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January 23, 2017

Chair Lisa Hardie
Commissioner John Savage
Commissioner Stephen Bloom
Public Utility Commission of Oregon

From: Bob Jenks, Executive Director, Citizens' Utility Board of Oregon

Re: Pacific Power TAM Workshops (Item 2, January 24, 2017 Public Meeting)

Over the last two years, Staff, CUB and other intervenors have challenged Pacific Power's power cost modeling in its TAM. Over this time, Staff, CUB and other parties have contested twenty-nine issues, and lost on twenty-eight. The one issue on which the Commission ruled against the Company was so small that it doesn't actually affect Pacific Power rates. It is, quite literally, a rounding error.

This leaves CUB in a position where we believe that the TAM is fundamentally broken, while the Company believes it is working fine. At the core of CUB's concern is the Company's lack of transparency and the continuous tinkering that are constants with regard to Pacific Power's modeling. CUB participates in a similar process for PGE and notes that PGE's AUT does not suffer from these problems. They are not inherent in complicated power cost models, but reflect Pacific Power's approach.

In the Order from the most recent TAM, the Commission ordered Pacific Power to host a number of workshops relating to some of the TAM's continuous issues and has ordered the parties to the case to participate in those workshops. CUB appreciates these workshops and believes they can be helpful — though we do not believe they are sufficient to solve the problems relating to the TAM.

However, CUB is concerned that the Company will approach these workshops as a compliance obligation rather than as a chance to collaborate with the parties and resolve some of the outstanding issues.

Workshop 1: Jim Bridger fueling strategy.

Last week's first workshop reinforced CUB's concerns that the Company's is approaching these workshops as a compliance requirement which it is obligated to host, and is not serious about collaborating with the parties to address concerns related to the TAM.

The Commission Order requiring the workshops was signed on December 20, 2016. CUB heard nothing about the first workshop, until Pacific Power notified the parties on January 3 that the workshop would be held on January 12 in Portland. I had meetings in Salem that day as did most of CUB's regulatory staff. I contacted the Company to let them know that I was interested in attending and asked them to consider moving the meeting or locating it in Salem, which would allow CUB to participate in some (but not all) of the meeting. The answer from the Company was simple. No, they would not consider accommodating CUB. I was told that this was the only date that was possible before the Commission Public Meeting on January 24 that would accommodate Idaho Power. I pointed out that Idaho Power was not a party to the case; that it was the parties to the case that were ordered to participate in the workshops; and that CUB can only comply with the Commission order to participate if the Company accommodates our schedule. In addition, I told the Company that I was well aware of the fact that this workshop needed to be held before the January 24th Public Meeting. I told the Company that I was planning on attending this public meeting. Still the Company made no effort to accommodate our schedule — the best I got was a promise to send out the slide deck to us before the workshop and an offer to brief me on what happened at the workshop after it was concluded.

While Pacific Power would not accommodate CUB, the weather intervened. The workshop was canceled due to snow. Knowing that I was coming to this public meeting may have influenced the Company to show some flexibility in rescheduling and in the end there was a date in January that seemed to accommodate both Idaho Power and CUB.

If not for the snow storm and this Public Meeting, it is doubtful that CUB could have effectively participated.

Regarding the content of the workshop, we spent the first 15 minutes discussing whether the slide deck was highly confidential or only confidential in order to determine who could see it. After the Company agreed to designate it as only confidential so all could see it, the Pacific Power team passed out the slide deck, which did not have any actual data in it. It is a stretch to call it confidential and there is no basis for its original designation as highly confidential.

In the workshop, the Company provided a very, very high level description of the four fueling strategies for its Jim Bridger plant that the Company will evaluate over the next year using the scenarios from the IRP and that any changes to fueling would then take place after a three-year transition period.

In the interim the Company will have to deal with two expiring contracts, and these new coal procurement agreements (with new minimum take-or-pay requirements) may well enter the TAM in the October update without any real opportunity for a meaningful prudence review by the parties due to the condensed procedural timeline of that period.

In addition, the high level summary of the four options all identified, but did not quantify, additional capital investments associated with that strategy. At the same time later this week, PacifiCorp will have an IRP workshop that includes its confidential Regional Haze compliance plans. It is unclear whether the level of capital investments in the fuel plan are significant

enough that they should be included in the Regional Haze analysis. The Company did not know how this coal strategy interrelated to the Regional Haze compliance study.

CUB asked the Company to hold additional workshops as it evaluates these strategies and to provide some actual data associated with them, prior to selection of a strategy by the Company.

The workshop provided a reasonable overview of how the Company will go about evaluating its post-2022 fueling strategy and was helpful. However, because the workshop was at such a high level and contained no comparative cost-based analysis of the fueling options, it had little effect on the ability of parties to evaluate the prudence of PacifiCorp's Bridger fueling strategy. But it was a start.

Future Workshops.

CUB believes the additional workshops can help, but they must be a collaborative workshop, not a compliance workshop.

DART Workshop.

The primary direction for this workshop is for the Company to explain its modeling and to allow parties to present their alternative approaches, though parties may also use the workshops to discuss whether any adjustments to PacifiCorp's existing methodologies may be appropriate. The Company has already rejected our alternative modeling approaches – it prefers the DART which added \$8 million to rates its first year and \$9 million last year.

There is an issue that can easily be resolved, however. CUB's most significant objection to the DART is its use of actual non-normalized system balancing sales as an adjustment to a normalized forecast of power costs. Two years ago, the Company asserted that by using 3 years of data, that the non-normalized balance purchases would not be a problem. This year, they argued that the issue had already been decided. But what they haven't done is actually show the effect non-normalized system balancing purchases on DART model. CUB believes that we can use this workshop to conduct some scenario analysis to see what effect non-normalized events such as weather excursions, thermal outages and poor hydro conditions can have on the mechanism.

This is not difficult, since the last two months have provided us with the data to see what a cold weather event will have on the mechanism. There is little doubt that system balancing purchases with a delivery period of less than a week increased significantly during the last two months. It would be constructive and illuminating to take December 2016 and January 2017 system balancing purchase volumes and substitute them for a December and January already included in the model and we will see if this has a significant effect on the DART.

If there is no significant impact, this is good news and CUB can stop raising this objection

If there is a significant impact of using non-normalized actual data, we can then debate whether this is a reasonable outcome. The purpose of the DART was to recover system balancing costs that the Company is systematically not recovering. While it is clear that the Company had a

greater volume of system balancing purchases this winter, it is not clear that those purchases lead to a greater volume of unrecovered costs. Customers' bills have skyrocketed this winter. With inverted residential rates (higher rates for customers who use more than 1000 kWh in a month) most of the additional heating load is billed at the higher tailback rate and with the Company's fixed costs covered at normal usage, most of this revenue is available to cover variable power costs. Even with abnormally cold weather, on peak prices have largely stayed below 4 cents/kWh.

One reason that the PCAM is an appropriate place to deal with recovery of non-normalized power costs because it has an earnings test, so both costs and revenue are recognized.

The dispute over the ongoing impact of non-normalized data in the TAM has been an issue the last two TAMs but now that we have some non-normalized data we can solve it in this workshop. If the evidence shows that actual non-normalized purchased do not have a significant effect on the DART, CUB will have no reason to assert otherwise.

Tinkering and Transparency.

As originally envisioned, the TAM was to be a straightforward process that would use the GRID model to update a handful of variable power costs:¹

- Forward Price Curve
- Forecast Loads
- Normalized Hydro Generation
- Forecast Fuel Prices
- Contract Update
- Heat Rates, Forecast Planned Outages and De-rates
- Wheeling Expenses
- New Resource Acquisitions (New Wholesale Sales and Purchases)
- State Allocation Factors

First, it should be noted how few of the contested issues come from this list. The problem with the TAM is not a disagreement with what should be updated or even what those updates should be, the problem is that the underlying models (GRID, DART, EIM benefits studies) are constantly in motion and the Company regularly fails to notify parties as it changes models, even where the TAM Guidelines require such notice or even when the Commission has expressly told the Company not to make changes in modeling.

This is where the real contrast with PGE exists. First, PGE's power cost model is fixed between general rate cases. Second, PGE provides parties with a "Step Log" which identifies every modeling change, and every new input to the model. A party can run through the Step Log and see every change that has happened since last year's modeling of power costs, and the impact of those changes. It is transparent.

¹ UE170 PPL/Omohundro/11-12.

PacifiCorp does not do this. Even when they are required to disclose modeling changes, they regularly fail to do so. In the 2017 TAM the Company changed how it modeled EIM benefits between its Opening and Rebuttal Testimony without including this change on PacifiCorp's List of Corrections or Omissions which is the proper notice required by the TAM Guidelines.²

For an analyst, PacifiCorp's approach is troubling. Many of the work papers involve spreadsheets with dozens of tabs and hundreds of cells. To be in the middle of reviewing work papers and discovering that it is not performing as expected, sets the analyst back. He or she now must go back and figure out what is wrong. Sometimes this can take hours or days. It may involve contacting the Company and it can require additional data requests which take up to two weeks to be answered. In a compressed schedule time is essential to ensure proper and thorough analysis.

Sometimes the Company will describe the new approach in testimony without stating that it is a change in methodology, but that is limited help. Most of testimony, for example, is explaining modeling that has not changed. Requiring the analyst to go back and compare testimony and work papers in one filing to the previous filing to determine what has changed is unfair, particularly since the guidelines are designed to ensure transparency by requiring the utility to disclose and identify changes.

This lack of transparency and constantly changing models can make it difficult to provide solid evidence supporting criticism of the TAM. If parties appear confused, it is because PacifiCorp's lack of transparency is confusing.

Fixing the TAM.

The real question is: How do we fix the TAM? How do we get the tinkering and transparency issues fixed? This is a real and significant problem. Because the Company wins on nearly all contested issues, it has no incentive to improve the process. To PacifiCorp, there is nothing broken and therefore there is nothing to fix.

First, to ensure that the workshops that have been ordered by Commission help the transparency problem, the Company should be required to disclose all changes that it will be making to its models in the workshop. Currently, it is not even clear if the workshops represent last year's methodology or will be a preview of what is filed in April.

Second, we should require a process that is more like PGE's. The modeling in the TAM should not be continually evolving, where it even changes between opening and rebuttal testimony. All modeling (GRID, DART, EIM) should be locked down most years so we are only dealing with updates. And PacifiCorp should be required to institute a Step Log that identifies all modeling changes, all updates, and all adjustments. The TAM is intended to be a streamlined docket—it has not followed that model in recent years.

Third, when the Company violates its transparency requirements, the Company needs to be accountable. When modeling changes are prohibited, the Company must held accountable for

² UE 307 – CUB's Response Brief 13

making modeling changes. Ignoring a prohibition on modeling changes if the modeling change seems reasonable is not helpful since the Company will always claim that its modeling changes are reasonable. If the Company changes a model without identifying that change then the Company should be held accountable.

Fourth, the Company should be prohibited from introducing new modeling changes in rebuttal testimony — unless those changes come in response to testimony of parties or are the result of a stipulation.

Conclusion

CUB hopes these comments are not viewed as sour grapes because we have lost every issue we have contested with regards to PacifiCorp's power costs over the last 2 years. Our goal is not to resurrect and litigate issues that have already been decided. Nothing would be better than reducing the number of contested issues and getting to a place where the TAM process was achieving fair results from a transparent and understandable process.

But from our perspective, the TAM is broken and while the workshops can help, they are not enough.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Jenks". The signature is fluid and cursive, with a long horizontal stroke at the end.

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