

# Davison Van Cleve PC

Attorneys at Law

TEL (503) 241-7242 • FAX (503) 241-8160 • jog@dvclaw.com  
Suite 400  
333 SW Taylor  
Portland, OR 97204

August 19, 2016

## *Via Electronic Filing and Federal Express*

Public Utility Commission of Oregon  
Attn: Filing Center  
201 High St. SE, Suite 100  
Salem OR 97301

Re: In the Matter of PACIFICORP, dba PACIFIC POWER  
2017 Transition Adjustment Mechanism  
**Docket No. UE 307**

Dear Filing Center:

Enclosed for filing in the above-captioned proceeding, please find the errata pages to the redacted version of the Rebuttal Testimony of Bradley G. Mullins on behalf of the Industrial Customers of Northwest Utilities ("ICNU").

This filing corrects a calculation error on pages 2, 7, 9 and 10 of ICNU's rebuttal testimony. The enclosed errata pages reflect ICNU's changes in redline.

The confidential portions of ICNU's errata pages are being handled in accordance with the general protective order issued in this proceeding and will follow via Federal Express. Additionally, given the time-sensitive nature of this update, ICNU is posting the confidential errata pages to the confidential Huddle workspace in this docket.

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

Sincerely,

/s/ Jesse O. Gorsuch  
Jesse O. Gorsuch

Enclosures

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that I have this day served the **Confidential Errata Pages of the Rebuttal Testimony of Bradley G. Mullins** upon the parties shown below by mailing copies via First Class U.S. Mail, postage prepaid.

Dated at Portland, Oregon, this 19th day of August, 2016.

Sincerely,

/s/ Jesse O. Gorsuch  
Jesse O. Gorsuch

**CITIZENS' UTILITY BOARD OF OREGON**

ROBERT JENKS  
MICHAEL GOETZ  
610 SW BROADWAY STE 400  
PORTLAND OR 97205  
bob@oregoncub.org  
mike@oregoncub.org

**PUBLIC UTILITY COMMISSION OF OREGON**

JOHN CRIDER  
PO BOX 1088  
SALEM OR 97308-2148  
john.crider@state.or.us

**PUC STAFF - DEPARTMENT OF JUSTICE**

SOMMER MOSER  
BUSINESS ACTIVITIES SECTION  
1162 COURT ST NE  
SALEM OR 97301  
sommer.moser@doj.state.or.us

**PACIFICORP**

KATHERINE MCDOWELL  
MCDOWELL RACKNER & GIBSON PC  
419 SW 11<sup>TH</sup> AVE., SUITE 400  
PORTLAND, OR 97232  
katherine@mcd-law.com

**PUC STAFF - DEPARTMENT OF JUSTICE**

MICHAEL WEIRICH  
BUSINESS ACTIVITIES SECTION  
1162 COURT ST NE  
SALEM OR 97301  
michael.weirich@doj.state.or.us

**NOBLE AMERICAS ENERGY SOLUTIONS, LLC**

GREGORY M. ADAMS  
RICHARDSON ADAMS, PLLC  
PO BOX 7218  
BOISE, ID 83702  
greg@richardsonadams.com

**PACIFICORP**

MATTHEW MCVEE  
825 NE MULTNOMAH ST., SUITE 1800  
PORTLAND, OR 97232  
matthew.mcvee@pacificorp.com

**NOBLE AMERICAS ENERGY SOLUTIONS, LLC**

KEVIN HIGGINS  
ENERGY STRATEGIES  
215 STATE ST – SUITE 200  
SALT LAKE CITY, UT 84111-2322  
khiggins@energystrat.com

1 avoids presenting evidence to indicate that BCC costs are reasonable, or will become  
2 reasonable in the future. Finally, the Company devotes a few sentences objecting to my  
3 proposal to extend the moratorium on modeling changes until the Company files its next  
4 general rate case, which, given the controversial nature of the current proceeding, would likely  
5 better serve to limit the issues in future TAM proceedings.

6 **Q. ARE YOU MODIFYING ANY OF YOUR RECOMMENDATIONS IN RESPONSE TO**  
7 **THE COMPANY?**

8 A. I have updated my recommended lower-of-cost-or-market adjustment for BCC to reflect  
9 regulatory amortization, which reduces the impact of that adjustment to ~~\$7.6-6~~ million on an  
10 Oregon-allocated basis. In addition, while I continue to support the application of lower-of-  
11 cost-or-market ratemaking for the BCC, I urge the Commission to take a close look at the  
12 ratemaking treatment associated with the mine. There is no dispute that the BCC mine is  
13 uneconomic and, as Staff agrees, there is also no expectation that the mine will become  
14 economic in the future.<sup>3/</sup> Thus, while my testimony does not necessarily propose any specific  
15 regulatory treatment, the Commission ought to begin thinking of the mine as a stranded  
16 investment and adopt policies, perhaps through regulatory accounting, to protect ratepayers  
17 against what will likely be an early closure of the mine.

## 18 II. DAY-AHEAD AND REAL-TIME SYSTEM BALANCING

19 **Q. WHAT WAS YOUR PROPOSAL WITH RESPECT TO THE DART ADJUSTMENT?**

20 A. In my Opening Testimony, I recommended that the Commission reject the Company's DART  
21 modeling. Alternatively, if the Commission determines to retain the DART modeling, I argued  
22 that it should be adjusted to better account for day-ahead integration costs. The historical

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<sup>3/</sup> Staff/200, Kaufman/27:18-47:9.

1 address the issues the Company is allegedly trying to resolve, a position shared by Staff in this  
2 docket,<sup>15/</sup> the discrete issue I raise in this proceeding is that the DART adjustment already  
3 includes system balancing transactions made for the purpose of integrating load and wind on a  
4 day-ahead basis. Thus, a separate adjustment for day-ahead integration outside of the GRID  
5 model is no longer necessary. The Company's attempt to confuse the issue is telling and  
6 speaks to the fact that it lacks substantive argument to rebut the issue presented in my Opening  
7 Testimony.

### 8 III. BRIDGER COAL COMPANY COSTS

9 **Q. WHAT WAS YOUR CONCERN WITH THE COST OF COAL FROM THE BRIDGER**  
10 **COAL COMPANY?**

11 A. I demonstrated that the market cost of coal from the Powder River Basin is substantially less  
12 than the cost of coal from BCC. Accordingly, I recommended an \$11.6 million, Oregon-  
13 allocated adjustment based upon the application of lower-of-cost-or-market ratemaking to the  
14 fuel provided by the BCC mine. Based on the data presented in Confidential Table 1R, below,  
15 I am now proposing a ~~\$7.66~~ million, Oregon-allocated, adjustment to the Company's filing to  
16 reflect my lower-of-cost-or-market proposal. Confidential Table 1R reflects the impacts of  
17 regulatory amortization as well as other proposed changes identified by Mr. Ralston.

18 **Q. WHAT WAS THE COMPANY'S RESPONSE TO YOUR RECOMMENDATION?**

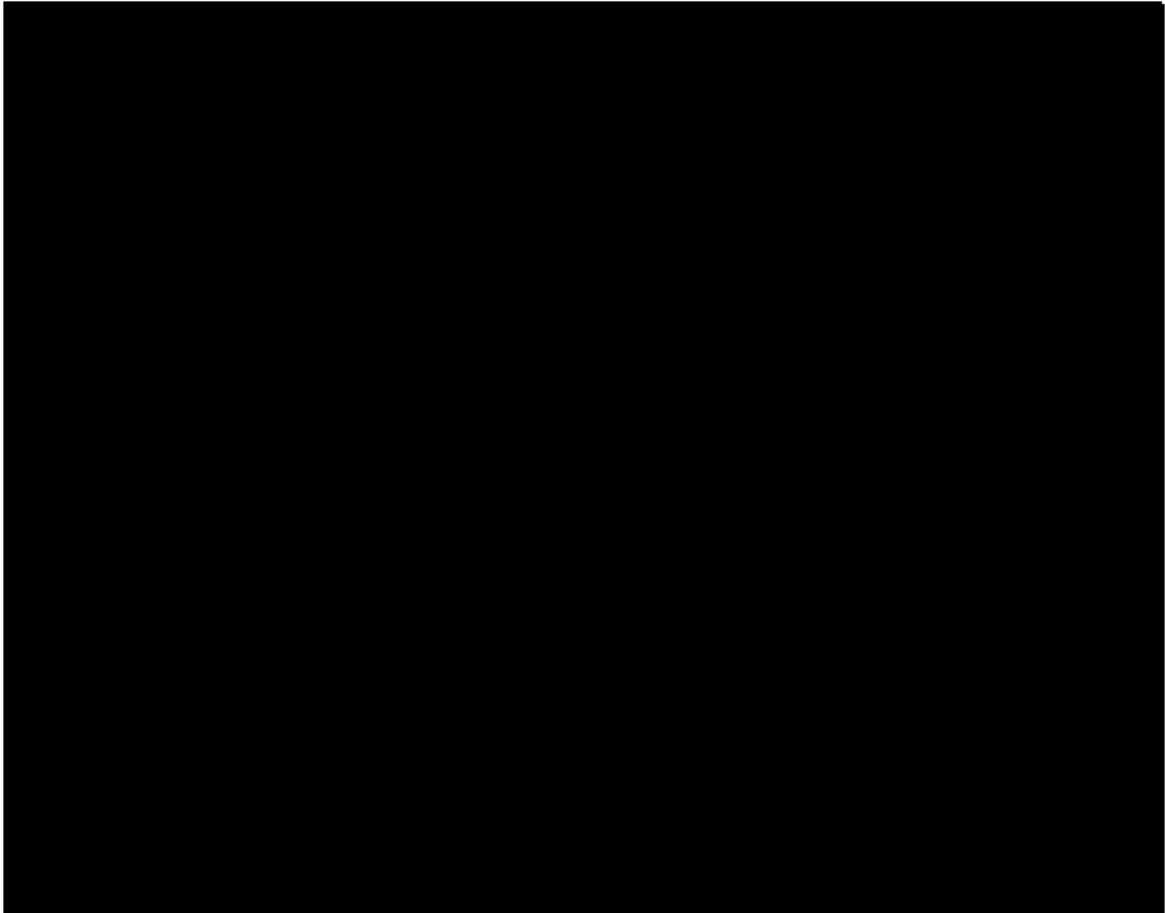
19 A. The Company's witness, Mr. Dalley, criticizes my adjustment based on the Company's  
20 position on how the Commission historically has treated BCC for regulatory purposes, and by  
21 arguing that a comparison with Powder River Basin coal is inappropriate because it is not an

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<sup>15/</sup> Staff/200, Kaufman/12:20-13:17.

1 represents the data in Mr. Ralston's figure, including a few minor changes to Mr. Ralston's  
2 assumptions.

**CONFIDENTIAL TABLE 1R**  
Updated BCC Market Comparison



3 **Q. WHAT CHANGES DID YOU MAKE TO MR. RALSTON'S CALCULATIONS?**

4 A. In addition to presenting the figure based solely on the portion of Jim Bridger fuel supply from  
5 the BCC, I made two changes to the market cost of Powder River Basin coal, which was  
6 detailed in Mr. Ralston's figure under the column "Mullins / Kaufman Corrected." First, I  
7 adjusted the regulatory asset amortization to reflect an amortization period of 13 years. This is  
8 in contrast to Mr. Ralston's calculation that amortized the regulatory asset over a four-year

1 period. A 13-year amortization would better align the regulatory asset amortization with the  
2 existing life of the mine used for ratemaking purposes in Oregon, extending the amortization  
3 through 2029. Second, I adjusted the carrying charge on the regulatory asset to be 3.31%,  
4 which was the carrying charge approved for the Deer Creek Mine unrecovered investment  
5 based on a blended rate using the Company's currently authorized cost of debt and Treasury  
6 bond yields.<sup>21/</sup> While I do not necessarily agree that a regulatory asset of the above nature  
7 should be approved, Confidential Table 1R shows that, even if a regulatory asset is approved,  
8 ratepayers are still better off if the Company were to acquire coal from the market.

9 **Q. WHAT IMPACTS DO THESE CHANGES HAVE ON THE CALCULATION?**

10 A. As noted above, if these changes are applied, it will reduce the lower-of-cost-or-market  
11 calculation to approximately \$~~7.6~~6 million. This value represents my updated  
12 recommendation with respect to lower-of-cost-or-market ratemaking.

13 **Q. DO YOU AGREE WITH MR. DALLEY THAT LOWER-OF-COST-OR-MARKET**  
14 **RATEMAKING WOULD BE INAPPROPRIATE, GIVEN THE REGULATORY**  
15 **HISTORY SURROUNDING BCC?**

16 A. No. While the Company has argued in the past that the Commission's lower-of-cost-or-market  
17 rule requires that Jim Bridger be actually capable of receiving the market alternative, its  
18 suggestion that the Commission has agreed with this argument is misleading. When ICNU  
19 raised this issue in the 2014 TAM, it compared BCC costs with costs from the Black Butte  
20 mine. My reading of the Commission's order rejecting ICNU's adjustment is that the  
21 Commission did not find that ICNU had persuasively determined the market rate to substitute  
22 for BCC coal, noting that PacifiCorp had shown that the price for additional coal from Black

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<sup>21/</sup> Docket No. UM 1712, Order No. 15-161 at 7 (May 27, 2015).