

September 25, 2017

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-3398

Attn: Filing Center

RE: UM 1824—PacifiCorp’s Response Comments to Staff’s Recommendations

I. INTRODUCTION

PacifiCorp d/b/a Pacific Power submits these comments in response to the recommendations of Staff of the Public Utility Commission (Commission) in its Public Meeting Memorandum dated September 15, 2017 (the Staff Memo). PacifiCorp appreciates the efforts of Staff in this docket and the summary of the progress to date in the Staff Memo. PacifiCorp requests guidance from the Commission to focus the investigation in this proceeding, including guidance on the identification and exploration of key Oregon-specific allocation issues and unique allocation issues stemming from Senate Bill (SB 1547)¹. These discussions will benefit both the company and the company’s Oregon stakeholders in the ongoing Multi-State Process (MSP).

II. RESPONSE

A. Status of PacifiCorp’s MSP Discussions

The MSP Workgroup has made significant progress over the past year, despite the continued challenges associated with PacifiCorp’s unique six-state service territory. State energy policies continue to diverge. A number of issues threaten the durability of the company’s current allocation methodology, and demand a long-term, sustainable solution. These issues include, but are not limited to, differing state: qualifying facilities policies; community solar programs; private generation options; direct access policies; renewable portfolio standards; and clean energy goals. Included in these challenges are the impacts of SB 1547.

As a result, PacifiCorp developed a proposal to re-align coal generation resources. The realignment would allow PacifiCorp to allocate, on a going-forward basis, costs of coal plants closer to retirement to Oregon customers, allowing Oregon to close coal plants. States whose energy policies do not mandate a change in resources serving customers in that state, would then be allocated a greater portion of the company’s longer-lived coal resources. System dispatch

¹ The Commission specifically identified these topics as within the scope of this investigation in Order No. 17-124 at page 4, however, these topics have not been discussed in the current investigation.

would maintain the benefits of the system (e.g. greater access to markets to reduce net power costs and increased energy imbalance market benefits). Future resource decisions would be made on a subscription basis, whereby PacifiCorp would seek efficiencies of scale in resource procurement, while allowing state resource decisions to track energy policy without unnecessarily increasing costs to customers in other states. The proposal would also allow PacifiCorp to make necessary investments in existing coal-fueled generation, without the risk that other states would impute Oregon's share of any necessary infrastructure investment to the company. The MSP Workgroup has been discussing this proposal for the better part of 2017. While there are a number of details that still have to be addressed, realignment is a robust solution to PacifiCorp's cost allocation challenges related to diverging state policies.

Oregon Staff has played a crucial role in this process. During the February MSP Workgroup meeting, Staff raised the issue of resource value, in relation to realignment options. In response, PacifiCorp undertook a significant study process to evaluate resource values related to realigned units. This study provided data on which stakeholders could determine costs and benefits associated with any resource re-alignment scenario.

In the October MSP Workgroup meeting, PacifiCorp will be presenting a proposal regarding resource dispatch and calculation of net power costs. PacifiCorp's guiding principles in this effort require that any methodology:

- Support a state's ability to choose a resource portfolio mix, while not adversely impacting other states (no harm policy);
- Assign costs to the states that benefit from and/or drive those costs (cost causation);
- Provide appropriate incentives and transparency of cost drivers to better inform state resource decision making;
- Maximize the visibility of cost allocation and dispatch decisions; and
- Reduce reliance on subjective assumptions in net power cost allocations.

The November MSP Workgroup meeting will discuss issues related to transmission operations and allocations. PacifiCorp's system operations and the requirements of SB 1547 raise the question of how to retain the benefits of least costs system dispatch when costs from certain resources cannot be allocated to Oregon. PacifiCorp is continuing work to answer this question and thus avoid the need to secure costly situs-assigned resources for Oregon.

The ongoing work in the larger MSP Workgroup is providing a foundation for negotiations on a durable allocation methodology, which PacifiCorp expects to begin, in earnest, during the first quarter of 2018. PacifiCorp views the dynamic nature of the current methodology as facilitating unwarranted cost shifting as states' energy policies and regulatory environments evolve.

The current allocation structure arguably provides disincentives for economic development. For example, providing incentives to increase load would typically spread fixed costs across a larger customer base. However, under PacifiCorp's current allocation

methodology, increasing load in a state will result in an additional load share of system costs. This does not provide the proper foundation for constructive energy and economic policy.

These issues are complex, and proposed solutions to operational issues resulting from realignment are still under development. PacifiCorp has welcomed this investigation to explore Oregon-specific issues, and, consequently, assist in the MSP discussions. PacifiCorp, however, remains concerned with the lack of clarity regarding how this investigation (and the potential subsequent contested case proceeding) fits with the larger MSP Workgroup discussions and negotiations. Whether the Commission views this investigation as an alternative to the MSP, or as a way to inform Oregon's position in the larger MSP Workgroup will be informative to how the discussions in this investigation move forward. PacifiCorp acknowledges the challenges of the larger MSP Workgroup, but is optimistic that a durable cost allocation methodology outcome will result from those discussions.

B. Request For Clarification Regarding the Goals and Scope of the UM 1824 Investigation

PacifiCorp appreciates Staff's willingness to include PacifiCorp's requests for clarification in the Staff Memo. Staff has indicated that this proceeding may produce a recommended allocation methodology for Oregon. PacifiCorp is concerned that if such a result is to be proposed, it must include a thorough discussion of Oregon-specific cost causation issues, including the impact of any Oregon energy goals and policies on PacifiCorp and its customers. Staff should also be directed to address how any methodology would result in fair, just and reasonable rates, providing the utility an opportunity to earn a return on its investments in compliance with previous Commission decisions and policy. If the proposed methodology requires any deviation from previous Commission policy, there must be a thorough discussion regarding why the deviation is required. PacifiCorp's investments have been based on the Oregon regulatory framework; any deviation could result in unnecessary and unwarranted risk to the company. Additionally, the Parties in UM 1824 need to discuss and acknowledge any legal impediments to the various proposals.

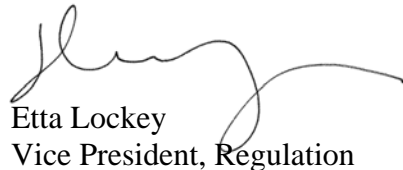
PacifiCorp also requests clarification that the scope of this proceeding does not include re-visiting the Commission's approval of the 1989 merger of PacifiCorp and Utah Power & Light, nor is it appropriate to view an allocation methodology as a way to reverse that decision. It is impossible to evaluate the benefits of a merger over the course of the past 28 years. Benefits of the broader system are not static, and what could be viewed as a cost may turn into a benefit and vice versa. While loads today may not have significantly increased relative to past periods, it does not mean that loads or load forecasts during that time did not show an increases or decreases. The profound effects of economic recessions have changed the load profiles in much of PacifiCorp's service territory. Focusing on cost-causation principles going forward, rather than attempting to imagine the "what if" world of no merger, is a better way to address concerns and allocate costs with regard to the sharing of benefits across PacifiCorp's system.

III. CONCLUSION

PacifiCorp appreciates the efforts of Staff and the Parties in this docket, and respectfully requests that the Commission clarify the goals and scope of the investigation in UM 1824. PacifiCorp believes that a focused discussion within the borders of established Commission policy and legal limitations will result in an allocation policy framework that the Commission can use as the basis for its evaluation of any proposed allocation methodology. PacifiCorp also believes that such a framework, if properly grounded in Commission policy and legal principles, will assist in the company's MSP discussions.

If you have questions about this filing, please contact Natasha Siores, Manager, Regulatory Affairs, at (503) 813-6583.

Sincerely,



Etta Lockey
Vice President, Regulation

cc: Service list for UM 1824

CERTIFICATE OF SERVICE

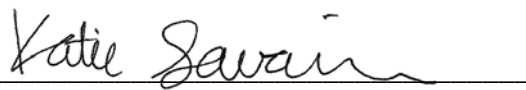
I certify that I served a true and correct copy of PacifiCorp's Reply Comments on the parties listed below via electronic mail in compliance with OAR 860-001-0180.

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Dated this 25th day of September, 2017.


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