fourth look) at these issues.

3 Staff’s response brief does not clarify, quantify, or support its recommendation for a  
4 major reduction in PacifiCorp’s 2018 TAM. On nearly every issue, Staff fails to rebut  
5 PacifiCorp’s key evidence and arguments, effectively conceding much of the company’s  
6 case:

- 7 • Staff does little to explain or support its confusing and inconsistent  
8 recommendations on the DA/RT adjustment. Staff acknowledges that its DA/RT  
9 proposals were not modeled or quantified.<sup>2</sup> Staff did not identify any new evidence  
10 that shows that the Commission was wrong to approve the DA/RT adjustment in  
11 the last two TAMs.
- 12 • On Staff’s recommendation for a backcast, Staff simply ignores the significant  
13 authority in the record that backcasting is an inefficient and controversial model  
14 validation technique—including Staff’s own brief in a recent TAM proceeding.<sup>3</sup>
- 15 • On EIM benefits, Staff does not dispute PacifiCorp’s argument that the primary  
16 difference in EIM benefits results from the treatment of new market entrants, and  
17 that Staff’s preferred approach for modeling new entrants produces a result  
18 comparable to PacifiCorp’s.<sup>4</sup>
- 19 • On Staff’s coal plant shutdown adjustment, Staff denies that its adjustment is  
20 narrowly focused on economics—but also fails to point to evidence in the record on  
21 how it meaningfully considered non-economic factors.<sup>5</sup>
- 22 • On Staff’s coal inventory adjustment, Staff disregards the consequences of  
23 maintaining an unreasonably high inventory level, especially given the possibility  
24 that Cholla 4 may close as early as 2020.<sup>6</sup>

25 For its part, ICNU’s response brief completely ignores PacifiCorp’s opening brief—  
26 failing to cite to it even one time. Instead, ICNU laboriously steps through PacifiCorp’s  
27 testimony without ever addressing the strength of PacifiCorp’s overall case on the DA/RT

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<sup>2</sup> Staff’s Response Brief at 9-10.

<sup>3</sup> Staff’s Response Brief at 2-8 (model validation discussion never addresses prior position).

<sup>4</sup> Staff’s Response Brief at 15-20.

<sup>5</sup> Staff’s Response Brief at 26 (“The fact that coal shutdowns result in lower NPC in GRID indicates that coal plants are less economical resources and should be shut down during periods of low market prices.”).

<sup>6</sup> Staff’s Response Brief at 20-23 (never even acknowledging 2020 closure).



1 adjustment or rebutting the deficiencies of ICNU’s own presentation. Most fundamentally,  
2 ICNU’s brief fails to defend or even address the flawed assumption underlying its entire  
3 case—that PacifiCorp’s participation in the sub-hourly EIM market allows it to  
4 systematically earn risk-free profits from its monthly hedging transactions.<sup>7</sup> As ICNU has  
5 repeatedly noted in the past, by definition, hedging transactions do not have a systematic cost  
6 or benefit.<sup>8</sup>

7 CUB’s response brief confusingly focuses heavily on the deficiencies in the  
8 attestation methodology, even though PacifiCorp already agreed to refine the attestation  
9 methodology to address CUB’s concerns.<sup>9</sup> On this record, there are only two substantive  
10 issues left for the Commission to decide—whether to weight the CDR by nameplate capacity  
11 and how to count the delay days. Staff supports PacifiCorp’s position on both issues.<sup>10</sup>  
12 While CUB generally objects, it does not support its position with substantive evidence or  
13 specific arguments.

14 Calpine’s response brief largely recycles the same arguments, sometimes verbatim,  
15 that it has raised unsuccessfully in past TAM proceedings. Importantly, Calpine’s response  
16 does reflect the concession that PacifiCorp’s REC credit is consistent with the Commission’s  
17 findings in the 2017 TAM.<sup>11</sup> Additionally, undermining its continued criticism of the  
18 consumer opt-out charge, Calpine argues that the Commission should ignore Calpine’s own  
19 evidence, which shows that fixed generation costs increase over time even without  
20 incremental generation investment.<sup>12</sup>

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<sup>7</sup> Confidential Response Brief of ICNU at 10 (claiming this phenomenon is “self-evident” and providing no explanation).

<sup>8</sup> *See, e.g.*, PAC/1111 at 14.

<sup>9</sup> Response Brief of the Oregon Citizens’ Utility Board at 6-10.

<sup>10</sup> Staff’s Response Brief at 32.

<sup>11</sup> Calpine Energy Solutions, LLC’s Response Brief at 11.

<sup>12</sup> Calpine Energy Solutions, LLC’s Response Brief at 25.

1 **II. ARGUMENT**

2 **A. The record supports the overall reasonableness of PacifiCorp’s NPC forecast,**  
3 **and each component of PacifiCorp’s modeling.**

4 The purpose of the TAM is to “achieve an accurate forecast of PacifiCorp’s [NPC]  
5 for the upcoming year.”<sup>13</sup> The record demonstrates that PacifiCorp’s overall NPC forecast  
6 for 2018 will produce just and reasonable rates, and PacifiCorp has carried its burden in  
7 support of each recommendation.

8 Staff claims that PacifiCorp justifies its 2018 forecast based on the accuracy of the  
9 2016 forecast.<sup>14</sup> This is untrue. The accuracy of the 2016 forecast provides support for the  
10 reasonableness of the Commission’s recently approved modeling refinements, like the  
11 DA/RT adjustment. But the accuracy of the 2016 forecast is not the primary basis on which  
12 PacifiCorp justifies its 2018 forecast.

13 Staff further claims that examining the accuracy of the overall forecast is the  
14 “inappropriate standard.”<sup>15</sup> Instead, the “Commission is tasked with weighing the evidence  
15 presented on each issue[.]”<sup>16</sup> PacifiCorp agrees that each contested adjustment must be  
16 examined on its own merits. But the “the validity of the determined rates rests on the  
17 reasonableness of the overall rates, not the theories or methodologies used or individual  
18 decisions made.”<sup>17</sup>

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<sup>13</sup> *In the Matter of PacifiCorp’s 2017 Transition Adjustment Mechanism*, Docket No. UE 307, Order No. 16-482 at 2 (Dec. 20, 2016).

<sup>14</sup> Staff’s Response Brief at 2.

<sup>15</sup> Staff’s Response Brief at 3.

<sup>16</sup> Staff’s Response Brief at 3.

<sup>17</sup> *Application of Portland Gen. Elec. Co. for an Investigation into Least Cost Plan Plant Retirement*, Docket No. DR 10 *et al.*, Order No. 08-487 at 7 (Sept. 30, 2008).

1 **B. The DA/RT adjustment remains reasonable.**

2 **1. Staff failed to produce any persuasive evidence that the DA/RT**  
3 **adjustment should be modified.**

4 **a. Staff’s primary DA/RT recommendations remain undeveloped and**  
5 **unquantified.**

6 Staff’s brief concedes it has failed to model or quantify its primary DA/RT  
7 proposals.<sup>18</sup> Staff claims this lack of evidence is actually a virtue because it shows that  
8 Staff’s modeling is not driven by the dollar-impact of its adjustment.<sup>19</sup> But there is no way to  
9 validate the accuracy of Staff’s adjustments if they are not clearly defined, modeled, and  
10 quantified. Staff’s cavalier attitude about its own DA/RT recommendation is contradicted by  
11 its insistence that “model validation is necessary in order to ensure the accuracy of NPC  
12 forecasts.”<sup>20</sup>

13 **i. Staff’s recommendation for a new forward price curve relies on**  
14 **the same general and unpersuasive evidence as last year.**

15 Staff recommends replacing the price component of the DA/RT adjustment with a  
16 conceptual and entirely untested forward price curve that would be correlated to PacifiCorp’s  
17 historical load.<sup>21</sup> In its brief, Staff failed to acknowledge that it made the same  
18 recommendation last year, and the Commission was unpersuaded.<sup>22</sup> At hearing, Staff  
19 admitted it produced no new evidence.<sup>23</sup> Staff’s brief also conceded that the DA/RT  
20 adjustment “indirectly achieves the same price-load correlation” as Staff’s  
21 recommendation.<sup>24</sup>

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<sup>18</sup> Staff’s Response Brief at 9-10.

<sup>19</sup> Staff’s Response Brief at 9-10.

<sup>20</sup> Staff’s Response Brief at 4.

<sup>21</sup> Staff’s Response Brief at 8.

<sup>22</sup> TR. 203 (Kaufman) (acknowledging the same proposal as last year).

<sup>23</sup> TR. 217 (Kaufman).

<sup>24</sup> Staff’s Response Brief at 9 (“ . . . PacifiCorp’s approach is to indirectly achieve the same price-load correlation by artificially making every purchase at a higher price and every sale at a lower price.”).

1 Staff’s brief claims that its proposal is “more representative of market prices,”<sup>25</sup> even  
2 though Staff’s witness testified he has no idea how it would impact market prices.<sup>26</sup> The  
3 only evidence Staff can muster is that its proposal is reasonable because its witness claims it  
4 is reasonable.<sup>27</sup>

5 **ii. Staff never disputes the evidence that the volume component of the**  
6 **DA/RT is necessary.**

7 Staff argues that its primary recommendation is to eliminate the volume component  
8 of the DA/RT adjustment as “unnecessary . . . because the pricing component of the DART  
9 adjustment captures the incremental DART costs.”<sup>28</sup> PacifiCorp’s testimony and opening  
10 brief outline the flaws in Staff’s reasoning, including that Staff’s own hypothetical  
11 demonstrated that the price component alone does not capture all the incremental DA/RT  
12 costs.<sup>29</sup> Staff’s brief does not dispute PacifiCorp’s evidence on this point; instead, Staff  
13 simply reiterates its own testimony without acknowledging PacifiCorp’s rebuttal testimony.

14 **iii. Staff never disputes the evidence that the DA/RT adjustment**  
15 **already accounts for arbitrage transactions.**

16 As an alternative to eliminating the volume component, Staff recommends that the  
17 DA/RT adjustment account for arbitrage transactions.<sup>30</sup> But Staff never reconciles its  
18 recommendation with the Commission’s finding last year that the adjustment appropriately  
19 accounts for arbitrage transactions—indeed, Staff does not acknowledge the existence of  
20 Commission precedent directly on point.<sup>31</sup> Staff likewise never responds to PacifiCorp’s

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<sup>25</sup> Staff’s Response Brief at 9.

<sup>26</sup> TR. 219 (Kaufman).

<sup>27</sup> Staff’s Response Brief at 9.

<sup>28</sup> Staff’s Response Brief at 10.

<sup>29</sup> PacifiCorp’s Opening Brief at 12-13.

<sup>30</sup> Staff’s Response Brief at 10.

<sup>31</sup> Order No. 16-482 at 13.

1 evidence demonstrating that the DA/RT adjustment appropriately captures the value of  
2 arbitrage transactions.<sup>32</sup>

3 Staff also claims that it quantified the arbitrage adjustment at hearing by adopting the  
4 “preliminary estimate” Staff provided in testimony and then failed to update.<sup>33</sup> Staff never  
5 explained why its “preliminary estimate” from pre-filed testimony was no longer preliminary  
6 nor does Staff explain how its calculation of the adjustment reflects the value of arbitrage  
7 transactions. Staff’s only defense of this adjustment is that it is a “sound modeling  
8 technique,”<sup>34</sup> even though Staff never disputes PacifiCorp’s argument that the “technique”  
9 relies on incorrect assumptions and is illogical.<sup>35</sup>

10 **iv. Staff’s quantification at hearing of its residual value of monthly**  
11 **transactions adjustment does not make the adjustment reasonable.**

12 Staff continues to support its recommendation that the DA/RT adjustment account for  
13 the residual value of monthly contracts.<sup>36</sup> To defend the fact that Staff never modeled or  
14 calculated this adjustment, Staff points out that at hearing, its witness testified that its  
15 preliminary estimate for the arbitrage adjustment also accounted for the residual value of  
16 monthly contracts.<sup>37</sup> Staff’s brief, however, never reconciles its live testimony with its  
17 contradictory pre-filed testimony.<sup>38</sup> Staff also fails to explain why its quantification of the  
18 arbitrage adjustment also accounts for the residual value of monthly contracts, which is  
19 purportedly a different adjustment. Without any evidence supporting this adjustment, Staff’s  
20 quantification is entirely arbitrary.

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<sup>32</sup> PacifiCorp’s Opening Brief at 10-12.

<sup>33</sup> Staff’s Response Brief at 10-11; *see also* Staff/200, Kaufman/19 (providing “Staff’s preliminary estimate”).

<sup>34</sup> Staff’s Response Brief at 10-11.

<sup>35</sup> PacifiCorp’s Opening Brief at 11.

<sup>36</sup> Staff’s Response Brief at 10-11.

<sup>37</sup> Staff’s Response Brief at 11.

<sup>38</sup> Staff/200, Kaufman/20 (“This estimate does not include the residual value of monthly and daily contracts.”).

1 Further, Staff’s mere recitation of the sentence describing how this adjustment would  
2 be calculated provides insufficient information to actually implement the proposal or  
3 comprehend its impact on the accuracy of the NPC forecast.<sup>39</sup>

4 **b. Staff cannot explain why its DA/RT normalizing recommendations**  
5 **are not entirely arbitrary.**

6 If the Commission rejects Staff’s primary recommendations discussed above, Staff  
7 recommends that the historical data used to calculate the DA/RT adjustment be limited,  
8 either by excluding 2011, 2013, and 2014 as outliers, or 2013, 2014, and 2015 as outliers.<sup>40</sup>  
9 Staff claims that these are stand-alone recommendations, so they can be contradictory.<sup>41</sup>  
10 This is not logical. The purpose of each recommendation is to remove outliers, so the fact  
11 each method identified a different set of outliers is a critical flaw unrebutted by Staff.  
12 Moreover, if both methods identify outliers, as Staff appears to now argue, then only two of  
13 the last six years are normal—a patently unreasonable result.<sup>42</sup>

14 Staff justifies its exclusion of 2013, 2014, and 2015 as outliers because it is  
15 “grounded in data and evaluates whether historic transactions are representative of future  
16 transactions.”<sup>43</sup> Staff’s testimony, however, simply observes that real-time sales were low in  
17 2016 and then assumes—without any evidence or analysis—that those low sales will  
18 continue.<sup>44</sup> Staff never disputes the company’s testimony that 2016 was unusually low  
19 because of historically low natural gas prices that are not expected to continue.<sup>45</sup>

20 In its brief, Staff further defends its removal of 2013 to 2015 because its analysis  
21 “does not require a long history of data, because it is simply comparing recent history to

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<sup>39</sup> Staff’s Response Brief at 11.

<sup>40</sup> Staff’s Response Brief at 13.

<sup>41</sup> Staff’s Response Brief at 14.

<sup>42</sup> PacifiCorp’s Opening Brief at 15.

<sup>43</sup> Staff’s Response Brief at 14.

<sup>44</sup> Staff/500, Kaufman/27-29.

<sup>45</sup> PAC/800, Wilding/18.

1 future expectations.”<sup>46</sup> But Staff’s testimony explicitly contradicts this claim—the “length of  
2 the data [is] too short to draw conclusions about whether these three years are normal or  
3 abnormal.”<sup>47</sup> Staff presents no analysis of “future expectations.”

4 Turning to Staff’s proposed collar, which excludes 2011, 2013, and 2014, Staff  
5 argues that PacifiCorp cannot criticize Staff because the company accepted CUB’s proposal  
6 for a similar collar.<sup>48</sup> But Staff conceded at hearing that CUB’s collar would not exclude any  
7 years as outliers, while Staff’s collar would eliminate one-half.<sup>49</sup> The fact each collar  
8 operates differently and produces markedly different results distinguishes PacifiCorp’s  
9 support for CUB’s proposal and its opposition to Staff’s.

10 **c. Staff’s claim that it has presented new evidence is incorrect.**

11 In the 2017 TAM, the Commission affirmed the DA/RT adjustment after concluding  
12 that the parties had presented no persuasive evidence that the Commission was wrong.<sup>50</sup> In  
13 its brief, Staff claims that it has presented new evidence here that is distinguishable from the  
14 unpersuasive evidence it presented last year.<sup>51</sup> But a cursory review shows this is untrue:

- 15 • First, Staff claims that it presented new evidence that PacifiCorp makes substantially  
16 more profit from arbitrage transactions than what is modeled in GRID.<sup>52</sup> The  
17 company’s testimony showed this was incorrect, however, and neither Staff’s testimony  
18 nor brief disputed this testimony.<sup>53</sup>
- 19 • Second, Staff claims that it presented new evidence that the residual value of monthly  
20 contracts offsets the incremental costs incurred in real-time markets.<sup>54</sup> But neither

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<sup>46</sup> Staff’s Response Brief at 14. Staff’s brief refers to ICNU’s analysis, but cites to Staff’s analysis.

<sup>47</sup> Staff/500, Kaufman/24.

<sup>48</sup> Staff’s Response Brief at 14.

<sup>49</sup> TR. 223-24 (Kaufman).

<sup>50</sup> Order No. 16-482 at 13.

<sup>51</sup> Staff’s Response Brief at 14-15.

<sup>52</sup> Staff’s Response Brief at 15.

<sup>53</sup> PAC/400, Wilding/16-17.

<sup>54</sup> Staff’s Response Brief at 15.

1 Staff's testimony nor brief disputed PacifiCorp's testimony showing that Staff's  
2 analysis was incomplete.<sup>55</sup>

- 3 • Third, Staff claims that it presented new evidence that the DA/RT adjustment is  
4 correlated to the volume of short-term transactions, which were abnormally high in the  
5 last five years.<sup>56</sup> As discussed above, Staff actually testified that there is insufficient  
6 data to determine if historical transactions were abnormally high, and Staff never  
7 disputed the company's explanation for the low volume of 2016 sales.

8 Staff did not meaningfully distinguish its evidence and arguments in this case from  
9 those the Commission has already deemed unpersuasive.

10 **d. The DA/RT adjustment is not designed to fill the historical gap**  
11 **between forecast and actual NPC.**

12 Staff argues the Commission concluded the "DART adjustment was intended to  
13 address the Company's persistent under-recovery of NPC."<sup>57</sup> Staff's argument does not  
14 point to any language in the Commission's orders to substantiate this claim. Instead, Staff  
15 relies entirely on the testimony of a PacifiCorp expert witness, Frank Graves, from docket  
16 UE 296. Staff's description of Mr. Graves' testimony, however, is incomplete. Mr. Graves  
17 testified that systematic costs incurred by PacifiCorp when balancing its system in the day-  
18 ahead and real-time markets were a consistent driver in the historical under-recovery because  
19 those systematic costs were not modeled in GRID.<sup>58</sup> Mr. Graves supported the DA/RT  
20 adjustment because it captured those systematic costs, thereby increasing the accuracy of the  
21 NPC forecast.<sup>59</sup> Mr. Graves never testified that the only reason the forecasted and actual  
22 NPC varied was because of these costs, nor did he testify that the DA/RT adjustment was  
23 intended, by itself, to close the variance.

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<sup>55</sup> PacifiCorp's Response Brief at 12-13.

<sup>56</sup> Staff's Response Brief at 15.

<sup>57</sup> Staff's Response Brief at 7.

<sup>58</sup> Staff/716 at 5.

<sup>59</sup> Staff/716 at 5.



1                   **e. PacifiCorp has refined the DA/RT adjustment in response to**  
2                   **reasonable concerns and recommendations.**

3                   Staff claims that PacifiCorp “suggests that once the Commission has approved a  
4 modeling adjustment” it is not appropriate to continue to validate the adjustment.<sup>60</sup> ICNU  
5 likewise claims that PacifiCorp has opposed “all calls for refinement[.]”<sup>61</sup> These claims are  
6 contradicted by the fact that PacifiCorp refined the adjustment in the 2017 TAM and again in  
7 this case in direct response to parties’ concerns.<sup>62</sup> PacifiCorp opposes *unreasonable*  
8 modifications, like Staff’s and ICNU’s recommendations here.

9                   **2. ICNU’s proposed modifications to the DA/RT adjustment are meritless.**

10                   **a. Contrary to ICNU’s claim, the Commission had sufficient time when**  
11                   **it approved the DA/RT adjustment.**

12                   ICNU claims that PacifiCorp “essentially inundates the Commission and all parties  
13 with a deluge of testimony” in the TAM, and argues that the Commission had insufficient  
14 time to review and make an informed decision when it originally approved the DA/RT  
15 adjustment in the 2016 TAM.<sup>63</sup> PacifiCorp disagrees and believes that the Commission’s  
16 orders in recent TAMs were supported by the record, well-reasoned, and based on sufficient  
17 review. Indeed, in the 2016 TAM, the Commission specifically noted that parties “have had  
18 sufficient time and opportunity to review and assess” the DA/RT adjustment.<sup>64</sup> More  
19 importantly, regardless of what happened in the 2016 TAM, ICNU has no basis to claim that  
20 the parties have had insufficient time in this case to understand the adjustment, given the pre-  
21 filing workshops on the DA/RT adjustment.

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<sup>60</sup> Staff’s Response Brief at 8.

<sup>61</sup> Confidential Response Brief of ICNU at 8.

<sup>62</sup> PacifiCorp’s Opening Brief at 5.

<sup>63</sup> Confidential Response Brief of ICNU at 3-6, 18-19, 31, 35.

<sup>64</sup> *In the Matter of PacifiCorp’s 2016 Transition Adjustment Mechanism*, Docket No. UE 296, Order No. 15-394 at 4 (Dec. 11, 2015).

1                   **b. The DA/RT adjustment correctly excludes hedging transactions.**

2                   **i. ICNU’s greater-than-seven-day transactions are hedges.**

3                   ICNU claims that the greater-than-seven-day transactions, which ICNU agrees are  
4 primarily monthly transactions, are not just hedges.<sup>65</sup> But ICNU previously argued explicitly  
5 that “making forward monthly transactions . . . constitutes a form of hedging,” and that if the  
6 DA/RT adjustment “assign[ed] additional costs to monthly transactions,” then it improperly  
7 “assign[s] costs to hedging contracts in the normalized NPC forecast[.]”<sup>66</sup>

8                   **ii. Including hedges is inconsistent with the reasoning behind the**  
9                   **DA/RT adjustment.**

10                  ICNU claims that including hedges in the DA/RT adjustment is consistent with the  
11 Commission’s approval of the adjustment because the company uses monthly products to  
12 balance its system.<sup>67</sup> There are fundamental differences, however, between the day-ahead  
13 and real-time transactions, and monthly transactions, and the DA/RT adjustment has never  
14 included monthly transactions.

15                  PacifiCorp incurs systematic costs in the day-ahead and real-time markets that are not  
16 reflected in GRID because the company typically sells power when prices are less than the  
17 average monthly price and buys power when prices are more than the average monthly  
18 price.<sup>68</sup> These systematic losses occur because PacifiCorp cannot delay these necessary  
19 system balancing transactions in the day-ahead and real-time markets—if energy is needed to  
20 serve load, PacifiCorp must transact.<sup>69</sup> Thus, the systematic costs reflected in the DA/RT  
21 adjustment result from the company’s position as a price-taker in the market.

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<sup>65</sup> Confidential Response Brief of ICNU at 21-22, 34.

<sup>66</sup> Docket No. UE 296, Response Brief of ICNU at 7 (Sept. 28, 2015).

<sup>67</sup> Confidential Response Brief of ICNU at 8, 24-25.

<sup>68</sup> PAC/100, Wilding/20; Staff/716 at 10-11.

<sup>69</sup> Staff/716 at 12.

1           When the company enters monthly transactions, on the other hand, it is not a price-  
2 taker because it has greater flexibility to transact. Thus, there are no systematic costs  
3 associated with monthly transactions, as ICNU’s own evidence demonstrates.<sup>70</sup> ICNU’s  
4 argument relies heavily on the fact that PacifiCorp uses monthly transactions to balance its  
5 system, but that fact does not mean those transactions should be included in the DA/RT  
6 adjustment.

7           ICNU also claims that PacifiCorp “effectively concedes” that monthly hedging  
8 transactions should be included in the DA/RT adjustment because the company objected to  
9 the fact that Staff did not quantify its proposal to include the residual value of monthly  
10 contracts in the adjustment.<sup>71</sup> This argument is illogical—PacifiCorp objected to Staff’s  
11 adjustment because it was unreasonable, not just because it was unquantified.

12                           **iii. Unlike DA/RT transactions, monthly transactions do not**  
13                           **systematically differ from the average monthly price.**

14           PacifiCorp testified that when it enters into monthly transactions, the hedge price may  
15 end up higher or lower than the average monthly price.<sup>72</sup> ICNU claims this admission  
16 “unequivocally” supports capturing this price difference in the DA/RT adjustment.<sup>73</sup> But  
17 PacifiCorp further testified that this price differential is not systematically biased, unlike day-  
18 ahead and real-time transactions.<sup>74</sup> The company also testified that this price differential  
19 reflects the difference between the forward price at the time the company executed the hedge  
20 and the spot price when the energy is delivered, which is not the same price differential  
21 captured by the DA/RT adjustment.<sup>75</sup>

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<sup>70</sup> PacifiCorp’s Opening Brief at 19-22.

<sup>71</sup> Confidential Response Brief of ICNU at 14.

<sup>72</sup> PAC/400, Wilding/23.

<sup>73</sup> Confidential Response Brief of ICNU at 25.

<sup>74</sup> PAC/800, Wilding/25-27; PacifiCorp’s Opening Brief at 19-22.

<sup>75</sup> PAC/800, Wilding/25, 31.

1 ICNU argues that the benefits from hedging have been historically excluded from the  
2 company’s NPC forecast and therefore including them through ICNU’s adjustment will  
3 increase NPC accuracy.<sup>76</sup> But hedging has not historically produced systematic benefits or  
4 costs and therefore a normalized NPC forecast would not include any benefits or costs. To  
5 be clear, however, the company’s NPC modeling does include system balancing costs  
6 associated with monthly transactions, but those monthly transactions are appropriately valued  
7 at the average monthly price because they do not systematically differ from that price.

8 **iv. ICNU cannot explain its prior contradictory position.**

9 ICNU claims that, to the extent its position here is the opposite of its position in the  
10 2016 TAM, there is a “perfectly principled basis for that difference.”<sup>77</sup> Specifically, ICNU  
11 claims that it has now conducted empirical analysis showing that there is a forward premium  
12 in PGE’s gas prices.<sup>78</sup> But this analysis—which relates to another utility, another  
13 commodity, and is not in the record—does not demonstrate that PacifiCorp’s participation in  
14 the EIM has allowed PacifiCorp to systematically benefit from its hedging transactions. The  
15 evidence that is in the record here shows that PacifiCorp does not systematically benefit from  
16 its hedging transactions, just as ICNU testified in the 2016 TAM, when it argued that the  
17 claim there are “systematic cost[s] associated with making hedging transactions in the  
18 forward markets—is not supported by industry practice and does not represent costs properly  
19 includable in a power cost forecast.”<sup>79</sup>

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<sup>76</sup> Confidential Response Brief of ICNU at 33.

<sup>77</sup> Confidential Response Brief of ICNU at 22.

<sup>78</sup> Confidential Response Brief of ICNU at 22.

<sup>79</sup> PAC/1111 at 14.

1                   **c. ICNU cannot explain why the EIM supposedly enables PacifiCorp’s**  
2                   **hedges to systematically beat the market.**

3                   ICNU claims it is “self-evident” that the EIM now allows the company to  
4 systematically benefit from hedging.<sup>80</sup> But two years of data showing benefits does not  
5 demonstrate a systematic pattern. Even Staff disputes ICNU’s reliance on only post-EIM  
6 data, and testifies that there is insufficient data to determine whether the last two years are  
7 normal or abnormal.<sup>81</sup> Moreover, ICNU has never explained why the operational changes  
8 resulting from the company’s participation in a sub-hourly imbalance market allow it to now  
9 beat the market when it hedges. ICNU’s purported correlation is neither self-evident nor  
10 supported by anything in the record.

11                  ICNU also misleadingly quotes PacifiCorp’s testimony to claim that the company  
12 admitted that the low DA/RT costs in 2016 were the result of the EIM.<sup>82</sup> PacifiCorp testified  
13 that, “[w]hile the participation in the EIM may have impacted 2016 as well, *the primary*  
14 *driver [of lower DA/RT costs] was natural gas prices.*”<sup>83</sup> ICNU’s brief omits the last clause  
15 in the sentence. And ICNU never disputed the company’s testimony that the low DA/RT  
16 costs in 2016 were due to historically low natural gas prices, not the EIM.

17                   **d. The additional EIM data in this case does not demonstrate that the**  
18                   **Commission was wrong to approve the DA/RT adjustment.**

19                  ICNU also argues that when the Commission approved the DA/RT adjustment in the  
20 2016 TAM, there was not “one iota of EIM operational data at that time.”<sup>84</sup> But the  
21 Commission subsequently affirmed the DA/RT adjustment in the 2017 TAM, and

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<sup>80</sup> Confidential Response Brief of ICNU at 10.

<sup>81</sup> Staff/500, Kaufman/24.

<sup>82</sup> Confidential Response Brief of ICNU at 33.

<sup>83</sup> PAC/800, Wilding/18 (emphasis added).

<sup>84</sup> Confidential Response Brief of ICNU at 16.

1 specifically rejected the argument that the adjustment improperly relied on pre-EIM data.<sup>85</sup>  
2 ICNU argues that its analysis here includes additional post-EIM data from 2016 that  
3 persuasively shows that pre-EIM data is no longer relevant. The 2016 evidence does not  
4 show that day-ahead and real-time transactional costs have fundamentally changed post-  
5 EIM.<sup>86</sup>

6 **e. There is no evidence that hedging benefits reflect intra-regional EIM**  
7 **benefits.**

8 For the first time, ICNU argues in its brief that its modification to the DA/RT  
9 adjustment is intended to capture intra-regional EIM benefits.<sup>87</sup> Intra-regional benefits result  
10 from the fact PacifiCorp is able to more efficiently dispatch its resources.<sup>88</sup> There is no  
11 evidence, however, that more efficient dispatch has allowed the company to now  
12 systematically benefit from monthly hedging transactions, which is the basis for ICNU's  
13 adjustment.

14 **f. ICNU's proposals effectively eliminate the DA/RT adjustment.**

15 ICNU argues that it has not recommended that the Commission reject the DA/RT  
16 adjustment.<sup>89</sup> But ICNU proposes a fundamental change in how the adjustment is calculated  
17 and the costs and benefits included, and an entirely new and truncated historical period to  
18 normalize the adjustment. These modifications eliminate nearly 90 percent of the  
19 adjustment, and amount to a rejection of the DA/RT adjustment approved by the Commission  
20 in the last two TAMs.

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<sup>85</sup> Order No. 16-482 at 12-13.

<sup>86</sup> PacifiCorp Opening Brief at 18.

<sup>87</sup> Confidential Response Brief of ICNU at 15.

<sup>88</sup> PAC/100, Wilding/25.

<sup>89</sup> Confidential Response Brief of ICNU at 19.

1                   **g. ICNU concedes that the Commission has independently rejected each**  
2                   **of its recommendations.**

3                   ICNU claims that the Commission has not previously rejected its DA/RT  
4 recommendation because no party has proposed both to include hedging benefits and limit  
5 the historical period to only post-EIM data.<sup>90</sup> But ICNU does not dispute that the  
6 Commission has rejected each of its recommendations individually, and provides no  
7 explanation of why combining the two makes them reasonable, when each is unreasonable on  
8 its own.<sup>91</sup>

9                   **h. ICNU’s reliance on PacifiCorp’s inter-regional EIM forecast**  
10                   **methodology to modify the DA/RT adjustment is misplaced.**

11                  ICNU also argues that using only two years of post-EIM data will produce a  
12 normalized DA/RT adjustment because PacifiCorp used “less than four months of new EIM  
13 data” to forecast inter-regional EIM benefits.<sup>92</sup> PacifiCorp used six months of EIM data, not  
14 four, and ICNU’s comparison is entirely inapt. Forecasting inter-regional benefits is a  
15 fundamentally different exercise than forecasting DA/RT costs. The fact that the historical  
16 data used to forecast inter-regional benefits differs from the data used to forecast the DA/RT  
17 adjustment is irrelevant.

18                  **C. Staff and ICNU ignore the problems associated with using a backcast study.**

19                  Staff recommends that the Commission direct PacifiCorp to perform a backcast study  
20 “agreed to by Staff and ICNU.”<sup>93</sup> ICNU too claims that a “backcast is perfectly suited for  
21 GRID model validation[.]”<sup>94</sup> In their briefs, neither Staff nor ICNU dispute that the weight

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<sup>90</sup> Confidential Response Brief of ICNU at 20.

<sup>91</sup> Order No. 16-482 at 12-13.

<sup>92</sup> Confidential Response Brief of ICNU at 29-30.

<sup>93</sup> Staff’s Response Brief at 6.

<sup>94</sup> Confidential Response Brief of ICNU at 44.

1 of authority rejects the efficacy of backcast studies.<sup>95</sup> Staff’s brief never acknowledges its  
2 previous lack of support for backcast studies or justifies its reversal of position here.<sup>96</sup>

3 ICNU relies heavily on the fact that when GRID was first developed, PacifiCorp  
4 validated its accuracy with a backcast.<sup>97</sup> Running a backcast when a model is first  
5 introduced, before there are historical results to analyze, is non-analogous. The company  
6 now has nearly 20 years of historical data available to validate the accuracy of the GRID  
7 model without resorting to a controversial, time-intensive backcast study.

8 **D. Staff’s methodology for calculating EIM benefits is unprincipled.**

9 Staff does not dispute that its original methodology, as corrected, produced nearly the  
10 same forecast as PacifiCorp. Instead, Staff argues that this observation is “perplexing”  
11 because PacifiCorp criticized Staff’s original methodology as inconsistent with market  
12 fundamentals.<sup>98</sup> Staff claims that PacifiCorp “seems to suggest that the Commission should  
13 be concerned with the dollar amount of benefits included, rather than a principled  
14 approach.”<sup>99</sup> But it is Staff that changed its principles to maintain its original dollar  
15 adjustment, despite the fact that its original adjustment contained an error and was  
16 overstated.

17 Staff’s brief does not dispute that the most significant difference between its original  
18 and revised methodologies involves the treatment of benefits for new market entrants. Staff  
19 never explains why it has a “principled approach” that relies on an estimate that Staff claims  
20 is inaccurate.<sup>100</sup> As PacifiCorp demonstrated, and Staff’s brief did not dispute, if the  
21 adjustment for new market entrants is removed from Staff’s revised methodology and

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<sup>95</sup> PAC/800, Wilding/33-34; PAC/1105 at 3, 12.

<sup>96</sup> PAC/1102 at 4.

<sup>97</sup> Confidential Response Brief of ICNU at 44.

<sup>98</sup> Staff’s Response Brief at 18-19.

<sup>99</sup> Staff’s Response Brief at 19.

<sup>100</sup> Staff/400, Gibbens/9.



1 replaced with benefits identified by E3 (which Staff conceded is its preferred approach), then  
2 the EIM benefits are only [REDACTED].<sup>101</sup> Thus, a “principled approach” that incorporates  
3 Staff’s preferred methodology and inputs, produces an EIM benefit forecast nearly equal to  
4 PacifiCorp’s.

5 Staff further claims that it is not double-counting to include a separate adjustment for  
6 new market entrants because the “historical data does not include the benefits associated with  
7 new entrants joining the [market].”<sup>102</sup> But Staff acknowledges that historical growth has  
8 been caused, in part, by new market entrants.<sup>103</sup> For example, EIM benefits increased  
9 substantially when NV Energy joined the market and that increase is captured in Staff’s  
10 growth rate. Therefore, the historical growth rate Staff applies to historical results already  
11 includes an embedded growth rate for new entrants.<sup>104</sup>

12 Staff further claims that PacifiCorp’s EIM benefits for 2017 are likely to exceed its  
13 forecast for 2018.<sup>105</sup> Staff’s claim, however, assumes that the benefits received for the first  
14 seven months of 2017 will be replicated in the final five months. At hearing, PacifiCorp’s  
15 witness testified that this is not a reasonable assumption.<sup>106</sup>

16 **E. Staff’s proposal for modeling economic shutdowns of coal plants does not**  
17 **consider relevant economic and operational factors.**

18 **1. Staff never disputes the evidence that GRID already sufficiently**  
19 **optimizes coal generation.**

20 PacifiCorp presented undisputed evidence that since 2012, GRID has optimized coal  
21 generation every single year beyond what can be achieved in actual operations.<sup>107</sup> Indeed,

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<sup>101</sup> PacifiCorp’s Opening Brief at 35.

<sup>102</sup> Staff’s Response Brief at 20.

<sup>103</sup> Staff/100, Gibbens/8 (growth in EIM benefits “most likely due to new entrants”).

<sup>104</sup> PAC/900, Brown/8; PacifiCorp’s Opening Brief at 33-34.

<sup>105</sup> Staff’s Response Brief at 16.

<sup>106</sup> TR. 161-62 (Brown).

<sup>107</sup> PAC/800, Wilding/44.

1 even in 2016, with economic shutdowns present in actual results but not in the TAM forecast,  
2 there was a five percent difference in the dispatch of coal relative to total generation. Further  
3 decreasing coal generation, as Staff recommends, will only exacerbate this error.

4 **2. Staff’s analysis narrowly focuses on only market prices.**

5 Staff claims that its analysis identifying shutdowns is “not narrowly focused on  
6 market prices.”<sup>108</sup> But to support this claim, the same paragraph in Staff’s brief explains that  
7 GRID’s dispatch is a “function of *market price*” and therefore “*market price* [is] the  
8 fundamental factor” in Staff’s analysis, that coal plants “should be shut down during periods  
9 of low *market prices*,” and that “gas and hydro [prices] are only relevant to the extent [they]  
10 depress the *market price*.”<sup>109</sup> Elsewhere, Staff argues that “*market prices* are more important  
11 than natural gas prices or hydro generation,” and that “[f]orecasted *market prices* are such  
12 that coal shutdowns in 2018 are economical.”<sup>110</sup> Staff’s repeated insistence that market  
13 prices are the dominant, and perhaps only, factor influencing the shutdown of coal plants  
14 provides clear evidence that its analysis was “narrowly focused on market prices.”

15 **3. Increased solar generation will not allow PacifiCorp to shutdown coal**  
16 **plants in 2018.**

17 For the first time in its brief, Staff claims that the EIM, and particularly the expected  
18 surplus of solar generation in California, provides additional evidence that long-term coal  
19 plant shutdowns will be economical in 2018.<sup>111</sup> There is no evidence that PacifiCorp would  
20 replace coal generation with EIM transfers due to California’s over-supply conditions, and  
21 such a claim is patently unreasonable. There is also no evidence that increased solar  
22 generation will make long-term economic shutdowns the new normal in 2018.

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<sup>108</sup> Staff’s Response Brief at 26.

<sup>109</sup> Staff’s Response Brief at 26 (emphasis added).

<sup>110</sup> Staff’s Response Brief at 25 (emphasis added).

<sup>111</sup> Staff’s Response Brief at 25-26.

1           **4. Staff failed to explain how it considered operational issues.**

2           Staff’s brief claims that it considered operational issues when identifying periods for  
3 economic shutdowns.<sup>112</sup> But Staff never explained how it considered transmission  
4 congestion, voltage support, system inertia, or how it ensured system reliability. Staff did not  
5 rebut PacifiCorp’s evidence that Staff’s shutdown scenarios could pose reliability issues  
6 because the market transactions that replaced the shutdown coal plant do not provide similar  
7 flexibility.<sup>113</sup>

8           **5. Staff’s Cholla shutdown fails to consider the costs of the APS Exchange.**

9           Staff supports its proposed Cholla shutdown by arguing that there was no evidence  
10 that serving the APS Exchange contract with different resources would be more expensive.<sup>114</sup>  
11 The company testified, however, that it typically serves the contract with Cholla because of  
12 its proximity to APS’ system and using another resource would impose additional costs.<sup>115</sup>  
13 While the company could not quantify those costs because it would be too speculative, that  
14 does not mean the costs are not real. Moreover, the fact that Cholla has been offline for a  
15 single day during the APS Exchange period does not indicate that it could be offline for a  
16 substantial portion of the exchange period without the company incurring additional costs.<sup>116</sup>

17           **6. Staff’s comparison to gas screening is inapt.**

18           Staff claims that its proposal is like the gas screening process because both processes  
19 identify periods for economic shutdowns. Staff states that PacifiCorp disputes this  
20 comparison because the “gas screening process does not prevent gas [plants] from

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<sup>112</sup> Staff’s Response Brief at 26.

<sup>113</sup> PAC/800, Wilding/41-42.

<sup>114</sup> Staff’s Response Brief at 29.

<sup>115</sup> PAC/800, Wilding/44-45.

<sup>116</sup> TR. 129 (Wilding).

1 dispatching in economic periods, while Staff’s process does.”<sup>117</sup> This statement does not  
2 accurately describe PacifiCorp’s arguments. The gas plant screening process prevents GRID  
3 from dispatching gas units when they are not the least-cost resource and therefore the gas  
4 plant screening process conforms GRID to actual operations.<sup>118</sup> Because coal plants are not  
5 economically shutdown in normal operations, a comparable screening process would divorce  
6 GRID from reality.

7 **F. PacifiCorp’s proposal to draw down the Cholla coal plant inventory stockpile is**  
8 **prudent.**

9 **1. Staff asks the Commission to disallow prudently incurred costs.**

10 Staff argues that for ratemaking purposes, the Commission should assume that  
11 PacifiCorp will maintain the current stockpile levels at the Cholla plant for 2018, despite the  
12 company’s evidence that current levels are unreasonably high. Staff’s brief makes clear that  
13 its recommendation is not based on an operational assessment that the company should  
14 maintain the current stockpile.<sup>119</sup> Staff concedes, in fact, that it is questionable whether the  
15 current stockpile is at a manageable level.<sup>120</sup> If the current stockpile level is unreasonable, as  
16 PacifiCorp testified, then rates should reflect the prudent operational decision to draw down  
17 the stockpile in 2018.

18 **2. The Cholla coal inventory should be drawn down in anticipation of**  
19 **possible plant closure.**

20 Staff argues that PacifiCorp should not draw down the stockpile during periods of  
21 low coal use.<sup>121</sup> But Staff never addresses PacifiCorp’s evidence that the Cholla plant is  
22 forecast to retire as early as 2020 in the 2017 Integrated Resource Plan. Therefore, if the

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<sup>117</sup> Staff’s Response Brief at 27.

<sup>118</sup> PAC/800, Wilding/46-47.

<sup>119</sup> Staff’s Response Brief at 23.

<sup>120</sup> Staff’s Response Brief at 23.

<sup>121</sup> Staff’s Response Brief at 22.

1 stockpile is not drawn down in 2018, there is a risk that higher-cost liquidated damages will  
2 be pushed into future years.<sup>122</sup> The stockpile needs to be drawn down by closure, and the  
3 most economic and reasonable way to do that is to begin in 2018.

4 **3. Staff has contradictory arguments regarding how PacifiCorp should use**  
5 **its stockpiles.**

6 Staff contends that utilities “have an opportunity to shift coal contract cost risks to  
7 customers, by using the coal pile as a type of hedge between years.”<sup>123</sup> But Staff does not  
8 dispute PacifiCorp’s evidence that this theoretical opportunity exists only if utilities have  
9 perfect foresight, *e.g.*, PacifiCorp would have had to know in 2015 that it would have a large  
10 stockpile in 2018 in order to act on the opportunity Staff claims exists.<sup>124</sup> In the real world,  
11 there is no opportunity to shift costs in the way Staff alleges.

12 Although Staff is critical of utilities using stockpiles to shift costs among years, Staff  
13 also argues that PacifiCorp must use its stockpile as a hedge to mitigate the risk of liquidated  
14 damages. This argument is undermined by Staff’s past argument that using stockpiles as a  
15 hedge impermissibly shifts costs between years. Staff cannot have it both ways.

16 **4. PacifiCorp’s 2018 coal supply nomination is prudent.**

17 Finally, Staff argues that PacifiCorp imprudently nominated coal for 2018 because  
18 the company relied on the assumption that Peabody would not deliver [REDACTED]  
19 [REDACTED].<sup>125</sup> Staff claims there is no evidence for this assumption. In fact, PacifiCorp’s witness—  
20 who negotiated the agreement with Peabody—expressly testified that [REDACTED]  
21 [REDACTED].<sup>126</sup>

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<sup>122</sup> PacifiCorp’s Opening Brief at 40.

<sup>123</sup> Staff’s Response Brief at 21.

<sup>124</sup> PacifiCorp’s Opening Brief at 41-42.

<sup>125</sup> Staff’s Response Brief at 23.

<sup>126</sup> PAC/600, Ralston/9; PAC/1000, Ralston/9.

1 Staff also argues that PacifiCorp never rebutted Staff’s evidence that “PacifiCorp  
2 could have made a coal nomination that did not bind it to either [Staff’s] or PacifiCorp’s  
3 proposed coal purchases.”<sup>127</sup> On the contrary, the company testified that Staff’s proposed  
4 purchase volume exceeded the volume that could be purchased under the contract and that  
5 PacifiCorp’s nomination provided maximum flexibility based on the terms of the contract.<sup>128</sup>

6 **G. PacifiCorp’s historical dispatch of Naughton was prudent.**

7 Sierra Club confirms that PacifiCorp’s workshop proposal resolves its specific  
8 recommendations in this case.<sup>129</sup> PacifiCorp appreciates Sierra Club’s willingness to work  
9 with the company and avoid continued litigation. PacifiCorp therefore responds to only one  
10 issue raised in Sierra Club’s brief. Sierra Club incorrectly claims that its testimony  
11 demonstrated that in 2015 and 2016 the “Naughton plant’s ‘optimal’ dispatch level was  
12 below the minimum take requirement.”<sup>130</sup> Sierra Club’s brief explains that this statement  
13 assumes that PacifiCorp would not incur liquidated damages if it contracted for coal volumes  
14 that were less than the minimum take requirement in the current coal contract for Naughton.  
15 As the company explained in testimony, however, Sierra Club’s analysis incorrectly assumed  
16 that PacifiCorp could obtain the same coal pricing found in the existing contract even if the  
17 minimum take requirement were substantially lower.<sup>131</sup> Sierra Club conceded in testimony  
18 there was no basis for this assumption.<sup>132</sup> However, Sierra Club used the same pricing as the  
19 existing contract without recognizing a penalty for failing to meet the minimum take  
20 requirement. PacifiCorp demonstrated that its historical dispatch of the Naughton plant was  
21 optimal.

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<sup>127</sup> Staff’s Response Brief at 23.

<sup>128</sup> PAC/600, Ralston/8-10.

<sup>129</sup> Sierra Club’s Response Brief at 1.

<sup>130</sup> Sierra Club’s Response Brief at 5.

<sup>131</sup> PAC/600, Ralston/13.

<sup>132</sup> Sierra Club/100, Vitolo/17 (admitting he does not know if pricing would be the same).

1 **H. PacifiCorp’s proposed CDR produces a more accurate forecast because it**  
2 **recognizes that not all QFs are the same.**

3 CUB argues that PacifiCorp has not demonstrated that its proposal to weight the CDR  
4 by capacity produces a more accurate forecast.<sup>133</sup> If one assumes that a CDR generally will  
5 produce a more accurate forecast, as CUB does, then it is reasonable that the delay should be  
6 weighted for nameplate capacity. CUB’s proposal implicitly assumes that all QFs are the  
7 same size and therefore all QF delays have the same impact on customers. In reality,  
8 however, the size of the QF matters—a 100-day delay for a 10 MW QF will have a smaller  
9 impact than a 100-day delay for a 50 MW QF. PacifiCorp’s proposal reflects the fact that not  
10 every QF delay is the same because not every QF is the same.

11 PacifiCorp also proposed counting delay days based on the number of days in the  
12 TAM year; but, if the proposed COD is before the TAM year, then the delay will be applied  
13 beginning on January 1 of the TAM year.<sup>134</sup> Staff supports PacifiCorp’s approach.<sup>135</sup> CUB  
14 appears to object to this approach, but has not raised any specific arguments against it.

15 CUB clarified in its brief that it continues to support the attestation methodology and  
16 that its proposed CDR is intended as a refinement, not a replacement.<sup>136</sup> CUB then claims  
17 that PacifiCorp’s prior attestations were based on either false or incomplete information.<sup>137</sup>  
18 CUB’s only basis for this claim is the limited email communications between PacifiCorp and  
19 some QF developers. Those emails explicitly and frequently refer to the fact there were other  
20 communications that were not memorialized in an email.<sup>138</sup> CUB discounts these other

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<sup>133</sup> Response Brief of the Oregon Citizens’ Utility Board at 13.

<sup>134</sup> PAC/800, Wilding/48.

<sup>135</sup> Staff’s Response Brief at 33.

<sup>136</sup> Response Brief of the Oregon Citizens’ Utility Board at 7.

<sup>137</sup> Response Brief of the Oregon Citizens’ Utility Board at 8.

<sup>138</sup> *See, e.g.*, CUB/305 at 4, 6, 9, 13, 15, 19, 28, 33, 39, 40, 41.

1 communications as “hypothetical” because “there is no record of them.”<sup>139</sup> The record of  
2 these communications are the same emails CUB relies on. Moreover, the selective emails  
3 CUB relies on to suggest that the attestations were based on false or incomplete information  
4 are undermined by subsequent communications with the same developers with CODs  
5 generally aligned with PacifiCorp’s attestation.<sup>140</sup> At hearing, PacifiCorp’s witness  
6 explained that all communications from QF developers, not just emails, inform the  
7 company’s attestations.<sup>141</sup>

8 Finally, CUB argues extensively that PacifiCorp “has been systematically over-  
9 recovering QF contract costs.”<sup>142</sup> The evidence demonstrates that PacifiCorp’s overall QF  
10 forecasting has been accurate. Indeed, since 2008, forecast QF generation was within 0.4  
11 percent of actual generation and forecast QF costs were within 1.4 percent of actual.<sup>143</sup>

12 **I. The company’s methodology for calculating transition charges is reasonable.**

13 **1. Calpine does not dispute that PacifiCorp’s proposed REC credit**  
14 **conforms to the Commission’s finding in the 2017 TAM.**

15 Calpine acknowledges that PacifiCorp’s REC credit has “some basis in the  
16 Commission’s order in last year’s TAM,”<sup>144</sup> and does not show any way in which the  
17 proposal is inconsistent with Order No. 16-482. Calpine argues that the Commission’s  
18 findings in Order No. 16-482 rely on the fact PacifiCorp is banking all Oregon-eligible RECs

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<sup>139</sup> Response Brief of the Oregon Citizens’ Utility Board at 9.

<sup>140</sup> *See, e.g.*, CUB/305 at 28.

<sup>141</sup> TR. 77-78 (Wilding).

<sup>142</sup> Response Brief of the Oregon Citizens’ Utility Board at 5.

<sup>143</sup> CUB/200, Jenks/4; CUB/202 at 1.

<sup>144</sup> Calpine Energy Solutions, LLC’s Response Brief at 11.



1 and that PacifiCorp failed to make any effort to sell freed-up RECs.<sup>145</sup> But the company  
2 currently banks its RECs because the Commission directed it to do so.<sup>146</sup>

3 **2. Oregon law does not require the Commission to freeze generation costs**  
4 **after five years for purposes of the consumer opt-out charge.**

5 Calpine’s brief includes the same argument it made last year that Oregon law  
6 prohibits the consumer opt-out charge from accounting for fixed generation costs incurred  
7 after year five. The Commission should again reject this argument.

8 The Commission has discretion under the direct access statutes and its general  
9 ratemaking authority to adopt transition charges, like the consumer opt-out charge, that  
10 account for generation costs incurred after the direct access customer departs.<sup>147</sup> Calpine  
11 does not object to the departing customer paying Schedule 200 charges in years one through  
12 five and does not object to using inflation to forecast the Schedule 200 charges up to year  
13 five.<sup>148</sup> If the Commission can legally require direct access customers to pay these costs, as  
14 Calpine concedes, there is no legal barrier to its use of an inflation adjustment to forecast  
15 Schedule 200 costs in years six through 10.

16 The consumer opt-out charge can recover only uneconomic investments, which  
17 according to Calpine are statutorily defined as investments made before the departure of the  
18 direct access customer.<sup>149</sup> The Commission, however, has never adopted Calpine’s  
19 interpretation, and it has consistently included fixed generation costs incurred after the

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<sup>145</sup> Calpine Energy Solutions, LLC’s Response Brief at 12.

<sup>146</sup> *In the Matter of PacifiCorp’s Application for Policy Determination for Sale of Renewable Energy Credits*, Docket No. UP 266, Order No. 11-512 (Dec. 20, 2011).

<sup>147</sup> *See e.g.* ORS 757.659 (directing Commission to adopt rules implementing direct access); ORS 757.607 (granting Commission discretion to determine transition charges); *Springfield Educ. Ass’n v. Springfield School Dist.*, 290 Or 217, 230 (1980) (use of delegative terms regarding transition charges in ORS 757.607 means the Commission is “empowered to . . . make delegated policy choices of a legislative nature within the broadly stated legislative policy.”); *Gearhart v. Publ. Util. Comm’n of Oregon*, 356 Or 216, 221 (2014) (concluding that setting rates “is a unique enterprise that is governed by statute but largely left to the PUC’s discretion.”).

<sup>148</sup> Calpine Energy Solutions, LLC’s Response Brief at 17.

<sup>149</sup> Calpine Energy Solutions, LLC’s Response Brief at 14-15.

1 customer departs in transition adjustments.<sup>150</sup> Calpine does not challenge these transition  
2 adjustments and has failed to articulate any basis for treating the consumer opt-out charge  
3 differently.

4 Calpine also argues that the Commission’s rules require freezing the fixed generation  
5 costs after year five.<sup>151</sup> The ongoing valuation methodology compares the company’s fixed  
6 generation costs to the value of freed-up energy *over the entire valuation period*, not for the  
7 first five years only.<sup>152</sup> Calpine’s methodology is contrary to the Commission’s rules, which  
8 require that the fixed generation costs and freed-up energy are valued over the same time  
9 period.

10 **3. PacifiCorp has been consistent throughout this and prior cases.**

11 Calpine claims that PacifiCorp’s position has changed and that the company no  
12 longer agrees that incremental generation investment is included in years six through 10.<sup>153</sup>  
13 In fact, PacifiCorp has consistently argued that the consumer opt-out charge is not intended  
14 to account for incremental generation investments after year five because it is held constant  
15 in real terms, *i.e.*, the incremental generation costs increase at the rate of inflation.  
16 PacifiCorp has also argued that there is no legal barrier to including incremental generation  
17 investment after year five, even though that is not how the consumer opt-out charge is  
18 currently calculated.

19 **4. Calpine’s evidence undercuts its argument that fixed generation costs**  
20 **decrease over time, and PacifiCorp reasonably relied on that evidence.**

21 PacifiCorp’s opening brief demonstrated that Calpine’s Exhibit 105 shows that fixed  
22 generation costs increase even after the removal of what Calpine referred to as “major plant

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<sup>150</sup> See, e.g., Order No. 16-482 at 23.

<sup>151</sup> Calpine Energy Solutions, LLC’s Response Brief at 15.

<sup>152</sup> OAR 860-038-0005(41).

<sup>153</sup> Calpine Energy Solutions, LLC’s Response Brief at 19.

1 capital additions,” *i.e.*, new generation resources.<sup>154</sup> Calpine claims that this argument was  
2 an improper “last-minute . . . new factual theory” that its expert witness was never able to  
3 rebut.<sup>155</sup> To be clear, PacifiCorp’s brief did nothing more than point out that Calpine’s  
4 exhibit has a line-item that shows that fixed generation costs were higher in 2015 than prior  
5 years even after “major plant capital additions” are removed.<sup>156</sup> In fact, even when all capital  
6 additions are removed (except environmental upgrades), Calpine’s Exhibit 105 shows that  
7 2015 fixed generation costs are higher than 2006, 2007, 2009, 2010, 2011, and 2012.<sup>157</sup>  
8 PacifiCorp’s “new factual theory” should be no surprise to Calpine because it is evident on  
9 the face of Calpine’s Exhibit 105, and Calpine’s expert witness relies on this same data to  
10 support his recommendation.<sup>158</sup>

11 Calpine further asserts that PacifiCorp’s brief simply cites to “raw data” in Calpine’s  
12 exhibit and contains no “supporting calculations” or workpapers.<sup>159</sup> But the “raw data”  
13 PacifiCorp cites is the final revenue requirement amounts for each year that Calpine  
14 highlighted in bold in its exhibit. PacifiCorp calculated only the percentage change between  
15 two values set forth in the exhibit, using the same methodology as Calpine’s witness.<sup>160</sup>  
16 Neither basic arithmetic nor determining which of two numbers is greater requires  
17 “supporting calculations.”<sup>161</sup>

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<sup>154</sup> PacifiCorp’s Opening Brief at 47-49.

<sup>155</sup> Calpine Energy Solutions, LLC’s Response Brief at 23-24.

<sup>156</sup> Calpine Solutions/105, Higgins/2 (line labeled “Revenue Requirement excl. Major Plant Additions”). For example, PacifiCorp’s brief pointed out that from 2007 to 2015, fixed generation costs increased from \$19.49 per MWh to \$23.29 per MWh, an increase of 19 percent. *See* PacifiCorp’s Opening Brief at 48. The fixed generation costs were taken directly from Calpine’s exhibit; PacifiCorp calculated only the percentage increase.

<sup>157</sup> Calpine Solutions/105, Higgins/3 (line labeled “Rev. Req. excl. Major & Minor Plant Additions”).

<sup>158</sup> Calpine Solutions/100, Higgins/35.

<sup>159</sup> Calpine Energy Solutions, LLC’s Response Brief at 24-25.

<sup>160</sup> *See, e.g.*, Calpine Solutions/100, Higgins/35 (calculating percentage changes from 2008 to 2015 using the same “raw data” as PacifiCorp), 34 (calculating annual growth rates).

<sup>161</sup> PacifiCorp also calculated the annual growth rate using the well-established formula for doing so. This is the same formula used by Calpine’s witness, and, contrary to Calpine’s claims, footnote 314 on page 48 of PacifiCorp’s Opening Brief describes the company’s calculation.

1 Calpine next argues that if the Commission considers the fact that Exhibit 105 shows  
2 higher fixed generation costs in 2015 than earlier years, then the Commission should also  
3 consider the testimony Calpine filed with its motion to strike—testimony Calpine claims has  
4 “extensive calculations” refuting Calpine’s Exhibit 105.<sup>162</sup> That testimony, however, was  
5 never offered into the record, never subject to cross-examination, and PacifiCorp has never  
6 had an opportunity to respond to its “extensive calculations.” The fact PacifiCorp pointed  
7 out that Calpine’s own evidence on its face does not support Calpine’s argument is no basis  
8 to admit untested evidence into the record.

9 **5. PacifiCorp complied with the requirement to file a historical time series**  
10 **of fixed generation costs.**

11 As required by the Commission in the 2017 TAM, PacifiCorp’s filing here included  
12 an historical time series of fixed generation costs going back to 2006.<sup>163</sup> The costs were  
13 broken down into 10 different components, including rate of return, O&M expense,  
14 depreciation expense, and amortization expense, among others.<sup>164</sup> Calpine claims that  
15 PacifiCorp’s data was not responsive to the Commission because it did not exclude  
16 incremental generation investment.<sup>165</sup> On the contrary, the Commission did not require  
17 PacifiCorp to remove all incremental generation investment. And, as discussed above, even  
18 when incremental generation investment is removed, fixed generation costs still increase.

19 **III. CONCLUSION**

20 PacifiCorp respectfully requests that the Commission approve its proposed 0.6  
21 percent rate increase, subject to final TAM updates. The record here provides substantial

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<sup>162</sup> Calpine Energy Solutions, LLC’s Response Brief at 25.


<sup>163</sup> PAC/110.

<sup>164</sup> PAC/110.

<sup>165</sup> Calpine Energy Solutions, LLC’s Response Brief at 20-21.

- 1 evidence that PacifiCorp's proposed rates are just and reasonable, and the company has
- 2 presented compelling evidence supporting its recommendation for each contested issue.

Respectfully submitted this 5<sup>th</sup> day of October, 2017.



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Katherine A. McDowell  
Adam Lowney  
McDowell Rackner Gibson PC

Matthew McVee  
Chief Regulatory Counsel  
PacifiCorp d/b/a/ Pacific Power  
Attorneys for PacifiCorp

## CERTIFICATE OF SERVICE


I certify that I served a true and correct copy of PacifiCorp's **Reply Brief** on the parties listed below via electronic mail and/or or overnight delivery in compliance with OAR 860-001-0180.

### Service List UE 323

<b>CALPINE SOLUTIONS</b>	
Gregory M. Adams Richardson Adams, PLLC 515 N. 27 <sup>th</sup> Street Boise, ID 83702 <a href="mailto:Greg@Richardsonadams.Com">Greg@Richardsonadams.Com</a>	Greg Bass Calpine Energy Solutions, LLC 401 West A St, Ste 500 San Diego, CA 92101 <a href="mailto:Greg.Bass@Calpinesolutions.Com">Greg.Bass@Calpinesolutions.Com</a>
Kevin Higgins Energy Strategies LLC 215 State St - Ste 200 Salt Lake City, UT 84111-2322 <a href="mailto:Khiggins@Energystrat.Com">Khiggins@Energystrat.Com</a>	
<b>ICNU UE 323</b>	
Jesse E Cowell Davison Van Cleve 333 SW Taylor St., Suite 400 Portland, OR 97204 <a href="mailto:Jec@Dvclaw.Com">Jec@Dvclaw.Com</a>	Bradley Mullins Mountain West Analytics 333 SW Taylor Ste 400 Portland, OR 97204 <a href="mailto:Brmullins@Mwanalytics.Com">Brmullins@Mwanalytics.Com</a>
<b>OREGON CITIZENS' UTILITY BOARD</b>	
Oregon Citizens' Utility Board 610 SW Broadway, Ste 400 Portland, OR 97205 <a href="mailto:Dockets@Oregoncub.Org">Dockets@Oregoncub.Org</a>	Michael Goetz Oregon Citizens' Utility Board 610 SW Broadway Ste 400 Portland, OR 97205 <a href="mailto:Mike@Oregoncub.Org">Mike@Oregoncub.Org</a>
Robert Jenks Oregon Citizens' Utility Board 610 SW Broadway Ste 400 Portland, OR 97205 <a href="mailto:Bob@Oregoncub.Org">Bob@Oregoncub.Org</a>	
<b>PACIFICORP UE 323</b>	
PacifiCorp, DbA Pacific Power 825 NE Multnomah St, Ste 2000 Portland, OR 97232 <a href="mailto:Oregondockets@Pacifcorp.Com">Oregondockets@Pacifcorp.Com</a>	Katherine A McDowell McDowell Rackner Gibson PC 419 SW 11th Ave., Suite 400 Portland, OR 97205 <a href="mailto:Katherine@Mrg-Law.Com">Katherine@Mrg-Law.Com</a>

<p>Matthew McVee  PacifiCorp  825 NE Multnomah St, Ste 1800  Portland, OR 97232  <a href="mailto:Matthew.Mcvee@PacifiCorp.Com">Matthew.Mcvee@PacifiCorp.Com</a></p>	
<p><b>SIERRA CLUB</b></p>	
<p>Travis Ritchie  Sierra Club Environmental Law Program  2101 Webster Street, Suite 1300  Oakland, CA 94612  <a href="mailto:Travis.Ritchie@Sierraclub.Org">Travis.Ritchie@Sierraclub.Org</a></p>	<p>Joshua Smith  Sierra Club  2101 Webster Sreet, Ste 1300  Oakland, CA 94612  <a href="mailto:Joshua.Smith@Sierraclub.Org">Joshua.Smith@Sierraclub.Org</a></p>
<p>Alexa Zimbalist  Sierra Club  2101 Webster Street Ste 1300  Oakland, CA 94612  <a href="mailto:Alexa.Zimbalist@Sierraclub.Org">Alexa.Zimbalist@Sierraclub.Org</a></p>	
<p><b>STAFF UE 323</b></p>	
<p>George Compton  Public Utility Commission  201 High St SE  Salem, OR 97301  <a href="mailto:George.Compton@State.Or.Us">George.Compton@State.Or.Us</a></p>	<p>Scott Gibbens  Public Utility Commission 201  High St SE  Salem, OR 97301  <a href="mailto:Scott.Gibbens@State.Or.Us">Scott.Gibbens@State.Or.Us</a></p>
<p>Sommer Moser  PUC Staff - Department of Justice  1162 Court St NE  Salem, OR 97301  <a href="mailto:Sommer.Moser@Doj.State.Or.Us">Sommer.Moser@Doj.State.Or.Us</a></p>	

Dated this 5<sup>th</sup> day of October 2017.

  
Wendy McDowd  
Office Manager  
McDowell Rackner Gibson, PC