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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 to Staff's Update on Staff's Investigation into PacifiCorp's Oregon Specific Cost Allocation Issues.

I. INTRODUCTION

PacifiCorp d/b/a Pacific Power appreciates the time and effort that Public Utility Commission of Oregon Staff (Staff) and the other parties have placed into this investigation and supports Staff's recommendation contained in its report dated February 15, 2018 (Report). The Report shows Staff's efforts to thoughtfully consider PacifiCorp's cost allocation issues. The workshops conducted through this docket have helped all the parties involved gain a deeper understanding of the myriad of complex issues involved in developing an allocation system that provides just and reasonable rates for consumers while allowing PacifiCorp to prudently operate its business. PacifiCorp supports Staff's recommendation to continue these workshops through an uncontested case proceeding. However, PacifiCorp does have some clarifications to the Staff Report that the company would like to note to the Commission. PacifiCorp welcomes the opportunity to continue to work through these issues through additional workshops in this docket and provide the cooperation necessary to continue this process.

II. CLARIFICATIONS TO THE STAFF REPORT

A. Allocation Options Under Consideration

1. *Rolled-in with variants*

Staff has pointed out that the current protocol is a variant of a rolled-in approach. Additionally, PacifiCorp would like to point out that the Revised Protocol and the 2010 Protocol were also variants of a rolled-in methodology. The main difference between the three being the calculation of the Embedded Cost Differential (ECD). Under Order No. 16-319 adopting the 2017 Inter-Jurisdictional Allocation Protocol (2017 Protocol), the Revised Protocol is the agreed upon default allocation methodology for Oregon if the 2017 Protocol lapses without a new protocol in place. The logic behind these protocols was that system planning and investment occurred on a system-wide basis and therefore the allocations reflected this reality. The calculation known as the Embedded Cost Differential provided additional consideration to the investments to pre-2005 resources paid for by each state.

2. *Hybrid-Control Area Approach*

Staff has also identified the Hybrid-control area approach as a possible allocation methodology. Staff identified the Hybrid-control area approach as being based on geography. PacifiCorp, however, disagrees with Staff's assertion that "the WCA generation and transmission (G&T) capacity…is sufficient to meet PacifiCorp Northwestern current loads."[1] PacifiCorp does not share Staff's confidence that this assertion reflects a least-cost, least-risk approach to reliably serving customers. Staff further described that a hybrid approach could result "in a smaller coal portfolio for Oregon relative to Rolled-in and the Strawman Proposal."[2] While this may be true, it does not consider PacifiCorp's system planning, system operation, or previous Commission findings regarding PacifiCorp's investments. Similarly, while PacifiCorp operates two balancing authority areas (BAA), the transfer capability from east to west allows PacifiCorp to locate resources in the most beneficial locations and maintain reserves for both BAAs on a combined basis. It would be more expensive to operate PacifiCorp's western BAA independently given the reliability requirements and resource locations. With those comments, PacifiCorp remains committed to working with stakeholders through the workshops and exploring the approaches laid out by Staff.

3. *"Sudoku" flow based approach*

As described by Staff, the Industrial Customers of Northwest Utilities' (ICNU) "Sudoku" approach may reveal that the "Eastern Control Area" loads receive more benefit from resources in PacifiCorp's western BAA than PacifiCorp's western BAA receives from resources in PacifiCorp's eastern BAA. PacifiCorp has two clarifications. First, attempting to apply allocations based on power flows is extremely difficult given the dynamic nature of the system. As described by ICNU, the analysis would look at one hour, which presents a number of issues if the intent is to extrapolate the findings to other hours. Second, ICNU has not yet provided its analysis for review, so there are, at this time, significant questions whether it would be based on actual power flows and there is no support for the proposition that the approach "may reveal" loads in PacifiCorp's eastern BAA may receive more benefit from resources in PacifiCorp's western BAA.

B. Cost Causation Principles

Stakeholders have discussed cost causation through a number of workshops and have generally agreed that, as Staff states, "costs should be assigned or allocated to the customers that cause them."[3] However, PacifiCorp notes that the National Association of Regulatory Utility Commissions guidelines cited by Staff are meant to apply between regulated and unregulated affiliates. PacifiCorp is a single utility operating in six different states, all of them regulated.

[1] Staff Report at 4 (February 12, 2018).
[2] *Id.*
[3] *Id.* at 6.

Staff further describes how they do not have a clear explanation of the cost causation basis for allocating existing plant using the 2017 protocol.[4] Under the 2017 protocol, 2010 Protocol, Revised Protocol, Modified Accord and the original PITA Accord,[5] PacifiCorp planned for both transmission and generation on a system-wide basis. The primary cost-drivers were investments based on system load needs as an integrated utility. Therefore, the allocation of those costs is consistent with those cost-drivers: state load contribution to system load. PacifiCorp hopes for additional discussion on the appropriate allocation basis for its strawman proposal, but continues to believe that the currently approved cost allocation methodology is an appropriate starting point. Further, PacifiCorp's system planning has been based on the approved allocation approach, providing additional support for the currently approved protocol as the starting point for allocating existing resources. The strawman proposal then allows for the assignment of coal resources to states to allow for the divergence in state polices related to those resources.

PacifiCorp also supports the continued discussion of the cost causation basis for nodal pricing. It is important to note that nodal pricing combined with transmission system dispatch is not a novel process. It is the methodology used in organized markets across the U.S. What is unique is the idea that nodal pricing could be employed by a multi-state utility to provide the benefits of system dispatch while accommodating state-specific resource decisions. By connecting dispatch to locational marginal prices for generation and load, nodal pricing allows for a strong association between net power costs and the cost-drivers of those costs.

C. Evaluation Criteria for Allocation Options

PacifiCorp generally supports Staff's evaluation criteria for the allocation methodologies. Staff's proposed timeline also provides an opportunity to dovetail these proceedings with the Multi-State Process (MSP) to the benefit of both. However, stakeholders must be careful to ensure that MSP and this investigation continue to work together to ensure the best possible outcome for PacifiCorp's Oregon customers. PacifiCorp is concerned with Staff's statement that "There is some overlap between the MSP criteria and the UM 1824 criteria."[6] It seems evident that the criteria in UM 1050 for evaluating an allocation methodology should be wholly consistent with the criteria used in UM 1824. MSP should have the same evaluation criteria as any other allocation methodology that is proposed regardless of whether it is in UM 1050 or UM 1824. PacifiCorp looks forward to working with stakeholders to further refine this criteria through this proceeding.

D. Oregon Specific Issues

PacifiCorp believes that cost causation principles are important in any discussion of cost allocation, and envisions that discussions in the larger MSP process will continue to incorporate

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[4] *Id.*
[5] The PacifiCorp Inter-Jurisdictional Task Force on Allocations (PITA) Accord was in place before 1998; the Modified Accord was in place from 1998-2005; Revised Protocol from 2005 to 2011; the 2010 Protocol from 2011 to 2016; and the 2017 Protocol was put in place in 2016.
[6] *Id.* at 9.

discussions of this issue. Stakeholders from each state participating in the MSP will look at cost causation issues under the lens of the rules and statutes applicable in their state, but must also stay within the bounds of prior commission findings.

While PacifiCorp may disagree with Staff's specific descriptions, the company agrees that those topics should be discussed in the UM 1824 workshops. For example, PacifiCorp supports a continued discussion of Oregon's used and useful standard and how that standard applies to the various cost allocation methodologies. The used and useful standard has a long and very specific meaning in Oregon ratemaking precedent and PacifiCorp supports a discussion of how that precedent applies to various allocation methodologies. However, PacifiCorp has concerns with the extent that stakeholders may attempt to reinterpret the treatment of assets that have been deemed used and useful and departing from established precedent.

III. CONCLUSION

PacifiCorp believes this investigation has provided a great deal of value to the stakeholders that have been involved in this process and allowed stakeholders an Oregon specific forum to address the concerns that arise in MSP. PacifiCorp envisions this process as continuing to dovetail with MSP as parties in Oregon continue to use these workshops to explore PacifiCorp's strawman proposal and the various other allocation methodologies that may exist. PacifiCorp feels that Staff's memo represents a snapshot of the current status of these workshops and this is an ongoing process and discussion with the stakeholders. PacifiCorp's comments here do not represent an exhaustive list of PacifiCorp's concerns nor should they cast doubt on PacifiCorp's continued willingness to work with parties and explore options.

PacifiCorp appreciates the opportunity to provide these comments and will attend the February 27, 2018 public meeting to provide any further discussion and answer any questions regarding these comments or the process in this docket.

If you have questions about this filing, please contact me at (503) 813-6583.

Sincerely,

Natasha Siores
Manager, Regulatory Affairs