



Oregon

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Public Utility Commission

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September 6, 2017

Via Electronic Filing

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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**RE: Docket No. UE 327 – In the Matter of
PACIFICORP, dba PACIFIC POWER,
2016 Power Cost Adjustment Mechanism.**

Enclosed for electronic filing is Staff Opening Testimony,
(Exhibit 100-103), Certificate of Service and UE 327 Service List.

Exhibit 103 is confidential and is provided to parties who signed Protective Order
No: 17-276.

/s/ Kay Barnes

Kay Barnes
PUC- Utility Program
(503) 378-5763
kay.barnes@state.or.us

CERTIFICATE OF SERVICE

UE 327

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 6th day of September, 2017 at Salem, Oregon



Kay Barnes
Public Utility Commission
201 High Street SE Suite 100
Salem, Oregon 97301-3612
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UE 327 – SERVICE LIST

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CASE: UE 327
WITNESS: SCOTT GIBBENS

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Opening Testimony

REDACTED
September 6, 2017

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Scott Gibbens. I am a Senior Utility Analyst employed in the
3 Energy Rates, Finance and Audit Division of the Public Utility Commission of
4 Oregon (OPUC). My business address is 201 High Street SE., Suite 100,
5 Salem, Oregon 97301.

6 **Q. Please describe your educational background and work experience.**

7 A. My witness qualification statement is found in Exhibit Staff/101.

8 **Q. What is the purpose of your testimony?**

9 A. I discuss PacifiCorp’s 2016 Power Cost Adjustment Mechanism (PCAM) filing,
10 including Staff’s review of the filing, the calculations involved, and several
11 concerns and recommendations. The issues raised are: EIM Capital Costs, Joy
12 Longwall Mining System (Joy Longwall), and PCAM Filing Requirements.

13 **Q. Did you prepare an exhibit for this docket?**

14 A. Yes. I prepared the following Staff Exhibits:
15 Staff Exhibit 102: Company’s Response to Staff DR No. 2 & 8
16 Staff Exhibit 103: Company’s Confidential Response to Staff DR No. 2

17 **Q. How is your testimony organized?**

18 A. My testimony is organized as follows:
19 2016 PCAM Filing 2
20 Issue 1, EIM Capital Costs..... 4
21 Issue 2, Joy Longwall Mining System 6
22 Issue 3, PCAM Filing Requirements 12

2016 PCAM FILING

1
2 **Q. Please provide a background and summary of the Company's 2016**
3 **PCAM filing.**

4 A. PacifiCorp filed its 2016 PCAM on May 15, 2017. The initial application showed
5 an over-recovery of power costs in 2016 of \$60,189 on an Oregon-allocated
6 basis. The filing met all of the requirements set forth in Commission Order
7 No. 12-493. The total company actual power costs were \$.07/MWh higher than
8 forecast, however due to situs adjustments, Oregon allocated actual power
9 costs were \$.005/MWh lower than forecasted amounts. The over-collection
10 falls well within the deadband established by Order No. 12-493, so no refund to
11 customers is necessary.

12 **Q. How did Staff analyze the 2016 PCAM filing?**

13 A. Staff reviewed the Company's workpapers to ensure that the proper
14 calculations had been correctly performed. Staff then compared the calendar
15 2016 forecasted net power costs to actuals both on gross terms and while
16 controlling for volumes to identify cost anomalies and followed up with the
17 Company concerning issues raised in the analysis.

18 **Q. What was the result of Staff's analysis?**

19 A. Staff found the calculation and filings to be complete and accurate. Staff
20 identified several cost anomalies which it then investigated further. Staff issued
21 nine multi-part data requests for which the Company responded. These
22 responses satisfied Staff's concerns regarding cost anomalies. One issue

1 investigated, the Joy Longwall Mining System, will be discussed in further
2 detail later in my testimony.

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ISSUE 1, EIM CAPITAL COSTS

Q. Please provide a background of this issue.

A. Each year, in the transition adjustment mechanism (TAM), the Company forecasts non-net power costs associated with involvement in the Western Energy Imbalance Market (EIM). These costs are then-trued up in the corresponding year's PCAM. The costs include pre-tax return on rate base, ongoing operation and maintenance (O&M) expense, and depreciation expense. In UE 323, Staff voiced a concern that EIM return on rate base should not be deferred and recovered through the Company's PCAM filing.¹

Q. Why does Staff believe that return on rate base should not be trued-up in the PCAM?

A. While it has been the historical practice, to include in the PCAM a deferral on the rate base component of the EIM, Staff recommends this practice be discontinued. The Commission approves an authorized rate of return and aims to provide the utility with the opportunity to earn up to its authorized rate. An authorized rate of return is included in rates so that if the utility performs in an efficient manner, it will earn its authorized rate of return. However, the Commission does not guarantee that the utility will earn this rate of return on investments. Guaranteeing a return on investment would remove the incentive for the utility to operate in an efficient manner. Staff understands the deadband and other mechanisms in the PCAM promote efficient operations, but in the circumstance of an under-collection and subsequent amortization into rates,

¹ See UE 323, Staff/100, Gibbens/12.

1 including the return on capital does not represent an opportunity to achieve an
2 authorized rate, but an entitlement to receive an authorized rate return. Staff
3 takes no issue with the inclusion of rate of return costs in the Company's
4 forecast as it is the same mechanism by which these costs would be set in a
5 general rate case, however including this cost in any deferral should be
6 discontinued.

7 **Q. What is Staff's recommendation for this issue?**

8 A. Staff recommends that all rate of return costs included in the Company's
9 PCAM be removed from the base and actual cost calculations. For EIM related
10 costs, this equates to **[BEING CONFIDENTIAL] [REDACTED] [END**
11 **CONFIDENTIAL]**. Staff is unaware of additional rate base items included in
12 the TAM and subject to true-up in the PCAM. Should other rate of return
13 based costs be subject to true-up in the PCAM, Staff also recommends
14 removal of those items from the PCAM.

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ISSUE 2, JOY LONGWALL MINING SYSTEM

Q. Please provide a background of this issue.

A. When PacifiCorp closed its Deer Creek Mine in 2015, it sold the Joy Longwall Mining System (Joy Longwall) to its affiliate Bridger Coal Company (BCC) for use in the Bridger Coal Mine.² The Joy Longwall equipment began operation in September 2015.³ In late December, 2015 the equipment became stuck and could not continue to operate due to the floor of the mine being cut too deep and reaching unstable clay.⁴ Recovery efforts were attempted throughout the next ten months until the majority of the equipment was abandoned in October 2016.⁵ \$20.1 Million in costs associated with the attempted recovery and subsequent abandonment are included in the 2016 PCAM actuals by way of added expense at Jim Bridger Coal plant.

Q. What is Staff's concern with this issue?

A. Staff believes that improper operations led to the issues surrounding the Joy Longwall equipment. In reviewing the events that ultimately led to the abandonment of the equipment, Staff noted four imprudent practices. Namely these were: **[BEGIN CONFIDENTIAL]** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

² See Staff/102.
³ Ibid.
⁴ See Staff/103, Gibbens/15.
⁵ See Staff/102.

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[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] [END CONFIDENTIAL]

Q. Please describe the second issue.

A. [BEGIN CONFIDENTIAL] [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED] [END CONFIDENTIAL]

12 Q. Please describe the third issue.

13 A. [BEGIN CONFIDENTIAL] [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
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[REDACTED]

[REDACTED] [END CONFIDENTIAL]

Q. What is Staff's recommendation for the costs associated with the Joy Longwall abandonment?

A. Staff recommends that the Commission order the Company to remove the \$20.1 million associated with the Joy Longwall abandonment from the PCAM actuals. Customers should not bear the costs associated with the imprudent actions that resulted in abandonment of the Joy Longwall. Had BCC practiced proper operations, customers would not be facing the prospect of paying such a large cost. It is PacifiCorp's responsibility to ensure that proper business practices are in place when providing power to its customers.

Q. What is the impact of this recommendation to rates?

A. Removal of \$20.1 million in expenses results in an over-recovery that is beyond the PCAM deadband and would be subject to refund to customers. However, PacifiCorp's earnings are insufficient to result in any change in rates due to the earnings test associated with the PCAM. PacifiCorp would need to show a roughly [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] change in revenue to result in sufficient earnings to pass the earnings test. As a result, Staff's recommendation by itself does not affect customer's rates, but does properly depict power cost recovery levels.

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ISSUE 3, PCAM FILING REQUIREMENTS

Q. Please provide a background of this issue.

A. Staff believes that while PacifiCorp diligently complied with the requirements set forth in the 2016 PCAM, the overall detail included in the filing was lacking. When circumstances occur, such as the Joy Longwall abandonment, Staff believes it would be more efficient to have the Company directly address those issues in its initial filing. This would provide the Company with a chance to describe the circumstances surrounding any anomalies and provide clarity for parties and the Commission. It would also allow for parties and Staff to respond to PacifiCorp in its opening testimony and produce a more complete and thorough record.

Q. What is Staff's recommendation for this issue?

A. Staff recommends that the Commission supplement the filing requirements, to be effective beginning with the 2017 PCAM, to include direct testimony from the Company. In the testimony, the Company should cover any unusual expenses incurred over the course of the PCAM year and identify and discuss large deviations of actuals from forecasted costs. In addition, Staff asks that the Company provide in its workpapers a differential worksheet which produces actual minus base power costs for each separate cost category in the PCAM on a gross cost and per MWh unit basis. PGE provides testimony along these lines and PacifiCorp should do the same.

Q. Does this conclude your testimony?

A. Yes.

CASE: UE 327
WITNESS: SCOTT GIBBENS

**PUBLIC UTILITY COMMISSION
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STAFF EXHIBIT 101

Witness Qualifications Statement

September 6, 2017

WITNESS QUALIFICATION STATEMENT

NAME: Scott Gibbens

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Economist
Energy Rates, Finance and Audit

ADDRESS: 201 High St. SE Ste. 100
Salem, OR 97301-3612

EDUCATION: Bachelor of Science, Economics, University of Oregon
Masters of Science, Economics, University of Oregon

EXPERIENCE: I have been employed at the Oregon Public Utility Commission (Commission) since August of 2015. My current responsibilities include analysis and technical support for electric power cost recovery proceedings with a focus in model evaluation. I also handle analysis and decision making of affiliated interest and property sale filings, rate spread and rate design, as well as operational auditing and evaluation. Prior to working for the OPUC I was the operations director at Bracket LLC. My responsibilities at Bracket included quarterly financial analysis, product pricing, cost study analysis, and production streamlining. Previous to working for Bracket, I was a manager for US Bank in San Francisco where my responsibilities included coaching and team leadership, branch sales and campaign oversight, and customer experience management.

CASE: UE 327
WITNESS: SCOTT GIBBENS

**PUBLIC UTILITY COMMISSION
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STAFF EXHIBIT 102

**Exhibits in Support
Of Opening Testimony**

September 6, 2017

OPUC Data Request 2

Please provide a narrative explanation of the purchase, depreciation, and abandonment of the Joy Longwall miner.

Response to OPUC Data Request 2

Purchase:

Bridger Coal Company (BCC) purchased the Joy longwall equipment, which had previously been used in the Deer Creek Mine. PacifiCorp sold the equipment to BCC at the appraised market value, and was also reimbursed by BCC for the cost of rebuilding the equipment and transporting it to BCC. The equipment was transferred in multiple shipments and was placed in-service on September 1, 2015, in the 14th Right panel.

Pre-approval of the transaction was received from the Public Utility Commission of Oregon (OPUC) and submittal of an advice letter to the California Public Utilities Commission (CPUC). The transaction was subject to review and approval by Idaho Power Company (IPC) and the Idaho Public Utilities Commission (IPUC). Additionally, the Company completed an affiliate transaction document in Oregon prior to completing the Joy longwall sales transaction between PacifiCorp and BCC.

Please refer to Confidential Attachment OPUC 2 -1, which provides the BCC capital appropriation document (CAD), which includes the economic analysis and supporting documentation relating to the BCC purchase of the Joy Longwall.

Depreciation:

The Joy Longwall Mining System consists of several major components assembled into a single mining system working simultaneously to extract coal on a continuous basis. At the time of acquisition it was anticipated that all major components would have the same useful service life, thus the Joy Longwall System was placed in property, plant and equipment investment records as one asset or system.

Calculation of depreciation expense is based upon the “number of cycles” the system advances during a monthly reporting period. With each pass of the shearing machine (which extracts coal from the work face), the longwall system advances to maintain proper operating distance from the receding coal face. These system advances are known as cycles. The longwall shields / supports are designed to perform a specific number of cycle advances.

These depreciation costs were included in the cost of coal delivered to PacifiCorp at the Jim Bridger Plant. Once the Joy Longwall lost advancement capabilities, only minimal depreciation costs were recorded as only a few cycle advances were possible during the recovery attempts. Consequently, the PacifiCorp two-thirds share of depreciation costs relating to the Joy Longwall in 2015 and 2016 were recorded as follows:

OPUC Data Request 8

Please provide the cost and volume amounts of coal costs at Jim Bridger plant in 2016. Please include TAM forecast and actual costs and volumes for third-party and BCC sources separately. For any differences between actual and forecast greater than 20% please include a narrative explanation.

Response to OPUC Data Request 8

Please refer to Confidential Attachment OPUC 8, which provides the cost, volume and variance information requested.

Actual coal volumes delivered to the Jim Bridger plant in 2016 were 20 percent lower than the forecasted base period (2016 Transition Adjustment Mechanism (TAM) in docket UE 296). The tons received from Bridger Coal Company (BCC) were 28 percent lower than forecast. Lower coal production at BCC increased the cost per ton (\$/ton) as costs are spread over fewer tons of coal. BCC's volume reduction was not primarily driven by the longwall production issues, but rather due to lower generation levels at Jim Bridger, driven by lower power market prices, lower natural gas prices, and renewable generation impacts during 2016. While the Joy longwall event impacted the volumes produced at BCC and delivered to the Jim Bridger plant, that event did not occur in isolation nor independently from these other changes in the economy, which were major drivers of the level of production at the mine.

Several factors led to the \$43.0 million price variance between actual and forecast delivered cost amounts. A driver of the coal cost variance at the Jim Bridger plant was the \$20.1 million (PacifiCorp share) attempted recovery and abandonment expenses associated with the Joy Longwall. In addition, \$19.0 million of the cost increase is due to the reduction in volumes produced at Bridger Coal due to the lower Jim Bridger plant generation and \$3.9 million resulted from lower heat content delivered from BCC. The BCC costs included in the TAM were forecasted in the initial TAM filing in April 2015 (docket UE 296). The BCC costs were not updated in the TAM Update in July 2015 (docket UE 296) because the TAM guidelines do not permit PacifiCorp to update affiliate mine costs.

Confidential information is designated as Protected Information under Order No. 17-276, and may only be disclosed to qualified persons as defined in that order.

2015 – Depreciation Expense	\$ 856,225
2016 – Depreciation Expense	\$ 17,741

Attempted Recovery and Abandonment:

The Joy longwall operated successfully until it lost advancement capabilities over a period of time, between December 23, 2015, and December 31, 2015, due to adverse geological conditions. Following various unsuccessful attempts to restore the operation of the equipment, the Joy longwall was abandoned on October 7, 2016, as the equipment could no longer be safely restored to operation. Entries to record the PacifiCorp share of the attempted recovery and abandonment costs, as shown below, were reflected in the third quarter 2016 financial statements. Please refer to Confidential Attachment OPUC 2 -2, which provides documents and narratives relating to the attempted recovery and abandonment.

2016 – Attempted Recovery Costs	\$ 7,551,394
2016 – Asset Abandonment	\$12,560,956

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CASE: UE 327
WITNESS: SCOTT GIBBENS

**PUBLIC UTILITY COMMISSION
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STAFF EXHIBIT 103

**Exhibits in Support
Of Opening Testimony**

September 6, 2017

STAFF EXHIBIT 103

IS CONFIDENTIAL AND SUBJECT TO

PROTECTIVE ORDER NO. 17-276