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April 10, 2015

Via Electronic Filing

Public Utility Commission of Oregon
Attn: Filing Center
3930 Fairview Industrial Drive SE
Salem OR 97302

Re: PACIFICORP dba PACIFIC POWER
Application for Approval of Deer Creek Mine Transaction
Docket No. UM 1712

Dear Filing Center:

Attached for filing in the above-captioned proceeding, please find the Written Objections of the Industrial Customers of Northwest Utilities ("ICNU"). Pursuant to ALJ Arlow's Memorandum and Ruling issued on April 2, 2015, ICNU is appending to its Written Objections the Supplemental Responsive Testimony and Redacted Exhibits of Bradley G. Mullins on behalf of ICNU.

The confidential version of Exhibit ICNU/302 will follow to the Commission via Federal Express, and will be served via hand-delivery or U.S. Mail upon the party representatives who have signed the Protective Order in this docket.

Thank you for your assistance. If you have any questions, please do not hesitate to contact our office.

Sincerely,

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

Enclosure

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served a copy of **Confidential Exhibit ICNU/302** upon all parties listed below via hand-delivery or via First Class U.S. Mail, postage prepaid.

Dated at Portland, Oregon, this 10th day of April, 2015.

/s/ Jesse O. Gorsuch
Jesse O. Gorsuch

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BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1712

In the Matter of	)	
	)	WRITTEN OBJECTIONS OF THE
PACIFICORP d/b/a PACIFIC POWER	)	INDUSTRIAL CUSTOMERS OF
	)	NORTHWEST UTILITIES TO THE
Application for Approval of Deer Creek Mine Transaction.	)	STIPULATION
	)	

I. INTRODUCTION

Pursuant to OAR § 860-001-0350(8) and the Memorandum and Ruling of April 2, 2015 ("Memorandum and Ruling"), the Industrial Customers of Northwest Utilities ("ICNU") submits its written objections to the stipulation filed by PacifiCorp (or the "Company") and the Citizens' Utility Board of Oregon ("CUB") (collectively, the "Settling Parties") on March 25, 2015 ("Stipulation"). Along with its written objections, ICNU appends the responsive testimony of Bradley G. Mullins in support of ICNU's objections to the Stipulation, as permitted in the Memorandum and Ruling.

II. OBJECTIONS

ICNU objects to the Stipulation on the merits.[1/] The Stipulation purports "to resolve the issues in docket UM 1712,"[2/] a claim to which ICNU strongly objects. The Stipulation provides for an approximate $31.6 million rate increase outside of a general rate case for an isolated subset of the Company's rate base.[3/] The Stipulation also violates the Public Utility Commission of Oregon's ("Commission" or "OPUC") prohibition against single-issue

1/ OAR § 860-001-0350(8).
2/ Stipulation at ¶ 1.
3/ Id. at ¶¶ 11-13, Exh. A at 3.

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ratemaking. Additionally, ICNU objects to Stipulation agreement regarding the prudent nature of the Company's decision to enter into the Transaction,[4/] as explained herein.

Even if the Commission decides to approve ratemaking treatment associated with the transaction in this Docket, the proposed Stipulation rates include costs which violate statutory prohibitions and fundamental ratemaking principles, including significant amounts for costs that are neither used and useful (e.g., construction work in progress ("CWIP")). Further, as Mr. Mullins explains in his testimony, the proposed, two-year Stipulation amortization period does not fairly match customer costs and benefits, and includes an unreasonably high 3.31% interest rate.

A. The Stipulation Violates the Prohibition Against Single-Issue Ratemaking

The central feature of the Stipulation is an agreement by the Settling Parties to establish ratemaking treatment for a new Deer Creek Mine closure tariff, Schedule 198, which would affect all of the Company's primary rate schedules through the allocation of a $31.6 million rate increase attributable to extremely isolated components of Company rates: 1) "unrecovered investment in the Deer Creek mine"; and 2) "actual [mine] closure costs incurred through November 30, 2015."[5/] According to the Commission, however, focusing on "an isolated rate component, without considering whether other factors offset this amount …. [w]ould constitute single-issue ratemaking, which is prohibited."[6/] Thus, as CUB appropriately

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4/ Id. at ¶¶ 9-10. The Company defines the "Transaction" as the settlement of its Retiree Medical Obligation ("RMO") related to Energy West Mining Company union participants, combined with four components of the Deer Creek Mine closure: 1) direct closure costs; 2) United Mine Workers of America 1974 Pension Trust withdrawal liability; 3) sale of mining assets to Bowie Resource Partners, LLC ("Bowie"); and 4) a replacement Huntington plant coal supply agreement ("CSA") and an amended Hunter plant CSA, both with Bowie. Id. at ¶ 3.

5/ Id. at ¶ 12.

6/ Re Portland Gen. Elec. Co. ("PGE"), Docket Nos. DR 10, UE 88, and UM 989, Order No. 04-597 at 6 (Oct. 18, 2004). In the same order, the OPUC affirmed a ruling which expressly rejected the contention of

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argued in response testimony along with ICNU and Staff, "a determination of ratemaking treatment of the undepreciated investment in the mine and closure costs in this case would constitute improper single-issue ratemaking."[7/]

The Settling Parties attempt to dismiss single-ratemaking objections by stating various unpersuasive arguments. First, rather than acknowledging the prohibition on single-issue ratemaking, the Settling Parties contend that the Commission merely "disfavors" it.[8/] In support of this misleading claim, the Settling Parties allege that "the Commission has previously approved similar tariff filings … outside of general rate cases."[9/] The cited general rate case order page, however, is not helpful to the Settling Parties, providing only examples of deferred accounting treatment and specifications for later ratemaking treatment.[10/] Similarly, the Settling Parties' related claim, that "the types of costs that are included in the Deer Creek Mine Closure tariff are generally recoverable in rates,"[11/] fails to recognize critical distinctions as to when and in what manner such costs have been and can be recovered. None of the statutory or precedential authority cited by the Settling Parties lends support to the proposed Schedule 198 rate increase through the Stipulation.[12/]

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some parties that the Commission *could* restrict issues in a ratemaking proceeding, even down to single-issue ratemaking. Id. at 8, App. A at 12, 17.

7/ Confidential Joint Brief in Support of Stipulation ("Stipulation Brief") at 14 & n.70 (*citing* CUB/100, Jenks-McGovern/14-16). ICNU notes that the Settling Parties' claim that "[n]o party challenged" Company tariff calculations is patently false, given Mr. Mullins' proposed adjustments "[t]o the extent that Schedule No. 198 is approved," including those related to embedded cost differential ("ECD"), return on mine assets, and the RMO settlement loss, not to mention "other objections," including concerns over opaque PacifiCorp workpapers and a recommendation to exclude royalty costs. E.g., ICNU/100, Mullins/2-3, 30-31.

8/ Stipulation Brief at 14.

9/ Id. (*citing* Docket Nos. DR 10, UE 88, and UM 989, Order No. 08-487 at 72 (Sept. 30, 2008)).

10/ Order No. 08-487 at 72, nn.258-59. UE 88 was a PGE general rate case associated with the Trojan nuclear plant.

11/ Stipulation Brief at 11.

12/ See id. at 11-12 & nn.54-57. ICNU plans to provide more detailed analysis in briefing, but for summary purposes the inapposite authority cited by the Settling Parties includes reference to: 1) an accounting statute (ORS § 757.140(2)(b); 2) ratemaking treatment directly through an appropriate general rate case context (UE 88); 3) Boardman recovery originally authorized in a general rate case, docket UE 215 (UE

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Next, the Settling Parties argue that "costs at issue here relate to a fuel cost, which has already been removed from general rate cases and recovered through PacifiCorp's Transition Adjustment Mechanism (TAM)."[13/] As Mr. Mullins explains in appended testimony, however, the costs in question are not fuel costs—they are plant balances that are only reviewed in the context of general rate proceedings.[14/]

Finally, the Settling Parties' claim that "CUB was able to overcome concerns about single-issue ratemaking" is unreasonable and unpersuasive.[15/] The Commission's prohibition against single-issue ratemaking did not change in the twenty days between CUB's response testimony filing and the Stipulation filing, and the Company continues to seek a large rate increase for an isolated rate component outside of a general rate case through the Stipulation, as it has done throughout this docket. CUB did not merely express "concerns" regarding single-issue ratemaking, as the Settling Parties now allege—unequivocally, CUB testified: "Providing PacifiCorp the ratemaking treatment it seeks violates the prohibition on single-issue ratemaking."[16/]

B. The Stipulation Seeks an Inappropriate Prudency Determination

"The Settling Parties agree that the decision to enter into the Transaction … was prudent."[17/] ICNU objects to any prudency determinations in this docket, however, because the prohibition against single-issue ratemaking should preclude any ratemaking decisions, including prudency determinations. The Settling Parties cite to a "prudence standard" taken from an order

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230 and UE 239); and 4) initial accounting-only treatment, followed by later ratemaking treatment and prudency determinations (all other cited cases).

13/ Stipulation Brief at 14.
14/ ICNU/300, Mullins/5.
15/ Stipulation Brief at 14.
16/ CUB/100, Jenks-McGovern/16.
17/ Stipulation at ¶ 9.

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granting amortization of a previously approved deferral,[18] but this "prudence standard" does not apply to this proceeding, as this proceeding should not be considered a ratemaking case.

Moreover, while ICNU is not opposed to the creation of certain regulatory assets if the Commission elects to treat Transaction components as severable,[19] any ultimate determinations under relevant accounting statutes require only a "public interest" finding, not a determination of prudency.[20] In fact, the Settling Parties acknowledge that the Stipulation's proposed creation of a regulatory asset preserves "all other parties' rights to address the prudence and the appropriate ratemaking treatment in the context of a general rate case."[21]

ICNU also points out that the Settling Parties misrepresent the record when stating that "all parties generally agree that the Transaction is prudent."[22] For instance, at no time has Mr. Mullins ever testified to the prudency of the Transaction. The Settling Parties refer to Mr. Mullins' response testimony, at pages 29-30,[23] but the referenced testimony contains only a discussion of the "public interest" standard, based on an appropriate distinction between the prudence standard for ratemaking and the public interest standard for accounting. In any event, the Stipulation calls for a *singular* determination of prudency for the Transaction, as a non-severable whole,[24] in keeping with Company reply testimony stating that "requests for regulatory approvals are *not severable* because they are all integral to the Transaction."[25] Accordingly, because the record demonstrates ICNU's opposition to individual components of the Transaction—e.g., regarding the inclusion of the RMO settlement, and the Huntington

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[18] Stipulation Brief at 5 & n.19.
[19] ICNU plans to provide analysis on separate Transaction components in briefing.
[20] E.g., ORS § 757.140(2)(b); Re Nw. Natural Gas Co., Docket No. UM 1680, Order No. 14-041 (Feb. 5, 2014).
[21] Stipulation Brief at 15-16.
[22] Id. at 11.
[23] Id. at 11, n.53.
[24] Stipulation at ¶ 9 (agreeing that "the decision," singular, to enter into the Transaction was prudent).
[25] PAC/500, Crane/13 (emphasis added).

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CSA[26/]—it is not accurate for the Settling Parties to claim a general agreement concerning a single Transaction prudency determination.

C. The Proposed Stipulation Rate Increase Includes Costs Not Allowed under Statute and Applicable Precedent

If the Commission elects to permit ratemaking treatment in this docket, ICNU still objects to the Stipulation on the basis of prohibited, inflated, and unreasonable costs included in the Deer Creek Mine closure tariff. As Mr. Mullins also demonstrates in appended testimony, the Settling Parties have agreed to a significant rate increase containing amounts which are not justified under Oregon law.[27/]

1. Objections to Inappropriate Costs Based on Statute and Ratemaking Standards

First, the Stipulation fails to remove approximately $5 million in statutorily prohibited CWIP included in the Deer Creek Mine closure tariff. Under ORS § 757.355(1), the Company cannot collect "rates that include the costs of construction … [for] property not presently used for providing utility service to the customer." As the Oregon Court of Appeals found: "There is no logical basis for applying that principle only to property that is not *yet* reasonably necessary and actually used, but not to property that has *ceased* to be reasonably necessary and actually used."[28/] Accordingly, as the Company ceased using the Deer Creek Mine for coal production on January 7, 2015,[29/] Oregon statute is violated by the continued inclusion of CWIP in a Stipulation proposed rate increase for a mine that is no longer used and useful.

[26/] ICNU/100, Mullins/28-30.
[27/] ICNU/300, Mullins/6-17.
[28/] CUB v. OPUC, 154 Or App 702, 710 (1998) (emphasis in original). The Court also found that ORS § 757.355 "was meant to apply … to CWIP" and also "excludes all utility property that is not used for providing utility service, without regard for whether the property was so used in the past." Id.
[29/] ICNU/301 (Company response to ICNU Data Request ("DR") 1.25).

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Second, the Settling Parties' failure to properly account for the ECD provision of the Company's inter-jurisdictional cost allocation protocol violates the used and useful standard by overstating Transaction costs that should be allocated to Oregon ratepayers. As Mr. Mullins has explained, the ECD provision ensures that Oregon customers "continue to pay all the costs, and receive all of the benefits of the Company's legacy hydro system located in the Northwest."[30/] By failing to incorporate the $3.7 million ECD adjustment proposed by Mr. Mullins,[31/] the Stipulation allocates costs to Oregon ratepayers that are properly attributable to other PacifiCorp service areas.

Third, the Stipulation proposal to defer the "return on" component of mining assets, rather than remove it, is improper.[32/] In response testimony, Mr. Mullins recommended a $2.6 million adjustment to remove this return on component, yet the Settling Parties propose to defer the impact of eliminating this return component to the next general rate proceeding.[33/] As Mr. Mullins testifies, allowing the Company to intentionally over-collect such revenues would be poor regulatory policy.[34/]

2. Objections to the Stipulation Amortization Period Based on Ratemaking Standards and Commission Precedent

Additionally, the proposed two-year Stipulation amortization period does not fairly match customer costs and benefits. In responsive testimony to the Stipulation, Mr. Mullins recommends a 9-year amortization period for Deer Creek Mine tariff rate collection, should the Commission permit ratemaking in this proceeding.[35/] This proposal is shorter than the 14-year amortization period originally proposed, yet still consistent with the fundamental ratemaking

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30/ ICNU/100, Mullins/20.
31/ Id. at 20-21.
32/ Stipulation at ¶ 16.
33/ Compare id., with ICNU/100, Mullins/22-24.
34/ ICNU/300, Mullins/16.
35/ Id. at 11.

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principle of matching customer costs and benefits. In fact, based on data supplied by the Company, Mr. Mullins has calculated the amortization period to coincide precisely with the estimated date that customer benefits from the Transaction will match ratepayer costs.[36/]

The two-year amortization period of the Stipulation,[37/] by comparison, violates the matching principle and is not supported by Commission precedent. Mr. Mullins has demonstrated that customer costs will far exceed benefits after only a two-year period.[38/] Moreover, the Settling Parties agree that, in the net benefits analysis applicable to the Stipulation and this entire proceeding, "the Company must demonstrate that the estimated allowable *long-term* costs of continued mining operation are higher than the estimated allowable *long-term* costs of closing the mine."[39/] Hence, the "long-term" analysis employed by Mr. Mullins is not only appropriate, but also accords with the Company's testimony that Transaction elements are "not severable," thereby justifying consideration of all Transaction costs and benefits, over the "long-term," when conducting any cost-benefit analysis in this proceeding.

The two-year amortization period is also unsupported by precedent. The Settling parties allege that this "period is consistent with the Commission's treatment of the undepreciated investment in Trojan," arguing that the Commission has found it "reasonable to allow recovery of [] undepreciated investment over a shorter time period than the original depreciable life of the plant."[40/] In so stating, the Settling Parties neglect the gravamen of the Commission's determination in the Trojan case. The Commission ultimately found a 10-year Trojan amortization period to be reasonable, not simply based upon various time period

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[36/] Id.; Confidential Exhibit ICNU/302.
[37/] Stipulation at ¶ 11.
[38/] See ICNU/300, Mullins/7; ICNU/100, Mullins/10-14; Confidential Exhibit ICNU/302.
[39/] Stipulation Brief at 6 (emphasis added).
[40/] Id. at 12 (*citing* Order No. 08-487 at 72).

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considerations (ranging from three to seventeen years), but because it "would equitably allocate the benefits and burdens" to PGE customers.[41/] This equitable allocation principle concerning ratepayer benefits and burdens is the basis of ICNU's recommendation for a 9-year amortization period, should the Commission consider ratemaking treatment at all in this proceeding.

3. Objections to the Stipulation Interest Rate Based on Commission Precedent

Lastly, ICNU objects to the inclusion of the unreasonably high 3.31% interest rate on rate collections proposed through the Stipulation.[42/] The Settling Parties again misapply Trojan precedent, arguing that a 3.31% interest rate incorporating PacifiCorp's cost of debt would achieve "a fair balance, consistent with Commission precedent."[43/] The problem with "blending the Company's currently authorized cost of debt and Treasury bond yields, based on the Company's currently authorized capital structure,"[44/] is that this docket is not a general rate proceeding, in which parties would be able to challenge the continuing propriety of PacifiCorp's debt costs and capital structure. Conversely, in general rate case docket UE 88, cited by the Settling Parties as authority for consideration of cost of debt as a "reasonable estimate of the utility's time value of money,"[45/] parties could dispute debt and capital issues in UE 88.

Moreover, the Commission has determined that exclusive reference to "Treasury bond rates to determine a reasonable interest rate"—in contrast to the use, or "blending," of utility cost of debt—"helps ensure that the rate reflects solely the time value of money and is not in any way reflective of [a utility]'s opportunity to earn a profit on its rate base."[46/] Accordingly, if ratemaking and amortization are to be approved in this docket, ICNU agrees with the analysis

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41/ Order No. 08-487 at 72.
42/ Stipulation at ¶ 11.
43/ Stipulation Brief at 13.
44/ Id.
45/ Id. (*quoting* Order No. 08-487 at 73).
46/ Order No. 08-487 at 73.

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and reasoning behind CUB's initial and primary recommendation for a 1.51% amortization interest rate, based exclusively upon Treasury bond rates, and CUB's testimony demonstrating that, once provision is made for inflation, a 1.51% interest rate "is within 100 basis points of the Trojan methodology."[47/] Based upon Mr. Mullins' appended testimony, ICNU recommends a slightly modified interest rate of 1.92%, using 10-year Treasury bond rates.[48/]

IV. CONCLUSION

ICNU respectfully submits these written objections to the Stipulation, along with the appended responsive testimony of Mr. Mullins, and asks that the Commission reject the Stipulation for the reasons stated.

Dated this 10th day of April, 2015.

Respectfully submitted,

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[47/] CUB/100, Jenks-McGovern/8-9.
[48/] ICNU/300, Mullins/11-12.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1712

In the Matter of	)
	)
PACIFICORP, dba PACIFIC POWER	)
	)
Application for Approval of Deer Creek Mine Transaction.	)
	)

SUPPLEMENTAL RESPONSIVE TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

April 10, 2015

TABLE OF CONTENTS TO THE
SUPPLEMENTAL RESPONSIVE TESTIMONY OF BRADLEY G. MULLINS

EXHIBIT LIST

I. INTRODUCTION

Q. ARE YOU THE SAME BRADLEY G. MULLINS WHO FILED RESPONSE TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously filed response testimony on behalf of the Industrial Customers of Northwest Utilities ("ICNU") in this proceeding.

Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL RESPONSE TESTIMONY?

A. My testimony responds to the Stipulation entered into between PacifiCorp (the "Company") and the Citizens' Utility Board of Oregon ("CUB") (collectively, the "Settling Parties") regarding an overall transaction which includes the disposition of the Deer Creek Mine (the "Transaction"). The Stipulation proposes to modify the various accounting and ratemaking proposals included in the Company's December 12, 2014 Application for Approval of the Deer Creek Mine Transaction (the "Application"), and proposes non-unanimous resolution of several, but not all, of the issues presented by parties in this proceeding.

Q. PLEASE SUMMARIZE YOUR SUPPLEMENTAL RESPONSIVE TESTIMONY.

A. In light of the Stipulation, my recommendation continues to be that the Commission should wait to make any ratemaking decisions surrounding the Transaction until the Company's next general rate case, where a comprehensive review of earnings can take place. This proceeding should be sufficiently limited to deciding one issue: whether Transaction elements are in the public interest, qualifying undepreciated investment in the Deer Creek Mine for accounting treatment under ORS 757.140(2). All other ratemaking issues—such as the amortization period, carrying charges, the prudence of the transaction and the ultimate amount of the undepreciated investment costs—should not be evaluated in this proceeding, as those issues are

most appropriately evaluated within the context of the Company's overall earnings in the next general rate case.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony first demonstrates that the Settling Parties' proposal for the Commission to approve ratemaking outside of a general rate proceeding is not consistent with sound regulatory policy. My testimony also proposes several adjustments to the Settling Parties' ratemaking proposal, if ratemaking is to be evaluated in this proceeding. Specifically, my main conclusions and recommendations are as follows:

- **Ratemaking Must Be Supported by Overall Earnings.** As a matter of policy, ratemaking requests must be supported by a showing of overall earnings. Because it is possible that the Company is already being equitably compensated for some or all of the requested undepreciated investment costs, I continue to recommend that all ratemaking issues related to the Transaction be evaluated in the next general rate case, where a comprehensive review of earnings can take place.

- **Amortization.** I disagree with the two-year amortization proposal presented by the Settling Parties. The Settling Parties' proposal is not an equitable balance between the interests of customers and the Company because it will not appropriately match ratepayer costs with benefits. Based on my review of the Stipulation, I now propose that the amortization period be established over the nine year period ending in 2024.

- **Time Value of Money.** I disagree with the Settling Parties' proposal to include the Company's cost of debt in the time value of money calculation. Such an approach is inconsistent with past Commission decisions on this matter and would provide the Company with a degree of profit on the undepreciated investment balance. Consistent with past Commission practice, the time value of money should be the U.S. Treasury yield corresponding to the amortization period, or approximately 1.92% based on current rates for a ten-year Treasury bond.

- **Construction Work In Progress.** The Stipulation includes construction work in progress ("CWIP") amounts in the undepreciated investment balance. These amounts are not—and never have been—used and useful for providing public utility service in Oregon. If ratemaking is approved in this proceeding, CWIP of approximately $1.3 million on an Oregon-allocated basis should be removed from the undepreciated investment balance.

- **Embedded Cost Differential.** The Stipulation does not resolve the issue surrounding the application of the Embedded Cost Differential ("ECD"). If ratemaking is approved in this proceeding, I continue to support an adjustment of approximately $3.7 million on an Oregon-allocated basis to properly allocate the undepreciated investment costs to Oregon based on the Company's 2010 inter-jurisdictional cost allocation methodology ("2010 Protocol").

- **Return on Mining Assets.** The Stipulation provides an incomplete resolution of the issue surrounding return on mining assets. If ratemaking is approved in this proceeding, I continue to support an adjustment to remove the $2.6 million in Oregon-allocated return on mining assets currently reflected in rates.

- **Bonus Depreciation.** Based on the reply testimony of Mr. Stuver, I am no longer supporting an adjustment to defer the benefits of 50% bonus depreciation in rates.

Q. TO THE EXTENT THAT YOUR SUPPLEMENTAL RESPONSIVE TESTIMONY DOES NOT ADDRESS A PARTICULAR ISSUE IN THE STIPULATION, SHOULD THAT BE CONSTRUED AS YOUR ACCEPTANCE OF THAT ISSUE?

A. No.

II. RATEMAKING MUST BE SUPPORTED BY OVERALL EARNINGS

Q. WHY IS IT CRITICAL THAT RATEMAKING REQUESTS BE SUPPORTED BY A SHOWING OF EARNINGS?

A. As a matter of policy, ratemaking requests must be supported by a showing of earnings. For large single-issue ratemaking requests, such as that proposed in the Stipulation, a showing of earnings is critical because it is possible that the requesting utility will be over-earning in the amortization period and, as a result, will already be fairly compensated for some or all of the costs associated with the single-issue ratemaking request. This has been a key aspect of Oregon regulatory policy, which requires earnings tests for ratemaking related to deferred accounts and power cost adjustment mechanisms. It is also consistent with the Commission's practice of requiring ratemaking associated with ORS 757.140(2) accounting to be evaluated in a general rate proceeding, as was discussed in my response testimony. This policy is essential

to protecting Oregon ratepayers and should not be disregarded in this proceeding as proposed by the Stipulation.

Q. WAS THE RATEMAKING REQUEST PROPOSED IN THE STIPULATION SUPPORTED BY A SHOWING OF EARNINGS?

A. No. Neither the Stipulation nor the Company's Application was supported by a showing of earnings. Thus, there is no evidence in this proceeding for the Commission to rely upon to conclude that the proposed ratemaking request will result in overall rates that are fair, just and reasonable. Absent a showing of earnings, the Commission has no basis to conclude that the Settling Parties' ratemaking request will not result in over-earning by the Company.

Q. DO YOU AGREE WITH THE SETTLING PARTIES THAT "DELAYING COST RECOVERY IS UNREASONABLE WHEN THE COMPANY WILL NOT EARN A RETURN ON THE UNDEPRECIATED INVESTMENT"?[1/]

A. No. The Settling Parties argue that the Commission should approve ratemaking outside of a general rate proceeding because the law in Oregon does not allow the Company to earn a return on undepreciated investment accounts.[2/] This argument, however, is groundless. Notwithstanding the fact that the apparent objective behind the argument is to circumvent the law, the Company's rates in Oregon currently reflect a $2.6 million return on the undepreciated investment in the Deer Creek Mining assets.[3/] Thus, the Company is earning a return on the Deer Creek Mine assets and, to the extent ratemaking is deferred until the next general rate case, will continue to earn a return on the Deer Creek Mine assets until new rates are established at the end of next general rate case. Based on this, I strongly disagree that waiting until the next general rate case, where the proper ratepayer protections will be implemented, is in any way unreasonable to the Company.

1/ Confidential Joint Brief in Support of Stipulation at 14 ("Stipulation Brief").
2/ Id.
3/ ICNU/104 (Company response to ICNU Data Request ("DR") 3.64).

Q. DO YOU AGREE WITH THE SETTLING PARTIES THAT THE PROPOSED RATEMAKING IS CONSISTENT WITH THE TRANSITION ADJUSTMENT MECHANISM ("TAM")?[4/]

A. No. The plant balances in question associated with the Deer Creek Mine are included in rate base, which is only evaluated in the context of a general rate proceeding. While the TAM proceeding includes the embedded cost of coal from the Deer Creek Mine, the rate base amounts and underlying return on mining assets are not reflected as a fuel cost in the TAM. In addition, the actual fuel savings expected by the Company to flow through the TAM in 2016 are immaterial relative to the undepreciated investment costs proposed to be amortized in rates by the Settling Parties over the next two years.[5/] The cost of coal supplied in 2016 through the contract with Bowie Resource Partners, LLC is not expected to be materially lower than the cost that would have otherwise been incurred for coal at the Deer Creek Mine in 2016. The level of benefits related to captive mines in a stand-alone TAM proceeding will never fully correspond to the plant balances approved in a general rate proceeding, so the existence of a stand-alone TAM is not an appropriate reason to approve ratemaking for the Transaction outside of a general rate proceeding.

Q. DID CUB INITIALLY AGREE THAT RATEMAKING OUTSIDE OF A GENERAL RATE PROCEEDING WAS INAPPROPRIATE?

A. Yes. In its response testimony, CUB was strongly opposed to the concept of ratemaking in this proceeding, stating initially that the Company "has not demonstrated that the proposed price change is 'fair, just and reasonable.'"[6/] CUB continued by stating the following:

> Providing PacifiCorp the ratemaking treatment it seeks violates the prohibition on single-issue ratemaking. In addition, there is no evidence

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4/ Stipulation Brief at 14.
5/ See Confidential Exhibit ICNU/302.
6/ CUB/100, Jenks-McGovern/15.

> on the record in this case to support a finding that rates need to be raised in order to allow PacifiCorp to recover its costs.[7/]

Now, CUB, as one of the Settling Parties, has completely reversed its position on this matter. What has not been explained by the Settling Parties is why CUB was willing to depart from its prior position, which is critical to protecting the interests of the ratepayers that CUB supports. No new evidence regarding the reasonableness of the ultimate rates has been presented by CUB in order to warrant its change in position. This unexplained change of position is one of many ratepayer protections, for which CUB originally advocated in response testimony, that CUB now abandons as a result of the Stipulation.[8/]

Q. PLEASE SUMMARIZE WHY RATEMAKING MUST BE ACCOMPANIED BY A SHOWING OF EARNINGS.

A. Absent a showing of earnings, it is not possible for the Commission to determine whether the Company's rates as a whole are fair, just, and reasonable. The Settling Parties have provided no evidence to suggest that the approval of this single-issue ratemaking request will not result in over-recovery by the Company in the amortization period. Accordingly, I recommend that the Commission reject the Stipulation and make its decision in this proceeding solely on the issue of whether Transaction elements are in the public interest.

III. AMORTIZATION

Q. PLEASE DESCRIBE THE SETTLING PARTIES' AMORTIZATION PROPOSAL.

A. The Settling Parties proposed to amortize the undepreciated investment in the Deer Creek Mine, including closure costs incurred through November 30, 2015, over a two-year period beginning January 1, 2016.[9/] The Settling Parties agreed to exclude from the undepreciated investment balance all costs other than the net book value of the mining assets and closure

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7/ Id. at 16.
8/ See, e.g., ICNU/301 (CUB responses to ICNU DRs 7 and 14-16; CUB response to Sierra Club DR 1-1).
9/ Stipulation Brief at 12.

costs incurred through November 30, 2016,[10/] apparently waiving the application of ORS 757.140(2) to all other cost items described in the Application. For the other cost items excluded from the undepreciated investment balance, the Settling Parties have proposed to use a form of deferred accounting to create a series of regulatory assets, which will allow the Commission to review these other cost items for incorporation in rates in a later proceeding.[11/]

Q. DO YOU AGREE WITH A TWO-YEAR AMORTIZATION PROPOSAL?

A. No. As demonstrated in my response testimony, a two-year amortization proposal would not appropriately match the costs borne and benefits received by ratepayers associated with the Transaction. Neither of the Settling Parties has argued, either in support of the Stipulation or in testimony, that a two-year amortization period is necessary in order to properly match ratepayer costs with benefits. Nor have they disputed the fact that the majority of ratepayer benefits associated with the Transaction will not be recognized until well after the end of the Deer Creek Mine's original useful life. The Settling Parties' proposal does not recognize that the Transaction costs will far exceed ratepayer benefits, if measured over a two-or even a five-year period.[12/] Thus, I disagree that a two-year amortization period is an equitable balance between the interests of the Company and its ratepayers.

Q. WHY IS IT CRITICAL THAT THE AMORTIZATION PERIOD APPROPRIATELY MATCH COSTS WITH BENEFITS?

A. As a general policy matter, a key goal of regulatory accounting should be to match ratepayer costs with benefits. The accounting methodologies underlying undepreciated investment and deferred accounting are statutory exceptions to the used and usefulness and retroactive ratemaking standards. They are premised on the concept that ratepayers will receive some sort

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10/ Id. at 10.
11/ Id. at 15.
12/ See Confidential Exhibit ICNU/302.

of benefit associated with an extraordinary loss or expense, which would otherwise be unrecoverable to the utility as a result of Commission ratemaking standards. Because these regulatory accounting methodologies largely exist in order to match costs and benefits, it is good policy for the Commission to consider the timing of benefits, when establishing the amortization period for a regulatory account.

Q. HOW IS THIS CASE DISTINCT FROM TROJAN, WHERE THE COMMISSION APPROVED A SHORTENED, 10-YEAR AMORTIZATION?

A. The Settling Parties claim that the Commission's decision in the Trojan proceedings, to shorten the amortization period for the Trojan undepreciated investment from 17 to 10 years, justifies its proposal for a compressed, two-year amortization.[13/] I disagree. In the referenced order, the Commission held that the amortization period for undepreciated investments does not need to be tied to the life of the underlying plant.[14/] Rather, the Commission held that the amortization period for a regulatory asset may be shorter or may be longer than the useful life of the underlying plant, depending on what amortization period most equitably balances the interests of customers and the utility.[15/] In the case of Trojan, and in light of the unique circumstances of that case, the Commission found that a shorter amortization period best balanced the interests of shareholders and the utility.[16/] Notwithstanding, the Commission specifically noted that there may be cases when longer amortization periods may be appropriate, as follows:

> Certainly there are times where a longer amortization period may be appropriate. For example, decisions about the appropriate time period for amortization can be affected by the need to avoid sudden, steep increases in customer rates. Lengthy amortization periods can help prevent unnecessary rate shock by allowing customers to pay smaller amounts in rates over time. In this specific instance, however,

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13/ Stipulation Brief at 12.
14/ Re Portland Gen. Elec. Co. ("PGE"), Docket Nos. DR 10, UE 88, and UM 989,Order 08-487 at 92 (Sept. 30, 2008).
15/ Id.
16/ Id. at 72.

> immediate amortization of the Trojan balance did not raise this concern. The risk of rate shock was eliminated by PGE's ability to exchange customer credits for the Trojan balance, and the net result of the Settlement was to *lower* customer rates. Given these circumstances, the Commission concluded in Order No. 02-227, as we conclude here, that the simultaneous exchange reasonably balanced the interests of PGE and its customers.[17/]

Based on this discussion, it would not be consistent with the policy established in Order 08-487 for the Commission to simply adopt a compressed amortization period without reasonably balancing the interests of the Company and its ratepayers, which should include a review of the timing of costs and benefits associated with the Transaction.

Q. DO THE FACTS SURROUNDING THE DEER CREEK MINE TRANSACTION SUPPORT AN AMORTIZATION PERIOD THAT EXCEEDS THE ORIGINAL USEFUL LIFE OF THE ASSETS?

A. Yes. The facts surrounding the Deer Creek Mine disposition are materially different than the facts surrounding the Trojan retirement. As demonstrated in my response testimony, the majority of ratepayer benefits used to justify the Transaction will not be recognized until well after the end of the Deer Creek Mine's original useful life. This was not the case for Trojan. In the Trojan proceedings, the shortened amortization period took into consideration the fact that the Commission had initially disallowed approximately $20.4 million of the Trojan undepreciated investment to reflect costs that exceeded benefits over the original 17-year useful life of the plant ending in 2011.[18/] In the Trojan proceedings, the public interest determination did not reflect any benefits expected after the end of Trojan's original useful life. The same facts, however, are not found in this proceeding. Unlike Trojan, the undepreciated investment costs at issue in this proceeding were explicitly justified based on benefits that were expected be recognized in the period beyond the Deer Creek Mine's original useful life.

17/ Id.

18/ See Re Revised Tariffs Schedules for Electric Service in Oregon Filed by PGE, Docket No. UE 88, Order No. 95-322 at 2-3 (Mar. 29, 1995).

Consequently, those benefits should be considered when determining the amortization period for the Transaction.

Q. WOULD THE DEER CREEK MINE TRANSACTION PRODUCE A NET BENEFIT IF MEASURED OVER THE ORIGINAL USEFUL LIFE?

A. No. If the same net benefit principle applied in Trojan, measuring only those benefits received in rates over the remaining useful life of the retired plant, was applied to the Deer Creek Mine disposition, ratepayer costs would have far exceeded ratepayer benefits. This is demonstrated in Confidential Exhibit ICNU/302, which details the cumulative benefits relative to the cumulative costs associated with the Deer Creek Mine transaction. As can be seen in this exhibit, there would be substantially negative net benefits to ratepayers if the transaction were to be viewed over the five-year period ending in 2019. Accordingly, because a different net benefit principle is being applied in this case, which includes benefits after the end of the Deer Creek Mine's original useful life, it is an appropriate balance between the interests of ratepayers and the Company for the Commission to extend the amortization period for the undepreciated investment beyond the end of 2019.

Q. HAVE YOU MODIFIED YOUR AMORTIZATION PROPOSAL BASED ON YOUR REVIEW OF THE STIPULATION?

A. Yes. In my response testimony, I proposed to amortize the undepreciated investment balance over the same period that the benefits were evaluated for purposes of determining whether the transaction was in the public interest. The result was an amortization period of approximately 14 years ending in December 2029. After further review I have concluded that an amortization period shorter than 14 years is appropriate for the Deer Creek Mine Transaction. Because, as demonstrated in Confidential Exhibit ICNU/302, the cumulative amount of benefits over the 14-year period is expected to exceed the total undepreciated investment costs, ratepayers will begin receiving net benefits prior to the end of the 14-year period. As a result, my updated

proposal is to amortize the undepreciated investment account over the period that produces a level of ratepayer benefits equal to the costs included in the undepreciated investment account.

Q. HAVE YOU PERFORMED THIS CALCULATION?

A. Yes. This calculation can be found in Confidential Exhibit ICNU/302. As can be seen from the exhibit, the cumulative benefits received by ratepayers are expected to be equal to the undepreciated investment costs near the end of 2024. Thus, an amortization period of approximately 9 years ending in 2024 represents the period that properly matches costs and benefits and should be used by the Commission if ratemaking is to be approved in this proceeding.

Q. ARE YOU CONTINUING TO SUPPORT A DYNAMIC AMORTIZATION METHODOLOGY?

A. Yes. I continue to support the use of a dynamic amortization methodology that responds to changes in Oregon's allocation of the Huntington facility over the amortization period, as detailed in Table 1 of my response testimony.

IV. TIME VALUE OF MONEY

Q. WHAT INTEREST RATE WAS PROPOSED IN THE STIPULATION?

A. The Settling Parties proposed an interest rate of 3.31% on the undepreciated investment balance. This interest rate appears to be consistent with the rate proposed by CUB in response testimony, corresponding to the upper range of CUB's alternate proposal "based on applying the Company's cost of debt to 48% of the return and applying the appropriate Treasury to the remaining 52%."[19/]

[19/] CUB/100, Jenks-McGovern/10.

Q. DO YOU AGREE WITH THIS INTEREST RATE PROPOSAL?

A. No. Utilizing the Company's cost of debt in the calculation of the time value of money would allow the Company to earn a degree of profit on the undepreciated investment account for Deer Creek Mine. The use of the utility's cost of debt for the time value of money was rejected by the Commission in Order No. 08-487,[20/] and should not be reintroduced now.

Q. WHAT DO YOU PROPOSE?

A. I propose that, consistent with Trojan, the Commission use the U.S. Treasury bond rate with a tenor consistent with the amortization period. As of April 8, 2015, the yield for a ten-year Treasury bond, which would correspond to the amortization period discussed above, was 1.92%.[21/] This proposal is consistent with CUB's primary proposal in its response testimony regarding the time value of money, with the exception of the longer tenor.

Q. DID CUB PROVIDE ANY REASONING AS TO WHY IT NO LONGER SUPPORTS THIS PROPOSAL?

A. No. The Settling Parties devoted only a paragraph to their proposed interest rate and provided no evidence to support why the Commission should abandon its current practice of relying on the Treasury rate to capture the time value of money associated with undepreciated investments.[22/] CUB also provides no rationale to demonstrate why it has abandoned its initial recommendation of relying solely on the Treasury yield. Given the past controversy surrounding the interest rate, I disagree that the Commission should make substantial changes to its current policy in this proceeding absent conclusive evidence to the contrary, which has not been presented by the Settling Parties in this proceeding.

[20/] See Order No. 08-487 at 70.
[21/] See http://www.bloomberg.com/markets/rates-bonds/government-bonds/us/
[22/] Stipulation Brief at 13.

Q. IS IT APPROPRIATE TO INCLUDE THE UTILITY'S COST OF DEBT IN THE TIME VALUE OF MONEY CALCULATIONS?

A. No. The yield on the utility's cost of debt reflects a risk premium that provides the Company's bondholders with profit commensurate with the level of risk assumed for the Company's bonds. The level of risk assumed by the Company's bond holders, however, is not the same level of risk assumed by the Company with respect to recovering the undepreciated investment. Once the undepreciated investment amount has been determined and approved for amortization, the risk of recovery surrounding those costs is much lower than other aspects of the Company's operations. The Company will be entitled to amortization on a dollar-for-dollar basis, resulting in little risk that the authorized amounts will not be collected by the Company. Accordingly, including a risk premium, based on the Company's overall cost of debt, would allow the Company to earn a degree of "profit" on the undepreciated investment, in a manner that is inconsistent with Oregon policy on this matter.

V. CONSTRUCTION WORK IN PROGRESS

Q. DID THE STIPULATION INCLUDE AMOUNTS DESIGNATED AS CWIP IN THE UNDEPRECIATED INVESTMENT BALANCE?

A. Yes. The Stipulation proposed to include CWIP in the undepreciated investment balance of approximately $5.1 million on a total-Company basis, with approximately $1.3 million allocated to Oregon. This CWIP amount also includes approximately $1.6 million in total-Company costs designated as Preliminary Survey and Investigation ("PS&I") expenses. Both CWIP and PS&I amounts represents plant that has never been placed into public service. These amounts are not—and never have been—used and useful, and, accordingly, it is not appropriate to include them in the undepreciated investment balance, as proposed in the Stipulation.

Q. PLEASE PROVIDE SOME SPECIFIC EXAMPLES OF THE TYPES OF CWIP AND PS&I COSTS THAT HAVE BEEN PROPOSED TO BE INCLUDED IN THE UNDEPRECIATED INVESTMENT BALANCE?

A. The individual CWIP and PS&I costs included in the unrecovered investment were provided in response to ICNU Data Request 7.96, included in Exhibit ICNU/301. As an example of the types of items included in CWIP, the Company's response describes lease acquisition expenditures for the Mill Fork South reserves, which were never mined and never placed into service.[23/] There is also an example of a new conveyor belt that was purchased, but never ultimately used for providing utility service. Consistent with Oregon's used and useful standards, I disagree that these CWIP expenditures are appropriate for inclusion in the undepreciated investment balance and propose that they be excluded, if ratemaking is to be approved in this proceeding.

VI. EMBEDDED COST DIFFERENTIAL

Q. DID THE SETTLING PARTIES RESOLVE THE ISSUE CONCERNING THE APPLICATION OF THE ECD TO THE UNDEPRECIATED INVESTMENT ACCOUNT?

A. No. The Settling Parties did not resolve the issue regarding the proper accounting for the ECD for purposes of allocating the undepreciated investment amounts to Oregon customers pursuant to the terms of 2010 Protocol. In the Stipulation, which was based largely on the Company's reply filing, no attempt was made to account for the ECD when allocating the proposed undepreciated investment costs to Oregon customers.[24/] Neither the Stipulation, nor the supporting brief, provides any explanation of why the ECD should not be reflected in the jurisdictional allocation of the unrecovered investment cost to Oregon customers.

[23/] See ICNU/301 (Company response to ICNU DR 7.96, and Attachment ICNU 7.96). In fact, all coal production at the Deer Creek Mine ceased on January 7, 2015. Id. (Company response to ICNU DR 1.25).

[24/] PAC/400, Dalley/17.

Q. WHAT EVIDENCE HAS BEEN PRESENTED IN THIS PROCEEDING THAT WOULD SUPPORT THE SETTLING PARTIES' PROPOSAL TO EXCLUDE THE IMPACT OF THE ECD WHEN ALLOCATING TRANSACTION COSTS TO OREGON?

A. The only evidence I am aware of which would support disregarding the ECD component of the 2010 Protocol was made by the Company in its reply filing. The Company argued that the "ECD is updated as part of a general rate case" and that it would be "highly unusual and illogical to update the ECD outside of a general rate case."[25/] This argument, however, falls short of rebutting the claims of other parties that Oregon ratepayers would have received a material ECD benefit in connection with the Deer Creek Mine, had it continued to operate through its original useful life.

Q. IS THE COMPANY'S POSITION REGARDING THE ECD REASONABLE?

A. No. The Company claims that it is not possible to calculate ECD benefits associated with the unrecovered investment because those ratepayer benefits can only be evaluated in a general rate case. Notwithstanding, the Company is requesting approval of ratemaking for unrecovered investment costs which it claims can be properly evaluated outside of a general rate case. The Company cannot have it both ways. It is unreasonable for the Company to propose ratemaking outside of a general rate case, only to suggest that ratepayers should be foreclosed from receiving material benefits, simply because it is unwilling to defer ratemaking issues until its next general rate case.

Q. DO YOU CONTINUE TO SUPPORT A $3.7 MILLION ADJUSTMENT AS IDENTIFIED IN ICNU/103?

A. Yes. While the amount of an ECD credit would need to be adjusted for the final amount of unrecovered investment approved for ratemaking by the Commission and properly adjusted to

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[25] Id. at 17:9-14.

the final amortization period, I still support an approximate $3.7 million adjustment to reflect the ECD, if ratemaking is approved in this proceeding.

VII. RETURN ON MINING ASSETS

Q. WHAT WAS THE SETTLING PARTIES' PROPOSAL REGARDING THE RETURN ON MINING ASSETS ALREADY REFLECTED IN RATES?

A. The Settling Parties acknowledge that the Company is currently recovering in rates approximately $2.6 million in return on the undepreciated mining assets.[26/] Similar to the ECD, no ratemaking adjustment was proposed by the Settling Parties to account for the fact that the Company is already earning a return on the undepreciated investment in rates. Rather, the Settling Parties have proposed to defer the impact of eliminating this return component to the next general rate proceeding.[27/]

Q. DO YOU AGREE WITH THIS PROPOSAL?

A. No. To the extent that the Company is earning a return on the Deer Creek Mining assets in rates, then that return amount must be removed in any ratemaking approved by the Commission in this proceeding. The Settling Parties' proposal to defer the return on mining assets until the next general rate case, would result in the Company intentionally over-collecting revenues for a period, only to refund those revenues back to customers upon the amortization of the deferral at the pendency of the next general rate proceeding. Such a proposal, where the Company is allowed to over-collect only to refund monies back to ratepayers at a later date, is poor regulatory policy and should not be adopted by the Commission, if ratemaking is approved in this proceeding.

[26/] Stipulation Brief at 15.
[27/] Id.

VIII. BONUS DEPRECIATION

Q. ARE YOU SATISFIED WITH MR. STUVER'S EXPLANATION OF HOW BONUS DEPRECIATION WAS ACCOUNTED FOR IN THE LAKE SIDE II TARIFF RIDER?[28]

A. Yes. Upon review of the Company's workpapers, it appears that 50% bonus depreciation was, in fact, included in the Lake Side II tariff rider, despite the fact that bonus depreciation had expired on December 31, 2013.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL RESPONSIVE TESTIMONY?

A. Yes.

[28] PAC/600, Stuver/8.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1712

In the Matter of	)
	)
PACIFICORP, dba PACIFIC POWER	)
	)
Application for Approval of Deer Creek Mine Transaction.	)
	)

EXHIBIT ICNU/301

RESPONSES TO DATA REQUESTS

April 10, 2015

UM-1712/PacifiCorp
January 30, 2015
ICNU Data Request 1.25

ICNU Data Request 1.25

Please reconcile the following: a) "The Company will close the Deer creek Mine in 2015," PAC/100, Crane/9, line 3; and b) "projections also assume Energy West continues longwall mining through December 2014," PAC/200, Stuver/5, lines 8-9; with c) the Transaction Case assumption that "Deer Creek coal production terminates in 2014," PAC/106, Crane/2.

Response to ICNU Data Request 1.25

To clarify, as stated in the application, coal production was projected to terminate in December 2014. Final coal production concluded on January 7, 2015, and the Deer Creek Mine then began mine closure activities. Mine closure activities are projected to occur in phases. The majority of equipment and materials are scheduled to be removed from the mine by March 31, 2015. The mine is then projected to remain in an idle mode until December 2015 pending bulkhead design approval by Mine Safety and Health Administration (MSHA). Bulkhead construction, removal of remaining equipment and materials, and sealing the portals is projected to occur by March 31, 2016.

UM-1712/PacifiCorp
April 8, 2015
ICNU Data Request 7.96

ICNU Data Request 7.96

Please provide accounting detail, at the most granular level available, of the total amount of CWIP that was included in the $86 million of unrecovered investment, for which the Company seeks rate treatment in Paragraph 12(a) of the Stipulation.

Response to ICNU Data Request 7.96

The Company objects to this request as not reasonably calculated to lead to the discovery of admissible evidence. Without waiving this objection, the Company responds as follows:

Please see Attachment ICNU 7.96.

OR UM-1712 ICNU 7.96
CWIP

		Project	Reason for Expenditure	Last Date of Expenditures	CWIP 12/31/2014
	Deer Creek Total				**$ 3,495,016**
	Lease Acquisition (UTU-88554, UTU-06039)		Lease acquisition for the Mill Fork South coal reserves		209,246
2013/C/003	Drive Unit	4-Oct-12	The coal haulage conveyor equipment was needed to support development into new/un-developed areas of the mine	Aug-13	568,810
2013/C/003	Power Center #1			Aug-13	127,190
2013/C/003	Power Center #2			Aug-13	124,814
2013/C/003	Mid-Panel Drive Unit			Aug-13	558,541
2013/C/004	Belt Storage Unit			May-13	570,346
2013/C/008	Overland Conveyor Belt Replacement C-1	29-Jan-13	Coal produced at the Deer Creek Mine is transported to the Huntington Power Plant by means of an overland haulage conveyor system. This project provided for replacement of a section of the belting that had exceeded it's reliable service life.	Jun-13	246,431
2013/C/011	Mainline Conveyor Belt Replacement	11-Feb-13	Extracted coal is removed from the underground workings of the mine by means of a haulage conveyor system comprised of rubber belting (60" or 48" in width) that carries coal across rollers mounted on steel support structures. This belting was purchased in anticipation of replacing the belting that had deteriorated and exceeded its useful and reliable service life.	May-13	431,434
2013/C/013	Belt Drive Power Centers	21-Feb-13	As the mine continued to extend deeper into the coal reserve (approximately thirteen miles from surface support facilities), the mine required one additional electrical power center to energize a conveyor terminal group.	Apr-13	123,241
	Continuous Miner # 01-045		Proximity detection system for MSHA compleane		83,712
	Ventilation Box Check		Ventilation control device for continued operation		47,381
2013/C/042	C2 Conveyor - Belt Replacement	25-Apr-13	Coal produced at the Deer Creek Mine is transported to the Huntington Power Plant by means of an overland haulage conveyor system. In early 2013, a piece of metal broke off of a coal transfer chute and wedged into the rubber belting while the conveyor was in operation and ripped approximately 10,500 feet. This belting was purchased in anticipation of replacing the damaged belt.	Sep-13	385,651
	Triple Sectionalizing Switch				-
	Electrical Monitoring Distribution Box				-
	Electrical Monitoring Distribution Box				-
	Electrical Monitoring Distribution Box				-
	Server				-
	Software				-
	Air Flow Sensor #1		Air flow sensors for mine expansion		6,074
	Air Flow Sensor #2		Air flow sensors for mine expansion		6,074
	Air Flow Sensor #3		Air flow sensors for mine expansion		6,074
	AUTOCAD Design Suite				-
	Survey Software				-
	Accounts Payable Software (Main Office)				**$ -**

	Preliminary Survey and Investigation	Aug. 2011	Delineation of the Mill Fork South coal lease tract. Cost primarily for drilling and environmental assessment activities.	Aug. 2013	**$ 1,614,210**

Total	**$ 5,109,226**

UM 1712 – CUB
April 8, 2015
ICNU First Set of Data Requests to CUB

ICNU Request 007:

Please refer to CUB/100, Jenks-McGovern/10:15-18. Does CUB still maintain that the Huntington coal supply agreement contains a "take or pay" provision, or environmental "clause which could make the contract case more risky that the market case"? If no, and CUB's testimonial position has changed, please explain and provide support for CUB's new position.

CUB's Response to ICNU Data Request 007:

CUB objects to this question as not reasonably calculated to lead to the discovery of admissible evidence.

Without waiving this objection, CUB responds as follows: CUB has no corrections to its Response Testimony in this case. At the time that CUB filed its Response Testimony, the Company had not yet offered evidence on the record that described how the "take-or-pay" provision was intended to be interpreted when a coal plant is shut-down for economic reasons that are caused by environmental regulations.

Since that time, CUB has reviewed PacifiCorp's Reply Testimony and has determined that customers will be adequately protected from paying for take-or-pay charges if the plant is shut-down or converted to gas for economic reasons that are caused by environmental regulations. PacifiCorp's Reply Testimony (PAC/500/Crane/6-7) makes clear that the provision is intended to cover the circumstance where an environmental regulation caused burning coal at Huntington to become uneconomic. PacifiCorp's statements regarding the intent of Article 8 offer CUB assurance that customers would not ultimately be charged take-or-pay costs if the plant is shut-down for economic reasons that are caused by environmental regulations.

If Huntington is closed due to economic reasons caused by environmental regulations, and the Company subsequently requests recovery of take-or-pay charges from customers, CUB will likely oppose ratepayers bearing the burden of such charges. In CUB's view, in these circumstances, it would be likely that PacifiCorp failed to effectively negotiate the clause (the clause failed to serve the purpose that PacifiCorp intended) or the clause was negotiated properly, but the Company failed to properly enforce it. In either case, CUB would likely recommend that the cost be found to be imprudent and not recoverable from customers.

UM 1712 – CUB
April 8, 2015
ICNU First Set of Data Requests to CUB

ICNU Request 014:

Please refer to CUB/100, Jenks-McGovern/16:9-10. Does CUB still maintain that "[p]roviding PacifiCorp the ratemaking treatment it seeks violates the prohibition on single-issue ratemaking"? If no, please explain how proposed ratemaking treatment in the Stipulation differs from earlier ratemaking treatment proposed by the Company, such that CUB no longer believes that approval of the Deer Creek Mine Closure tariff would violate the prohibition against single-issue ratemaking.

CUB's Response to ICNU Data Request 014:

CUB objects to this question because it is not reasonably calculated to lead to the discovery of admissible evidence. CUB further objects this discovery request, as phrased, is argumentative.

Without waiving this objection, CUB responds as follows: CUB has no corrections to its Response Testimony in this case. CUB also supports the Stipulation in this docket. We note that the Stipulation in this proceeding memorializes a negotiated settlement involving compromises by both parties to the settlement.

UM 1712 – CUB
April 8, 2015
ICNU First Set of Data Requests to CUB

ICNU Request 015:

Please refer to CUB/100, Jenks-McGovern/16:10-12. Does CUB still believe that "there is no evidence in the record in this case to support a finding that rates need to be raised in order to allow PacifiCorp to recover its costs"? If no, please identify the record evidence which now supports such a finding.

CUB's Response to ICNU Data Request 015:

CUB objects to this question because it is not reasonably calculated to lead to the discovery of admissible evidence.

Without waiving this objection, CUB responds as follows: CUB has no corrections to its Response Testimony in this case. CUB also supports the Stipulation in this docket. We note that the Stipulation in this proceeding memorializes a negotiated settlement involving compromises by both parties to the settlement.

UM 1712 – CUB
April 8, 2015
ICNU First Set of Data Requests to CUB

ICNU Request 016:

Please refer to CUB/100, Jenks-McGovern/17:13-14. Does CUB continue to maintain that PacifiCorp "has not explained why a single-issue rate case is appropriate"? If no, please explain and identify all Company explanations which demonstrate that a single-issue rate case is appropriate.

CUB's Response to ICNU Data Request 016:

CUB objects to this question as not reasonably calculated to lead to the discovery of admissible evidence. CUB further objects that the question mischaracterizes CUB's testimony by omitting the context of this statement.

Without waiving this objection, CUB responds as follows: CUB has no corrections to its Response Testimony in this case. CUB also supports the Stipulation in this docket. We note that the Stipulation in this proceeding memorializes a negotiated settlement involving compromises by both parties to the settlement.

UM 1712 – CUB
April 3, 2015
Sierra Club First Set of Data Requests to CUB

Sierra Club Data Request 1-1:

Reference CUB's March 5, 2015 Response Testimony (CUB/100) at page 13, lines 11-17:

"*CUB believes the prudency of the coal contract rests on what level of protection does this environmental clause provide to customers. If customers are (1) protected from the take or pay provisions being seen as a fixed, unavoidable cost when analyzing environmental regulations, and (2) protected from paying for take or pay charges if the plant is shut down or converted to gas for economic reasons that are caused by environmental regulations, then CUB believes the contract is prudent. If customers are not being provided this protection, then the contract is not prudent*."

Reference Paragraph 10 of the proposed stipulation between CUB and PacifiCorp, which was docketed on March 25, 2015:

"The Settling Parties agree that the decision to enter into the Transaction - including the decisions to…enter into the new and amended CSAs for the Huntington and Hunter plants (respectively) - was prudent."

a. Since filing its Response Testimony, has CUB determined that customers will be protected from the take or pay provisions being seen as a fixed, unavoidable cost when PacifiCorp analyzes environmental regulations? If yes, please explain how CUB arrived at this determination?

b. If the answer to (a) is yes, is CUB's support for the stipulation premised on its understanding that customers will be protected from the take or pay provisions being seen as a fixed, unavoidable cost when PacifiCorp analyzes environmental regulations?

c. Since filing its Response Testimony, has CUB determined that customers will be protected from paying for take or pay charges if the plant is shut down or converted to gas for economic reasons that are caused by environmental regulations? If yes, please explain how CUB arrived at this determination?

d. If the answers to (b) is yes, is CUB's support for the stipulation premised on its understanding that customers will be protected from paying for take or pay charges if the plant is shut down or converted to gas for economic reasons that are caused by environmental regulations?

UM 1712 – CUB
April 3, 2015
Sierra Club First Set of Data Requests to CUB

CUB's Response to Sierra Club Data Request 1-1:

a. Yes, CUB has determined that customers will be adequately protected from the take-or-pay provisions being seen as a fixed, unavoidable cost when PacifiCorp analyzes environmental regulations. Specifically, PacifiCorp's Reply Testimony (PAC/500/Crane/6-7) makes clear that Article 8 is intended to cover circumstances in which environmental regulation(s) cause burning coal at Huntington and Hunter to become uneconomic. Because the Company can get out of the coal contract without take-or-pay requirements, there would be no basis for the Company to consider these coal costs as fixed when analyzing environmental regulations.

   CUB was concerned specifically about how coal plants are modeled when making the decision to close or phase-out a plant as an alternative to continuing to operate the plant. Because the Company has taken the position that this provision of the CSA allows it to avoid take-or-pay costs if the contract is uneconomic due to environmental reasons, the Company's modeling, in determining which option was most economic, would have to consider the take or pay costs to be avoidable. This is consistent with the Company's statement that it will "conduct its future planning based on its understanding of Article 8." (PAC/500/Crane/7).

   If, however, the Company did model the take-or-pay costs as fixed in a resource planning docket, CUB would likely ask the Commission not to acknowledge the modeling results. If, in a future rate case, the Company sought recovery of costs for environmental controls based on analysis that included take-or-pay costs as fixed costs, CUB would likely argue that the Company's actions based on this analysis were not prudent.

b. Yes.

c. Yes, CUB has determined that customers will be adequately protected from paying for take-or-pay charges if the plant is shut down or converted to gas for economic reasons that are caused by environmental regulations. Specifically, PacifiCorp's Reply Testimony (PAC/500/Crane/6-7) makes clear that the provision is intended to cover the circumstance where an environmental regulation caused burning coal at Huntington to become uneconomic. PacifiCorp's statements regarding the intent of Article 8 offer CUB assurance that customers would not ultimately be charged take-or-pay costs if the plant is shut-down for economic reasons that are caused by environmental regulations.

   If Huntington is closed due to economic reasons caused by environmental regulations, and the Company subsequently requests recovery of take-or-pay charges from customers, CUB will likely oppose ratepayers bearing the burden of such charges. In CUB's view, in these

circumstances, it is likely that PacifiCorp failed to effectively negotiate the clause (the clause failed to serve the purpose that PacifiCorp intended) or the clause was negotiated properly, but the Company failed to properly enforce it. In either case, CUB would like recommend that the cost be found to be imprudent and not recoverable from customers.

d. Yes. (CUB understands that this question intended to reference the answer to (c)).

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1712

In the Matter of	)
	)
PACIFICORP, dba PACIFIC POWER	)
	)
Application for Approval of Deer Creek Mine Transaction.	)
	)

REDACTED EXHIBIT ICNU/302

NET BENEFIT CALCULATION THROUGH 2029

April 10, 2015

Exhibit ICNU/302 is confidential pursuant to Protective Order No. 14-431 and has been redacted in its entirety.