



WENDY MCINDOO  
Direct (503) 595-3922  
wendy@mrg-law.com

August 28, 2018

**VIA ELECTRONIC FILING**

PUC Filing Center  
Public Utility Commission of Oregon  
PO Box 1088  
Salem, OR 97308-1088

**Re: UE 339– In the Matter PACIFICORP, dba PACIFIC POWER, 2019 Transition  
Adjustment Mechanism**

Attention Filing Center:

Attached for filing in the above-captioned docket is an electronic copy of PacifiCorp's Reply Brief.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo  
Office Manager

Attachment

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UE 339**

In the Matter of:

PACIFICORP d/b/a PACIFIC POWER

2019 Transition Adjustment Mechanism

**PACIFICORP'S REPLY BRIEF**

**August 28, 2018**

**TABLE OF CONTENTS**

I. INTRODUCTION .....1

II. ARGUMENT .....3

    A. The matching principle supports continued inclusion of net EIM benefits.....3

    B. Inclusion of net EIM benefits is consistent with the TAM Guidelines. ....5

    C. EIM costs are discrete and will not be permanently included in the TAM. ....7

III. CONCLUSION.....8

## TABLE OF AUTHORITIES

	<b>Page(s)</b>
<b>Public Utility Commission of Oregon Orders</b>	
<i>In the Matter of PacifiCorp, dba Pacific Power 2012 Transition Adjustment Mechanism</i> , Docket No. UE 227, Order No. 11-345 (Nov. 4, 2011).....	6
<i>In the Matter of PacifiCorp, dba Pacific Power 2013 Transition Adjustment Mechanism</i> , Docket No. UE 245, Order No. 12-409 (Oct. 29, 2012).....	1
<i>In the Matter of PacifiCorp, dba Pacific Power, 2015 Transition Adjustment Mechanism</i> , Docket No. UE 278 and UM 1689, Order No. 14-331 (Oct. 1, 2014).....	3
<i>In the Matter of Portland Gen. Elec. Co. Application to Amortize Boardman Deferral</i> , Docket No. UE 196, Order No. 10-051, (Feb. 11, 2010).....	5
<i>In re PacifiCorp</i> , Docket Nos. UM 995, UE 121, & UC 578, Order No. 02-469 (July 18, 2002) .....	5
<b>Washington Utilities &amp; Transportation Commission Orders</b>	
<i>Wash. Utils. &amp; Transp. Comm’n v. Avista Corp.</i> , Dockets UE-090134 and UG-090135, Order No. 10 ¶ 46 (Dec. 22, 2009) .....	4
<i>Wash. Utils. &amp; Transp. Comm’n v. PacifiCorp</i> , Docket UE-100749, Order 06 (Mar. 25, 2011) .....	4

1 **I. INTRODUCTION**

2 PacifiCorp d/b/a Pacific Power respectfully submits this reply brief to the Public  
3 Utility Commission of Oregon (Commission) responding to the rebuttal briefs filed by the  
4 Alliance of Western Energy Consumers (AWEC) and the Oregon Citizens' Utility Board  
5 (CUB).

6 AWEC recommends that the Commission reflect Energy Imbalance Market (EIM)  
7 benefits of \$35.7 million (total-company) in the 2019 Transition Adjustment Mechanism  
8 (TAM), but disallow matching EIM costs of \$3.1 million. To support this proposal, AWEC  
9 challenges the TAM itself, arguing that it is unfair single-issue ratemaking, violates the  
10 matching principle, and increases customer rates.<sup>1</sup> AWEC's approach is not new, and the  
11 Commission has consistently rejected such broadsides against the TAM.<sup>2</sup> In this case, the  
12 proposed TAM rate increase, reflecting the stipulation, reply update and EIM costs is only  
13 \$1.3 million, or 0.1 percent—far less than the current rate of inflation. AWEC agrees this is  
14 a reasonable result, with the exception of the EIM cost issue—which is approximately  
15 \$800,000 in costs on an Oregon basis (and represents a decrease of more than \$400,000 in  
16 EIM costs from the 2018 TAM).

17 AWEC's arguments distract from the narrow and straightforward dispute in this  
18 case—whether *net* EIM benefits should be included in the TAM, consistent with the 2015,  
19 2016, 2017, and 2018 TAMs. AWEC's position is that, despite PacifiCorp's innovation in

---

<sup>1</sup> See, e.g., Rebuttal Brief of the Alliance of Western Energy Consumers at 6-7, 9, 17 (Rebuttal Brief of AWEC).

<sup>2</sup> See, e.g., Docket No. UE 323, Response Brief of the Industrial Customers of Northwest Utilities at 2-3 (Sept. 26, 2017) (arguing that the TAM is “fundamentally broken”); see, e.g., *In the Matter of PacifiCorp, dba Pacific Power 2013 Transition Adjustment Mechanism*, Docket No. UE 245, Order No. 12-409 at 3 (Oct. 29, 2012) (“As part of this updating process, we expect parties to review the forecast NPC and propose adjustments. Larger concerns with the nature and process of a TAM are outside the scope of an individual TAM proceeding.”).

1 developing the EIM and delivering millions of dollars of net power costs (NPC) savings to  
2 customers, PacifiCorp should now bear the costs of the EIM until the conclusion of the  
3 company's next general rate case. This is inconsistent with basic ratemaking principles,  
4 including matching, which are fully applicable to the TAM.

5 In its rebuttal brief, CUB does not directly support AWEC's adjustment, but asks the  
6 Commission to make clear that there are limits to PacifiCorp's ability to recover EIM costs  
7 on an ongoing basis in the TAM. It is fully consistent with the company's position for the  
8 Commission to clarify, as CUB requests, that (1) EIM costs are recoverable in the TAM only  
9 on an interim basis until the company's next general rate case, and (2) EIM costs are  
10 recoverable in the TAM only as an offset to EIM benefits. In this manner, the Commission  
11 can reject AWEC's adjustment and effectively address CUB's policy concerns about  
12 expanding the scope of the TAM.

13 As noted by CUB, PacifiCorp has not filed an Oregon general rate case for several  
14 years. As a part of the company's process for developing a new multi-state cost allocation  
15 methodology, the company agreed not to make changes in Oregon rates before January 2018.  
16 The company currently plans to file for review and adoption of new depreciation rates in  
17 2018, and expects to include EIM costs in a general rate case to implement the company's  
18 new depreciation rates by January 1, 2021. As a practical matter, this means that the  
19 company expects to include EIM costs in only one more TAM (the 2020 TAM). AWEC's  
20 concern about permanent EIM cost recovery in the TAM is therefore unfounded.

21 There is no dispute EIM benefits should be included in the TAM and there is no  
22 dispute the company incurs costs to produce those benefits. The Commission should affirm

1 that it is reasonable and fair to include net EIM benefits in the TAM until EIM costs are  
2 included in base rates.

## 3 II. ARGUMENT

### 4 A. The matching principle supports continued inclusion of net EIM benefits.

5 AWEC argues that the matching principle “is not about matching a single discrete  
6 cost with a single discrete benefit.”<sup>3</sup> But AWEC contradicts this claim when defending its  
7 own prior position that both EIM costs and benefits must be matched in rates.<sup>4</sup> AWEC  
8 concedes that “match[ing] EIM benefits with the costs in UM 1689 . . . furthered the goal of  
9 the matching principle because only those costs and benefits were at issue.”<sup>5</sup> This claim  
10 ignores the fact that AWEC took the same position in the 2015 TAM, where EIM costs and  
11 benefits were addressed within the context of the company’s overall NPC.<sup>6</sup> AWEC’s  
12 position here is also illogical—according to AWEC, when looking at EIM costs and benefits  
13 in isolation, the matching principle requires that they both be included in rates together. But  
14 when looking at EIM costs and benefits in the TAM, the matching principle requires that the  
15 costs be excluded.<sup>7</sup> AWEC cannot have it both ways. If the benefits are included in the  
16 TAM, then adherence to the matching principle requires that the costs to produce the benefits  
17 be included too, until those cost are included in base rates.

18 AWEC also relies on a Washington Utilities and Transportation Commission  
19 (WUTC) order to support its argument that the matching principle does not apply to discrete

---

<sup>3</sup> Rebuttal Brief of AWEC at 8.

<sup>4</sup> See PAC/400, Wilding/12-13.

<sup>5</sup> Rebuttal Brief of AWEC at 11.

<sup>6</sup> *In the Matter of PacifiCorp, dba Pacific Power, 2015 Transition Adjustment Mechanism*, Docket No. UE 278 and UM 1689, Order No. 14-331 at 5 (Oct. 1, 2014).

<sup>7</sup> Rebuttal Brief of AWEC at 9.

1 costs and benefits.<sup>8</sup> But the WUTC has explained that discrete adjustments “must be  
2 matched with offsetting factors” to prevent a mismatch between costs and benefits.<sup>9</sup>  
3 Offsetting factors include “whether the increase in expense directly produces offsetting  
4 benefits.”<sup>10</sup> Here, EIM costs directly produce offsetting benefits; therefore, consistency with  
5 the matching principle requires that the costs offset the benefits.

6 After first claiming that the matching principle is irrelevant because it does not apply  
7 to discrete costs and benefits,<sup>11</sup> AWEC then argues that “rather than violating the matching  
8 principle,” removing EIM costs actually “furthers its purpose and scope.”<sup>12</sup> AWEC reasons  
9 that it is “inappropriate to separately consider EIM costs and benefits as opposed to viewing  
10 them as simply another component of PacifiCorp’s overall cost of service.”<sup>13</sup> But, as AWEC  
11 concedes, the purpose of the TAM is to accurately update NPC,<sup>14</sup> so it is illogical to produce  
12 an intentional mismatch of costs and benefits simply because the annual NPC update does  
13 not also consider the company’s overall revenue requirement. AWEC agrees that NPC is a  
14 “significant percentage of a utility’s overall cost of service” and therefore the accuracy of the  
15 TAM update is critical to ensuring just and reasonable rates.<sup>15</sup>

---

<sup>8</sup> *Id.* at 8.

<sup>9</sup> *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Dockets UE-090134 and UG-090135, Order No. 10 ¶ 46 (Dec. 22, 2009) (applying matching principle to *pro forma* adjustments).

<sup>10</sup> *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 15 (Mar. 25, 2011).

<sup>11</sup> Rebuttal Brief of AWEC 10.

<sup>12</sup> *Id.* at 9

<sup>13</sup> *Id.*

<sup>14</sup> *Id.* at 10.

<sup>15</sup> *Id.*

1           Finally, the Commission’s recent approval of the same treatment of EIM costs and  
2 benefits for Idaho Power Company undermines AWEC’s broader argument that the inclusion  
3 of net EIM benefits in the TAM undermines general ratemaking principles.<sup>16</sup>

4 **B.       Inclusion of net EIM benefits is consistent with the TAM Guidelines.**

5           AWEC argues that because EIM costs are booked to accounts that are not specifically  
6 identified in the TAM Guidelines, they must be removed.<sup>17</sup> AWEC distinguishes other non-  
7 NPC benefits included in the TAM because those benefits, like NPC-related revenues and  
8 production tax credits (PTCs), are authorized by a settlement (NPC-related revenues) and a  
9 statute (PTCs). AWEC claims “no settlement and no law authorize[] inclusion of EIM costs  
10 in the TAM other than on a one-time basis in 2015.”<sup>18</sup> This argument is unpersuasive. First,  
11 nothing in the 2015 TAM settlement indicates that the interim treatment of net EIM benefits  
12 was intended to be a one-time adjustment—it was interim, but not specifically time-limited.  
13 Second, net EIM benefits have been included in every litigated TAM since the company  
14 joined the market.<sup>19</sup> The company acknowledges that AWEC did not waive its right to  
15 challenge EIM costs by not previously challenging them, but “[i]f neither the parties nor the  
16 Commission proposes a change to a particular . . . item, then the item is adopted when the  
17 Commission issues its final order, even if not specifically addressed in the order.”<sup>20</sup>

---

<sup>16</sup> Rebuttal Brief of the Oregon Citizens’ Utility Board at 3-4 (Rebuttal Brief of CUB). The language of the Commission order describing Portland General Electric’s last NPC settlement suggested that it covered both EIM costs and benefits. *See* PAC/400, Wilding/15. The company acknowledges AWEC’s citations to the record in the PGE case that indicate otherwise. Rebuttal Brief of AWEC at 4.

<sup>17</sup> Rebuttal Brief of AWEC at 13.

<sup>18</sup> *Id.* at 16.

<sup>19</sup> PAC/400, Wilding/8-12.

<sup>20</sup> *In the Matter of Portland Gen. Elec. Co. Application to Amortize Boardman Deferral*, Docket No. UE 196, Order No. 10-051, n. 15 (Feb. 11, 2010) (citing *In re PacifiCorp*, Docket Nos. UM 995, UE 121, & UC 578, Order No. 02-469 at 7 (July 18, 2002)).

1           AWEC also claims PacifiCorp previously relied on the TAM Guidelines to prevent  
2 updates to non-NPC accounts.<sup>21</sup> AWEC points to the 2012 TAM, where the company  
3 objected to AWEC’s (then ICNU) adjustment to update retail sales revenue in the TAM as an  
4 example of the company strictly enforcing the TAM Guidelines. But in that case, AWEC  
5 recommended an expansion of the TAM to include non-NPC revenues, which the company  
6 argued violated the TAM Guidelines *and* the “Commission’s long-standing policy of  
7 matching costs and revenues.”<sup>22</sup> The company and Staff argued that “if the Commission  
8 were to update all non-NPC revenues associated with increased sales, as ICNU proposes, the  
9 matching principle would require the Commission to also update all non-NPC costs on the  
10 other side of the ledger.”<sup>23</sup> The Commission rejected AWEC’s adjustment.<sup>24</sup> The  
11 company’s position here is consistent—EIM benefits are updated and therefore the “other  
12 side of the ledger” should be updated too.

13           Moreover, the inclusion of the EIM costs as an offset to the EIM benefits does not  
14 unreasonably expand the scope of the TAM, unlike AWEC’s proposal in the 2012 TAM to  
15 include all retail revenues as a new component of the TAM. EIM costs will not permanently  
16 be included in the TAM and are only included as an offset to match EIM benefits.

17           AWEC claims that the “integrity” of the TAM depends on removing EIM costs  
18 because they “are not variable, are not NPC, and are not subject to changes in market  
19 conditions.”<sup>25</sup> This argument incorrectly suggests that EIM costs stand alone when, in fact,

---

<sup>21</sup> Rebuttal Brief of AWEC at 14.

<sup>22</sup> *In the Matter of PacifiCorp, dba, Pacific Power 2012 Transition Adjustment Mechanism*, Docket No. UE 227, Order No. 11-345 at 5 (Nov. 4, 2011).

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at 6.

<sup>25</sup> Rebuttal Brief of AWEC at 10.

1 they are directly tied to an NPC benefit AWEC agrees must be included in the TAM. EIM  
2 costs offset benefits such that only *net* EIM benefits are included in the TAM.

3 **C. EIM costs are discrete and will not be permanently included in the TAM.**

4 CUB does not support AWEC’s recommendation to remove the EIM costs from the  
5 2019 TAM. CUB acknowledges that “[b]ecause the benefits of EIM participation . . . flow  
6 through the TAM, [PacifiCorp’s] variable power cost mechanism was a logical—if not  
7 overtly principled—mechanism to enable the Company to recover these costs,” particularly  
8 because the company agreed to rate case stay-out provision as part of its multi-state  
9 process.<sup>26</sup> But CUB also does not “believe that capital costs should be recoverable in the  
10 TAM in an ongoing manner without limit” and therefore asks the “Commission to include  
11 language in its Order in this proceeding that places limits on a utility’s ability to recover  
12 capital costs in a variable power cost proceeding.”<sup>27</sup>

13 The company does not oppose CUB’s suggestion that the Commission clarify that  
14 EIM costs are recoverable in the TAM on an interim basis only until the company’s next  
15 general rate case. As noted above, the company anticipates that it will file its next general  
16 rate case within two years, and will reflect EIM costs in only one more TAM. The company  
17 does not agree, however, that the Commission should address in its order when and if capital  
18 cost recovery is ever appropriate in a TAM. This is a broader policy issue which has not  
19 been briefed by parties. EIM costs were included in the 2015 TAM (and each subsequent  
20 TAM) because, as CUB acknowledges, offsetting the EIM benefits with the costs to produce  
21 those benefits was “logical—if not overtly principled.” The Commission should not  
22 categorically foreclose its ability now to approve such logical solutions in the future.

---

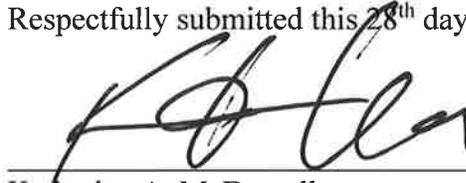
<sup>26</sup> Rebuttal Brief of CUB at 5.

<sup>27</sup> *Id.* at 6.

1 **III. CONCLUSION**

2 The Commission should affirm the inclusion of net EIM benefits in the TAM. This  
3 interim approach is reasonable until EIM costs are otherwise included in rates and is  
4 consistent with the TAM Guidelines. The TAM forecast will be more accurate by  
5 appropriately matching EIM costs and benefits.

6 Respectfully submitted this 28<sup>th</sup> day of August, 2018.



---

Katherine A. McDowell  
Adam Lowney  
McDowell Rackner Gibson PC

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

Attorneys for PacifiCorp