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May 11, 2012

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: UE 233 – Idaho Power Company's Application for Authority to Increase its Rates and Charges for Electric Service to its Customers in the State of Oregon

Attention Filing Center:

Enclosed for filing in the above-identified docket is an original and one copy of Idaho Power Company's Response to CUB and OICIP's Motion to Strike.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached Certificate of Service.

Please contact me with any questions.

Very truly yours,
Wedneld McIndoo

Wendy McIndoo Office Manager

Enclosures

cc: Service List

| 1 | BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON | | | |
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| 2 | OF OREGON | | | |
| 3 | UE 233 | | | |
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| 5 | | IDAHO POWER COMPANY'S REPONSE | | |
| 6 | | CUB AND OICIP'S MOTION TO RIKE | | |
| 7 | Request for General Rate Revision. | | | |
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| 9 | I. INTRODUCTION | | | |
| 10 | Pursuant to the OAR 860-001-0420(5) Idaho Power Company ("Idaho Power" o | | | |
| 11 | "Company") submits this Response to CUB and OICIP's Motion to Strike ("Motion"). Th | | | |
| 12 | Motion should be denied because CUB and OICIP's arguments are premised on | | | |
| 13 | fundamental misunderstanding of the Pu | blic Utility Commission of Oregon's | | |
| 14 | ("Commission") prudence standard. At its hea | rt, CUB and OICIP argue that portions of | | |
| 15 | Idaho Power's Rebuttal Testimony of John C | arstensen should be struck because the | | |
| 16 | testimony references studies that were performed by PacifiCorp and that Idaho Power die | | | |
| 17 | not specifically rely on these studies when the C | not specifically rely on these studies when the Company made the decision to invest in the | | |
| 18 | scrubber upgrades at the Jim Bridger Unit | 3. CUB and OICIP argue that the | | |
| 19 | Commission's prudence standard is a subjecti | ve one that examines only what a utility | | |

II. BACKGROUND

This phase of UE 233 is intended to address the one remaining issue that was not resolved by the Partial Stipulation, which was filed on February 1, 2012, and approved by

actually relied on when making a decision. However, this is wrong—the prudence

standard is an objective standard and therefore the evidence included in Idaho Power's

Rebuttal Testimony ("Rebuttal Testimony") is relevant to the determination of Idaho

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Power's prudence.

the Commission on February 23, 2012. Specifically, in this phase the Commission will determine the prudence of Idaho Power's decision to invest in the scrubber upgrades at

3 Jim Bridger Unit 3.

In Idaho Power's Supplemental Testimony, filed on February 1, 2012, the Company described the scrubber upgrade, the applicable environmental regulations that required the scrubber upgrade, the process by which the decision to invest in the scrubber upgrades was made, and the economic and engineering analyses that supported the decision to invest in the scrubber upgrade.² In the Company's Rebuttal Testimony, filed on May 4, 2012, the Company responded to specific issues raised by CUB in its Supplemental Testimony filed on April 13, 2012. The Company discussed the decision-making process at the Jim Bridger plant, provided additional analyses of the kind that CUB's testimony requested, responded to CUB's comparison of the Jim Bridger plant to other coal plants operated by Oregon utilities (PacifiCorp's Naughton 3 and Portland General Electric's Boardman), and discussed additional regulations and investments raised by CUB in its testimony that were not addressed by the Company because they are not relevant to the prudence of the Company's scrubber upgrade investment.

In response to the filing of the Company's Rebuttal Testimony, CUB and OICIP ask that two sections be stricken. First, CUB and OICIP move to strike the testimony on page 8, line 7 through page 9, line 26 that describes an analysis that was performed by PacifiCorp prior to the decision to invest in the scrubber upgrades (hereinafter referred to as the "CAI Capital Projects Study for Jim Bridger U3" or "Study"). That Study compared the costs of the scrubber upgrade, along with other reasonably known investments at Jim Bridger Unit 3, with the alternative cost of replacement power purchased at market rates. The results of the CAI Capital Projects Study for Jim Bridger U3 were referenced in

¹ Re Idaho Power Company, Docket UE 233, Order No. 12-055 (Feb. 23, 2012).

^{26 &}lt;sup>2</sup> See Idaho Power/1300.

testimony filed on March 1, 2012, by PacifiCorp as part of its general rate case (Docket

2 UE 246) filing in Oregon,³ and the discussion in the Rebuttal Testimony of the CAI Capital

3 Projects Study for Jim Bridger U3 was limited to the information that was publicly filed by

4 PacifiCorp in UE 246 and available on the Commission's website, with the exception of the

fact that Idaho Power's Rebuttal Testimony included the confidential numbers that were

6 not publicly available through the Commission's website. Idaho Power/1403, which

accompanied the Rebuttal Testimony, consisted of the confidential calculations that

supported the CAI Capital Projects Study for Jim Bridger U3.4

The second portion of the Rebuttal Testimony CUB and OICIP have moved to strike is found on page 12, lines 14-16 and footnote 10, referencing PacifiCorp's 2011 Integrated Resource Plan Update ("PacifiCorp's 2011 IRP Update), which included a "Coal Replacement Study Update." Again, a redacted version of this document is publicly available on the Commission's website and, as set forth below, the Company can provide a confidential version if necessary.

15 III. ARUGMENT

A. The Prudence Standard is an Objective One that Requires an Examination of what a Utility Knew <u>or Should Have Known</u> at the Time a Decision was Made.

CUB and OICIP argue that two portions of Idaho Power's Rebuttal Testimony be struck from the record because the information cited by Idaho Power in the testimony is irrelevant because it was not actually relied upon by Idaho Power when it made its decision to invest in the scrubber upgrades. With respect to the CAI Capital Projects Study for Jim Bridger U3, the Motion states that "Idaho Power did not previously have knowledge of, access to, or have in its records" the information that was received from

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³ See Re PacifiCorp, Docket UE 246, PAC/500, Teply/84-85 (Mar. 1, 2012).

⁴ CUB and OICIP have not moved to strike Idaho Power/1403.

^{26 &}lt;sup>5</sup> Motion at 5-9.

PacifiCorp and included in the Rebuttal Testimony.⁶ Therefore, CUB and OICIP argue that Idaho Power "did not rely on that study at the time it made its decision to 'consent' to the upgrades." Similarly, with respect to PacifiCorp's 2011 IRP Update, CUB and OICIP argue that this reference should be stricken from the record because the "document did not exist at the time that Idaho [Power] was required to make its decision to 'consent' or not consent to the upgrades and Idaho Power could not therefore have relied on this document." CUB and OICIP's position is based entirely on their claim that the prudence standard is a *subjective* one that examines only the material information that a utility actually relied on when making a decision. This argument is based upon a misunderstanding of the prudence standard. Indeed, contrary to CUB's arguments, the prudence standard is an *objective* standard that requires an examination not only of what a utility knew at the time it made a decision, but also the information that was available at the time.

In Order No. 02-469—the same order quoted by CUB and OICIP in their Motion—the Commission addressed an argument that was substantively the same as that made here by CUB and OICIP and in that order the Commission soundly rejected the theory that the prudence standard is subjective.⁹ At issue in Order No. 02-469 was whether contemporary evidence was required in order to evaluate the prudence of a utility decision.¹⁰ Intervenors in that case argued that to demonstrate prudence a utility must present evidence on what it actually knew and considered at the time the decision at issue was made.¹¹ The Commission rejected this argument, concluding: "We look at the

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⁶ Motion at 5.

^{23 &}lt;sup>7</sup> Motion at 6.

^{24 &}lt;sup>8</sup> Motion at 7.

⁹ Re PacifiCorp, Dockets UM 995/UE 121/UC 578, Order No. 02-469 at 4-5 (July 18, 2002).

^{25 &}lt;sup>10</sup> Order No. 02-469 at 5.

^{26 &}lt;sup>11</sup> Order No. 02-469 at 5.

1 objective reasonableness of a decision at the time the decision was made." 12 When

2 confirming the objective nature of the prudence standard, the Commission described it as

3 follows:

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. . . contemporaneous documentation is useful in a prudence review to show the nature of the information available at the time of the challenged transactions. It is, however, not a prerequisite to establishing the prudence of a utility's actions, because prudence determinations are based on an objective standard of reasonableness . . . the standard does not require [a utility] to prove the factors it actually considered with respect to the decision Such a showing can help demonstrate what information was available at the time, but evidence of subjective decision making is not otherwise a prerequisite to establishing prudence . . . if the record demonstrates that a challenged business decision was objectively reasonable, taking into account established historical facts and circumstances, the utility's decision must be upheld as prudent even if the record lacks detail on the utility's actual subjective decision making process. 13

That the prudence standard is objective, not subjective, flows directly from how the Commission consistently states the standard—a decision is prudent if it is reasonable based on what a utility knew *or should have known at the time the decision was made.*¹⁴ In other words, the Commission applies the "'reasonable person' standard to judge the prudence of a utility's investment decision."¹⁵ And the Commission has made clear that the "reasonable person" standard is purely objective. ¹⁶

^{21 &}lt;sup>13</sup> Order No. 02-469 at 5.

See e.g., Re Portland General Electric Co., Docket UE 196, Order No. 10-051 at 6 (Feb. 11, 2010) ("In a prudence review, the Commission examines the objective reasonableness of a utility's actions at the time the utility acted: 'Prudence is determined by the reasonableness of the actions 'based on information that was available (or could reasonably have been available) at the time."').

^{24 15} Re Public Utility Commission of Oregon Investigation to consider adoption of new federal standards contained in the Energy Independence and Security Act of 2007, Docket UM 1409, Order No. 09-501 at 5 (Dec. 18, 2009).

^{26 &}lt;sup>16</sup> Order No. 09-501 at 5.

Here, the Motion should be denied because CUB and OICIP's entire argument is based on their contention that the objectionable portions of the Company's Rebuttal Testimony were not actually considered by Idaho Power when making its decision and are therefore irrelevant to the question of the prudence of that decision. This argument is

directly contrary to Commission precedent and should therefore be rejected.

B. The CAI Capital Projects Study for Jim Bridger U3 is Relevant to the Prudence of Idaho Power's Decision to Invest in the Scrubber Upgrades.

Similarly, CUB and OICIP claim that the CAI Capital Projects Study for Jim Bridger U3 is irrelevant because Idaho Power did not have in its possession or rely on the results of the study when making its decision to invest in the scrubber upgrades. For the reasons discussed above, this argument should be rejected. In fact, the CAI Capital Projects Study for Jim Bridger U3 is directly relevant to the information that was available at the time the decision was made to move forward with the scrubber upgrade investment, even if Idaho Power did not actually rely on the CAI Capital Projects Study for Jim Bridger U3 at the time.

Moreover, CUB and OICIP argue that by referencing this material, Idaho Power and PacifiCorp are attempting to "subvert the record in this docket." This claim is baseless. Indeed, the results of this study were filed by PacifiCorp as part of UE 246 on March 1, 2012—a full month after Idaho Power filed its Supplemental Testimony in this docket. Idaho Power became aware of this study by examining this publicly available testimony obtained from the Commission's website. While it is true that Idaho Power subsequently obtained the confidential portions of the testimony, as well as, the confidential analysis supporting the testimony, there is nothing underhanded about this fact. CUB and OICIP cannot reasonably claim that there is something devious about Idaho Power becoming

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^{25 &}lt;sup>17</sup> Motion at 5-6.

^{26 &}lt;sup>18</sup> Motion at 5.

aware of publicly available information that is relevant to issues it is litigating and then

2 using that publicly available information in Idaho Power's testimony. In fact, CUB did the

3 exact same thing. In CUB's Supplemental Testimony in this docket, it quoted at length

4 from PacifiCorp testimony filed in Wyoming. 19 Based on CUB's use of similar publicly filed

5 PacifiCorp testimony, its suggestion that something untoward has occurred lacks

6 credibility.

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C. CUB's Argument Regarding PacifiCorp's 2011 IRP Update is Misplaced.

Like the CAI Capital Projects Study for Jim Bridger U3, CUB and OICIP cannot argue that the reference in the Rebuttal Testimony PacifiCorp's 2011 IRP Update is irrelevant simply because it was not actually relied on by Idaho Power at the time the Company made the decision to invest in the scrubber upgrades. Moreover, what CUB and OICIP miss is that the Rebuttal Testimony makes reference to PacifiCorp's 2011 IRP Update for a very limited purpose—to rebut a point raised by CUB. Idaho Power does not rely on PacifiCorp's 2011 IRP Update to demonstrate the prudence of the scrubber upgrade project.

The discussion on page 11, line 22 to page 12, line 16, was relied on by Idaho Power simply to rebut an implication made by CUB in its Supplemental Testimony that PacifiCorp's decision to convert to gas one of its other coal plants, Naughton 3, is somehow relevant to the prudence of the scrubber upgrade projects. Reviewing this section of Idaho Power's Rebuttal Testimony in its entirety makes this clear:

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¹⁹ CUB/200, Feighner-Jenks/5.

^{26 &}lt;sup>20</sup> Motion at 7.

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| 2 | Q. | CUB's testimony also discusses PacifiCorp's decision to convert its Naughton 3 unit to gas to imply that the same type of analysis that was done relative to that | |
| 3 | | plant should have been done for Jim Bridger Unit 3. Is the decision to convert Naughton 3 relevant to whether | |
| 4 | | the pollution control investments at Jim Bridger Unit 3 | |
| 5 | A. | were prudent? No. CUB's testimony on this point relied entirely on excerpts | |
| 6 | | of testimony filed by PacifiCorp in a case before the Wyoming Public Service Commission. However, in portions | |
| 7 | | of that testimony not included in CUB's testimony, PacifiCorp testified to the following: | |
| 8 | | Q. Should the Company's alternative decision regarding Naughton Unit 3 be considered indicative of the Company's other near-term | |
| 9 | | major investment decisions regarding its other operating coal fueled units? | |
| 10 | | A. No. The economic analysis for Naughton Unit | |
| 11 | | 3 is case specific and the results of which should not be considered to be representative of anticipated results for other near-term | |
| 12 | | major investments decisions for the Company's other operating coal fueled units | |
| 13 | | [including Jim Bridger Unit 3]. | |
| 14 | | Notably, while the results of the economic analysis were specific to Naughton Unit 3, the same methodology used to reach the decision to convert Naughton Unit 3 supports the | |
| 15 | | continued utilization of Jim Bridger Unit 3. ²¹ | |
| 16 | As referenced in Idaho Power's Rebuttal Testimony, CUB's testimony quotes at length | | |
| 17 | from testimony filed by PacifiCorp in Wyoming in April 2012 that stated that PacifiCorp had | | |
| 18 | decided to convert its Naughton 3 coal unit to gas. ²² Although CUB's testimony discusses | | |
| 19 | only a small portion of that PacifiCorp testimony, that Wyoming testimony also includes | | |
| 20 | several pages that discuss the alternatives analysis undertaken by PacifiCorp prior to the | | |
| 21 | decision to co | nvert Naughton 3. ²³ And other testimony filed by PacifiCorp in that Wyoming | |
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| 23 | ²¹ Idaho Power/1400, Carestensen/11, I. 22 to /12, I. 16 (citations omitted). | | |
| 24 | ²² CUB/200, Feighner-Jenks/5. | | |
| 25 26 | See page 15 and 16 of the Rebuttal Testimony of Chad Teply, which is available at the following http://www.rockymountainpower.net/content/dam/rocky_mountain_power/doc/About_Us/Rates_and_Regulation/Wyoming/Regulatory_Filings/Docket_20000_400_EA_11/04-09-12_Rebuttal_Testimony_and_Exhibits/Chad_A_Teply/2_Chad_A_Teply.pdf | | |
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1 case makes clear that the underlying analysis PacifiCorp used to reach the decision to convert Naughton 3 is substantively the same analysis that was used in PacifiCorp's 2011 2 IRP Update.²⁴ In other words, CUB's testimony states a conclusion reached by PacifiCorp 3 and now CUB claims that the underlying analysis that supports that conclusion is 4 irrelevant and should be stricken from the record. If CUB's testimony is relevant, then 5 Idaho Power's testimony is relevant to rebut CUB's claims. And again, as the Rebuttal 6 Testimony makes clear Idaho Power is not relying on PacifiCorp's 2011 IRP Update to 7 8 demonstrate the prudence of the scrubber upgrades.

CUB also raises a concern because CUB and OICIP claim that Idaho Power is improperly relying on confidential material filed in another docket.²⁵ To support this claim, CUB and OICIP compare this case to Docket UE 214, Idaho Power's 2010 Annual Power Cost Update, where Idaho Power objected to the use by another party of confidential information received by that party in a different docket.²⁶ This comparison is completely inapt. *First*, in UE 214 Staff's testimony had relied on confidential information it had received in a PacifiCorp docket, UE 207. The receipt of that confidential information by Staff was subject to the UE 207 protective order, which specifically prohibited the use of the confidential information in other docket.²⁷ Here, none of the confidential information relied on by Idaho Power was received by Idaho Power in another docket pursuant to a protective order in that docket. Because Idaho Power did not participate in LC 52, Idaho Power did not sign and is not bound by the terms of a protective order to not use the

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^{22 24} See Redacted Rebuttal Testimony of Richard T. Link, which is available at the following: http://www.rockymountainpower.net/content/dam/rocky_mountain_power/doc/About_Us/Rates_and __Regulation/Wyoming/Regulatory_Filings/Docket_20000_400_EA_11/04-09-

^{23 12}_Rebuttal_Testimony_and_Exhibits/Rick_T_Link/3_Rick_T_Link_REDACT.pdf

^{24 &}lt;sup>25</sup> Motion at 7-8.

²⁶ Motion at 8.

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27</sup> See Re Idaho Power Company, Docket UE 214, Idaho Power Company's Motion to Strike
26 Testimony; or in the Alternative, For Leave to File Rebuttal Testimony at 5 (Mar. 23, 2010).

1 information in this docket. Second, Idaho Power cited to and relied on the redacted

2 version of PacifiCorp's 2011 IRP Update.²⁸ If CUB and OICIP believe that they must

3 review the full confidential version of the 2011 IRP Update in order to rebut the Company's

4 claim that the Naughton 3 decision is not relevant to the scrubber upgrade decision then

the Company can provide confidential pages as necessary to remedy this concern.

D. CUB's Claims that Idaho Power's Rebuttal Testimony Expands the Scope of the Docket are Unpersuasive.

CUB and OICIP also argue that portions of the Rebuttal Testimony should be stricken because the use of PacifiCorp materials "takes this docket far outside its original scope." This claim is unpersuasive. As discussed above, PacifiCorp's CAI Capital Projects Study for Jim Bridger U3 is clearly relevant if it indicates information that was available at the time Idaho Power made its decision to invest in the pollution control equipment at Jim Bridger Unit 3. Therefore, the inclusion of relevant information in Idaho Power's Rebuttal Testimony is not outside the scope of this docket.

E. To Eliminate the Risk of Prejudice the Company Supports Amending the Procedural Schedule.

Concurrent with its Motion to Strike, CUB and OICIP also filed a Motion to Amend the Procedural Schedule. The Company will be filing a separate response to that motion. However, for purposes of the Motion to Strike, the Company does not object to a modification of the procedural schedule to allow CUB and OICIP to conduct additional discovery related to the Company's Rebuttal Testimony.

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²⁸ Because the Company relied on PacifiCorp's 2011 IRP Update for such limited purposes, the Company cited to the redacted version because that version was sufficient to distinguish Jim Bridger Unit 3 from Naughton 3.

^{26 &}lt;sup>29</sup> Motion at 8.

| 1 | IV. CONCLUSION | | |
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| 2 | The Commission should deny CUB and OICIP's Motion because it is based on a | | |
| 3 | flawed application of the prudence standard. Both portions of Idaho Power's Rebuttal | | |
| 4 | Testimony are relevant to the issue of the prudence of the Company's decision to invest in | | |
| 5 | the scrubber upgrades and responsive to issues raised by CUB in its testimony. For these | | |
| 6 | reasons, the Motion should be denied. | | |
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| 8 | Respectfully submitted this 11 th day of May, 2012. | | |
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| 10 | McDowell Rackner & Gibson PC | | |
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1 CERTIFICATE OF SERVICE I hereby certify that I served a true and correct copy of the foregoing document in 2 UE 233 on the following named person(s) on the date indicated below by email addressed 3 to said person(s) at his or her last-known address(es) indicated below. 4 5 6 Gordon Feighner Robert Jenks Citizens' Utility Board of Oregon Citizens' Utility Board of Oregon 7 gordon@oregoncub.org bob@oregoncub.org 8 Catriona McCracken Stephanie Andrus Assistant Attorney General Citizens' Utility Board of Oregon 9 catriona@oregoncub.org stephanie.andrus@state.or.us 10 Judy Johnson Don Reading Public Utility Commission of Oregon dreading@mindspring.com 11 judy.johnson@state.or.us 12 Erik Colville Gregory M. Adams Public Utility Commission of Oregon Richardson & O'Leary 13 Erik.colville@state.or.us greg@richardsonandoleary.com 14 Joshua D. Johnson Peter J. Richardson Richardson & O'Leary Attorney at Law 15 peter@richardsonandoleary.com jdj@racinelaw.net 16 Anthony J. Yankel Eric L. Olsen Utility Net.Inc. Attorney at Law 17 tony@yankel.net elo@racinelaw.com 18 Randy Dahlgren Douglas C. Tingey Portland General Electric Portland General Electric 19 pge.opuc.filings@pgn.com doug.tingey@pgn.com 20 Irion Sanger Melinda J. Davison Davison Van Cleve Davison Van Cleve 21 mail@dvclaw.com mail@dvclaw.com 22 Sarah Wallace R. Bryce Dalley Pacific Power Pacific Power 23 Bryce.dalley@pacificorp.com sarah.wallace@pacificorp.com 24 25

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| 5 | | |
| 6 | DATED: May 11, 2012 | |
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