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September 5, 2007

Via Electronic and US Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of PACIFIC POWER & LIGHT 2008 Transition Adjustment Mechanism
Docket No. UE 191

Dear Filing Center:

Enclosed please find the original and five (5) copies of the Confidential Opening Brief of the Industrial Customers of Northwest Utilities in the above-referenced docket. The confidential pages are provided in separate, sealed envelopes pursuant to the terms of the Protective Order in this proceeding. Also provided is a complete copy of the redacted version of the Opening Brief.

Thank you for your assistance.

Sincerely,

/s/ Christian Griffen
Christian W. Griffen

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Confidential and Redacted Opening Brief(s), as indicated below, of the Industrial Customers of Northwest Utilities upon the parties, on the service list, by causing the same to be deposited in the U.S. Mail, postage-prepaid, and via electronic mail. Parties authorized to receive confidential information under the protective order in this proceeding are indicated below.

Dated at Portland, Oregon, this 5th day of September, 2007.

/s/ Christian Griffen
Christian W. Griffen

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(C) = Authorized to receive confidential information
(W) = Paper service waived (non-confidential version only)

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 191

In the Matter of	)
	)
PACIFICORP	)
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2008 Transition Adjustment Mechanism.	)
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REDACTED

OPENING BRIEF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

September 5, 2007

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I. INTRODUCTION

The Industrial Customers of Northwest Utilities ("ICNU") submits this Opening Brief in PacifiCorp's (or the "Company") 2008 transition adjustment mechanism ("TAM") update to the Company's net variable power costs ("NVPC"). PacifiCorp has not demonstrated that it is entitled to an over $29 million NVPC-related rate increase. Instead, ICNU recommends that the Oregon Public Utility Commission ("OPUC" or the "Commission") authorize a no more than $1.9 million rate increase.[1/]

This proceeding is the first PacifiCorp TAM proceeding and will likely set precedent on various PacifiCorp NVPC issues for years to come. This proceeding is also significant because it is the first PacifiCorp case in many years in which the NVPC issues have not been settled. Some of the contested issues in this case have been raised by the parties in previous cases, and PacifiCorp and the parties have agreed to reduce NVPC to account for them; however, these issues have not been resolved because PacifiCorp's most recent general rate proceedings have settled (UE 134, UE 147, UE 170 and UE 179). Thus, while some of these issues many seen familiar, most (if not all) of these issues have not been subject to Commission rulings.

On April 2, 2007, PacifiCorp filed its 2008 TAM. PacifiCorp's original filing estimated that its NVPC would be $1.002 billion on a total company basis, well over a hundred million increase over the amount assumed in rates. PacifiCorp requested an increase in Oregon rates of $35.9 million, which would have increased overall rates by 3.9% and industrial customer rates by 5.5%. This would be a significant proposed rate

[1/] Unless otherwise noted, all of ICNU's revenue requirement numbers are the Oregon allocated share.

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increase on top of the 5.4% increase industrial customers experienced on January 1, 2007. Given the decline in natural gas costs and PacifiCorp's lack of reliance upon the market, a majority of this proposed rate increase is due to load growth, the expiration of the TransAlta contract, increasing outage rates, and the dispute surrounding the current NVPC assumed in rates.

ICNU's significant remaining revenue requirement adjustments are summarized below:

ICNU Proposed Adjustments to PacifiCorp's Rate Increase on a Oregon Jurisdictional Basis (000)	
NVPC in Rates	$7,491
Unplanned Outages	$1,547
GP Camas	$118
Station Service	$906
DJ Capacity	$783
Cholla 4 Minimum Capacity	$120
Hydro Modeling	$452
Total ICNU Adjustments[2/]	**$11,417**
Staff Wholesale Margin[3/]	$16,200
Total Staff Adjustments	**$16,200**
Total Revenue Requirement Reductions	**$27,617**

2/ ICNU no longer proposes the "Planned Outages" adjustment for Currant Creek.
3/ ICNU supports this adjustment proposed by Staff witness William Wordley.

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II. LEGAL STANDARD

PacifiCorp has the burden of proof to establish that its proposed NVPC-related rate increase is just and reasonable. ORS § 757.210(1) (2005); Pac. Northwest Bell Tel. Co. v. Sabin, 21 Or. App. 200, 213-14 (1975). The Commission also has the independent responsibility to ensure that PacifiCorp's customers are only charged just and reasonable rates. ORS § 756.040(1) (2005); Pac. Northwest Bell Tel. Co., 21 Or. App. at 213. The burden of proof is borne by the Company "throughout the proceeding and does not shift to any other party." Re PacifiCorp, Docket No. UE 116, Order No. 01-787 at 6 (Sept. 7, 2001). When other parties dispute the proposed rates, PacifiCorp retains the burden to rebut the evidence presented by intervenors and Staff, and to show that all its suggested changes are just and reasonable. See id.

Although this is an update of only PacifiCorp's NVPC, the standard regulatory principles apply to requested rate increase. The Commission should set PacifiCorp's NVPC based on its actual cost of service. See id. at 5 (citing American Can Co. v. Lobdell, 55 Or. App. 451, 454-55 (1982)). Cost of service is "the utility's reasonable operating expenses to provide utility service." Id. (citing Pac. Northwest Bell Tel. Co., 21 Or. App. at 205 n.4).

PacifiCorp must demonstrate that its expenses are reasonable and prudent before the Commission will allow their inclusion in rates. Re US West Communications, Inc., Docket Nos. UT 125/UT 80, Order No. 00-191 at 15 (Apr. 14, 2000). Prudence is based on existing circumstances and what the Company either knew or should have known at the time it was making its decision. Re Northwest Natural Gas Co., Docket No.

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UG 132, Order No. 99-697 at 52 (Nov. 12, 1999). Even when the utility operates prudently, it may be held liable for manufacturer defects because it "is better suited to pursue remedies for any manufacturing defects . . . than are the ratepayers." Re PGE, Docket No. UE 88, Order No. 95-322 at 3 (Mar. 29, 1995).

III. ARGUMENT

1. PacifiCorp Inflates the Rate Increase in this Proceeding by Understating the NVPC Currently Assumed in Rates

The amount of NVPC currently in rates is $225 million, not the $217.5 assumed by PacifiCorp. By understating the baseline NVPC assumed in rates, PacifiCorp seeks to obtain a larger overall rate increase. Although PacifiCorp attempts to confuse this issue with complex and convoluted arguments, the Commission can easily resolve this issue with simple math. PacifiCorp's arguments are also contradicted by the plain meaning of the stipulation in UE 179 ("UE 179 Stipulation") and would have the practical effect of denying ratepayers the benefits associated with the Revised Protocol cost allocation methodology by assigning Oregon a larger portion of the costs associated with Utah load growth.

A. Simple Math Demonstrates that the NVPC Currently in Rates Is $225 Million

To authorize an overall rate increase in the TAM, the Commission must decide the baseline amount of NVPC currently in rates as well as the new overall amount of NVPC. The dispute over the amount of NVPC in rates centers on the amount of NVPC the Commission authorized in PacifiCorp's last general rate case, UE 179.

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PacifiCorp argues the amount authorized in UE 179 was only $217.5 million, while the evidence establishes that the amount is $225 million.

There is no dispute in this proceeding that the NVPC in rates approved in UE 170 was approximately $215 million. ICNU/116, Falkenberg/1; see also ICNU/100, Falkenberg/2. The UE 179 Stipulation which was approved by the Commission authorized PacifiCorp a $10 million rate increase related to NVPC. ICNU/100, Falkenberg/2; PPL/102, Kelly/10, lines 23-25. Simple math shows that $215 million plus $10 million equals $225 million. Hearing Transcript ("Tr.") at 70, lines 8-13; 74, lines 8-11; 81, lines 4-7 (Mansfield). Therefore, the amount of NVPC assumed in current rates is $225 million, which is the baseline upon which any rate increase should be calculated.

B. PacifiCorp Incorrectly Argues that It Received a $2.5 Million NVPC Rate Increase in UE 179

PacifiCorp's fundamental position regarding the NVPC in rates is that it only received a $2.5 million NVPC rate increase in UE 179. ICNU/116, Falkenberg/1; Tr. at 68, lines 7-10 (Falkenberg). This position not only defies simple math and common sense, but relies upon a unreasonable reading of the UE 179 Stipulation. See PPL/102, Kelly/8-11. PacifiCorp fails to recognize that the UE 179 Stipulation established a method to calculate the $10 million NVPC rate increase the Company was ultimately authorized, but did not set NVPC at $217.5 million. Indeed, the UE 179 Stipulation never mentions the amount of NVPC included in rates. Had the parties intended that the NVPC in rates would be $217.5 million, then the UE 179 Stipulation would have clearly stated so.

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The parties in UE 179 agreed to resolve NVPC issues by capping the overall NVPC at $10 million. PPL/600, at 5-6. The UE 179 Stipulation established a complex formula to determine whether the $10 million cap applied and whether the NVPC would be $10 million or a lesser number. The purpose of the complex formula was to determine how the amount of "the NVPC/TAM rate increase for 2007 will be calculated." PPL/600, at 5, lines 10-11.

PacifiCorp argues that this formula by which the $10 million NVPC increase was determined actually set the amount of NVPC in rates. PPL/102, Kelly/9, lines 18-19. This reading is not supported by the UE 179 Stipulation, which frequently refers to the method to calculate the $10 million "NVPC increase," and does not specify anywhere the "NVPC in rates." The purpose of this formula was only "to determine whether the $10 million increase was going to be granted or not." Tr. at 69, lines 17-21 (Falkenberg). PacifiCorp's efforts to make the UE 179 Stipulation into something it is not is designed to artificially increase its rate increase in this proceeding.

C. PacifiCorp's Understating of the NVPC in Rates Denies Oregon the Benefits of the Revised Protocol

Adopting PacifiCorp's position that the amount of NVPC in rates is $217.5 million would deny ratepayers one of the significant benefits associated with the Revised Protocol. The Revised Protocol does not include a structural protection mechanism to protect Oregon from cost increases caused by Utah load growth. See Re PacifiCorp, Docket No. UM 1050, Staff/100, Hellman/28-29 (July 2, 2004). Instead, the Revised Protocol provides Oregon partial protection from Utah load growth because Oregon's share of PacifiCorp's total company costs (including new resources to serve new Utah load) is reduced as Oregon's share of PacifiCorp's overall load is reduced. Id. Utah continues to experience far greater load growth than Oregon.

The TAM is supposed to ensure that, while Oregon ratepayers pay for annual increases in PacifiCorp's NVPC, Oregon's cost allocation factors are updated to reduce Oregon's share of PacifiCorp's NVPC. In obtaining approval for the TAM, PacifiCorp witness Christy Omohundro testified:

> By regularly updating allocation factors, the RVM actually helps protect Oregon customers from the impacts of Utah's rapidly growing load. When the allocation factors are reset, Oregon customers pay a smaller portion of the variable costs[.]

Re PacifiCorp, Docket No. UE 170, PPL/701, Omohundro/5. Thus, Oregon should obtain the full value of Oregon's lower than the average system load growth in this proceeding. Id.

In settling the UE 179 general rate case, however, the parties agreed upon an allocation method which did not fully update the cost allocation factors and did not provide Oregon the full benefits of lower than average load growth. The method used to calculate the NVPC increase in UE 179 does not reflect the reduction in Oregon's SE and SG allocation factors used to develop Oregon's jurisdictional allocation method. Tr. at 72, lines 9-15, and 79, line 4 to 81, line 7 (Falkenberg). The UE 179 Stipulation was not "flawed" because the parties agreed to settle NVPC issues with a rate increase that would be determined according to a specified calculation method not to exceed $10 million. See Tr. at 72, lines 20-24 (Falkenberg). However, there was no agreement by the parties in UE 179 that this method used to calculate the capped rate increase would be used in

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future proceedings to deny Oregon the benefits associated with its lower load growth. See Tr. at 77, lines 8-11 (Falkenberg). Adoption of PacifiCorp's position would result in Oregon being charged higher NVPC that result from Utah load growth, but not being allocated a smaller share of those costs equal to its share of total Company loads. Simply put, if the Commission does not adopt the $225 million starting point for NVPC, then Oregon will be paying for a larger portion of Utah load growth than is intended under the Revised Protocol.

2. The Commission Should Remove from PacifiCorp's Four-Year Outage Rates the Outages Caused by Personnel Error, Company Mismanagement, Manufacturer Defect, or Other Avoidable Causes

Over the past decade, PacifiCorp's forced outage rates have substantially increased and resulted in higher power costs. The Commission should remove from PacifiCorp's NVPC the costs associated with forced outages "that were caused by management or personnel errors, avoidable mistakes and/or manufacturer design flaws." ICNU/100, Falkenberg/30. Mr. Falkenberg has identified specific outages that should be removed from rates because they were caused by mistakes, errors, other factors within the control of PacifiCorp, or otherwise should be the responsibility of the Company. Id. at Falkenberg/2-3; ICNU/117, Falkenberg/1.

In PacifiCorp's power cost model, outage rates establish the amount of electric generation that is available from the Company's thermal plants. ICNU/100, Falkenberg/20. Increased available electric generation results in lower NVPC. Id. The Company's outage rates establish how much of the generation units' capacity is available to produce electricity. Id. To determine the outage rates for its thermal plants,

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PacifiCorp uses the most recent four-year historical period. Id. ICNU's proposal would remove from this four-year historic period those outages that were caused by manufacturer defects, poor company management, personnel errors, and factors within the control of PacifiCorp. Id. at Falkenberg/30.

In its rebuttal testimony, PacifiCorp did not challenge the specific evidence of Company mismanagement and personnel errors identified by Mr. Falkenberg. PPL/400, Mansfield/5-13; Tr. at 30, lines 7-15 (Mansfield). Instead, PacifiCorp argued that its overall system performance is better than the national average and that personnel errors do not constitute evidence of imprudent operation or management. PPL/400, Mansfield/5-13. A careful analysis of PacifiCorp's forced outage rates contradicts the Company's assertions and shows that the Company's reliability has been decreasing and is worse (not better) than national averages. More significantly, the Company cannot meet its burden of proof by failing to present any evidence that the outages challenged by Mr. Falkenberg were not caused by Company errors, negligence, or imprudence. See Re PacifiCorp, Docket No. UE 116, Order No. 01-787 at 6; Re PGE, Docket No. UE 88, Order No. 95-322 at 62-63.

A. PacifiCorp's Thermal Reliability Has Worsened

PacifiCorp's thermal generation fleet has experienced "a marked decline in reliability in recent years." ICNU/224, Mansfield/6; ICNU/100, Falkenberg/20-21; ICNU/208, Mansfield/3. Since 1999, PacifiCorp's outage rates that are used to set NVPC "have increased by more than 40%" and "77% of PacifiCorp's generating units have seen their outage rates increase over the past seven years." ICNU/100, Falkenberg/20;

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ICNU/109. This trend in reduced thermal plant reliability is not the result of merely plant aging because, "while the national fleet of coal plants have aged substantially in recent years, [national] outage rates have not increased." ICNU/100, Falkenberg/21; ICNU/110.

PacifiCorp does not dispute the fact that its outage rates have worsened over time, but opines that: 1) its outage rates have recently improved; 2) outage rates are not an accurate indicator of performance; and 3) the Company's overall performance exceeds industry averages. PPL/400, Mansfield/5-8. Contrary to the Company's assertions, outage rates are a strong indicator of reliability and are highly relevant because they are what PacifiCorp uses to set NVPC. The other data PacifiCorp presents regarding the Company's performance is also relevant and supports Mr. Falkenberg's conclusions that the Company's reliability has worsened; however, this other data has only limited applicability because it is not directly used to set NVPC.

PacifiCorp's assertion that its recent reliability has improved is incorrect. PacifiCorp's four-year forced outage rates have improved over the past three years; however, PacifiCorp did not analyze whether this improvement is due to the removal of the catastrophic Hunter outage from the four-year outage rate or an actual improvement in reliability. See Tr. at 39, line 24 to 40, line 6 (Mansfield). In contrast, Mr. Falkenberg's analysis of PacifiCorp's outage rates excluded the impacts of the Hunter outage in order to not prejudice his conclusions. ICNU/100, Falkenberg/21. PacifiCorp's most recent four-year equivalent forced outage rate for the four-year period ending 2005 is higher than any comparable four-year period in the past fifteen years. ICNU/208, Mansfield/4.

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PacifiCorp argues that none of its outages are imprudent because its overall "equivalent availability factor" and planned outages rates are lower than national averages. PPL/400, Mansfield/5-8. The "equivalent availability factor" is the percentage of time a unit is available to produce electricity, but it does not provide any information regarding the costs associated with the outages. PacifiCorp maintains its overall equivalent availability factor by scheduling significantly fewer planned outages than the national average, which results in PacifiCorp experiencing significantly more unplanned outages that the national average. See ICNU/208, Mansfield/4 (four-year PacifiCorp rolling average for 2005 for planned outages was 3.47% and for unplanned outages was 5.9%); ICNU/209, Mansfield/4 (four-year national rolling average for 2005 for planned outages was 7.01% and for unplanned outages was 4.79%). Unlike forced outages, which can cause greater harm and higher replacement power costs because they can occur at any time, planned outages can be scheduled to reduce overall costs. Thus, PacifiCorp appears to be reducing planned, routine maintenance to the detriment of its overall reliability and driving up the costs associated with its outages.[4/]

The data relied upon by PacifiCorp establishes that the Company's "equivalent availability factor" has worsened, while the reliability of equivalent national coal fired units has improved. For example, the national equivalent coal fired units overall equivalent availability has improved from 80.36% in 1990 to 84.77% in 2005.

4/ ICNU has noted in past proceedings that PacifiCorp has not performed all projects and repairs that plant personnel have requested. ICNU/224, Mansfield/5-6. Mr. Falkenberg noted in UE 179 that "PacifiCorp's generator fleet has shown a marked decline in reliability in recent years. Certainly, if additional spending is needed to reverse the decline, it would be money well spent. However, based on past expenditure levels, I see no basis for assuming the money will actually be spent in the test year." Id. at Mansfield/6.

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ICNU/209, Mansfield/4. In contrast, PacifiCorp's overall equivalent availability factor has worsened from 88.76% in 1990 to 85.9% in 2005. ICNU/208, Mansfield/4. PacifiCorp is defying national trends and experiencing worsening plant availability.

Finally, PacifiCorp argues that its "thermal units are significantly better than the industry average" because they have a higher capacity factor. PPL/400, Mansfield/6, 13. Capacity factors are highly dependent upon a wide range of elements, some which have no relationship to the thermal units' actual performance (e.g., the utility's generation mix and overall load). Thus, without other information, comparison of capacity factors is not useful for ascertaining whether PacifiCorp is operating its thermal units responsibly.

B. Outages Caused by Poor Operation or Management Should Be Removed from PacifiCorp's Outage Rates

Mr. Falkenberg analyzed PacifiCorp's outage reports, or "Root Cause Analysis" ("RCA"), and concluded that there were many outages that should be removed from the Company's outage rates. ICNU/100, Falkenberg/22-29. Mr. Falkenberg's analysis focused primarily on the 2006 outages and is a conservative list of the outages that could be removed from rates. See id. at Falkenberg/23. ICNU specifically recommends that the Commission remove from PacifiCorp's outage rates a group of small outages the Company itself identified as being due to operator or personnel errors and fourteen larger outages that the RCA reports establish were "due to poor

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management, personnel or maintenance errors, or other avoidable causes." ICNU/100, Falkenberg/22, 29; ICNU/117.[5/]

In rebuttal testimony, PacifiCorp did not seek to defend any of the individual outages challenged by Mr. Falkenberg, but instead argued that personnel error is not evidence of imprudent operation or management. PPL/400, Mansfield/8, 12, 14. According to PacifiCorp, [redacted] Tr. at 27, lines 19-22 (Mansfield). PacifiCorp's position appears to be that personnel error cannot be eliminated and no outages should be removed from rates as long as its outage rates are similar to national averages.

PacifiCorp cannot just ignore evidence of imprudent actions, but has the burden of proof to affirmatively establish that all of its proposed costs were prudently incurred. See Re PGE, Docket No. UE 88, Order No. 95-322 at 62-63. Prudence is based on reasonable management, the exercise of common sense, and sound judgment under the circumstances. Leonard Goodman, The Process of Ratemaking 856 (1998). The Commission also has the responsibility to disallow all expenditures "caused by lack of proper foresight . . ." Re Northwest Natural Gas Co., Docket No. UG 132, Order No. 99-697 at 52 (Nov. 12, 1999). PacifiCorp has failed to present evidence that

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[5/] Based on his review of the RCA reports, Mr. Falkenberg originally proposed to remove from PacifiCorp's outage rates fifteen specific large outages. ICNU/117, Falkenberg/1. Upon further review, ICNU proposes that [redacted] should not be removed from PacifiCorp's outage rates. [redacted] ICNU/117, Falkenberg/1. Including this outage in PacifiCorp's outage rates reduces ICNU's "Outages" [redacted] on an Oregon basis.

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the outages challenged by ICNU were prudent, and thus these outages should be removed from rates.

[redacted] PacifiCorp did not submit any testimony disputing Mr. Falkenberg's conclusions or the RCA report.

[redacted] Despite this scathing criticism of the Company's management and operation in the RCA report, PacifiCorp did not submit any evidence on this outage.

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[redacted]

[redacted]

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[redacted]

[redacted]

[redacted]

[redacted]

C. The Commission Should Remove the Costs of Outages Caused by Manufacturer Defects

[redacted] Even when the utility not negligent, the Commission has concluded that the utility "is better suited to pursue remedies for any manufacturing defects against Westinghouse . . . than are the ratepayers." Re PGE, Docket No. UE 88, Order No. 95-322 at 3, 62.

PacifiCorp disagrees with this general regulatory principle, and its witness opined that it would "lower[] the traditional prudence standard in Oregon." PPL/400, Mansfield/4-5. PacifiCorp is confused, because ICNU is not proposing to alter the traditional prudence standard. Instead, ICNU relies upon the Commission precedent that the utility is better suited to assume responsibility for manufacturer defects than ratepayers because the utility makes the investment decisions regarding equipment purchases and is better able to pursue remedies than are ratepayers. As explained by the Commission in a PGE proceeding:

> Although PGE's behavior was not faulty, PGE and the ratepayers are the only two parties to whom we can assign or impute steam-generator costs. As between those two parties, PGE is better situated to recover its costs from the manufacturer of the steam generators. Moreover, it is fair

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> that shareholders bear some of the consequences of management investment decisions.

Re PGE, Docket No. UE 88, Order No. 95-322 at 3. PacifiCorp has not provided any basis or sufficient evidence to depart from this Commission policy. Most of the outages were due to deferred maintenance or outright personnel errors. Ratepayers should not be asked to assume these types of risks.

3. PacifiCorp Overstates the GP Camas Contract Costs by Increasing NVPC When There Is No Actual Cost Increase

PacifiCorp increased its costs associated with the Georgia Pacific ("GP") Camas contract, even though the Company has not actually made any payments to GP. Although the GP Camas adjustment is not a large revenue requirement number (it would reduce Oregon rates by approximately $118,000), the issue is important as to whether PacifiCorp is allowed to use the unique structure of the TAM proceeding to make one-sided revenue requirement increases. The Commission should adopt ICNU's proposed adjustment and recognize that PacifiCorp's actual costs associated with the GP Camas contract have not increased.

In approving PacifiCorp's TAM, the Commission recognized the TAM was complex and could result in potential unintended consequences. See Re PacifiCorp, Docket No. UE 170, Order No. 05-1050 at 21 (Sept. 28, 2005). The Commission specifically stated that:

> We are somewhat concerned about establishing the TAM with an annual update because there is a certain amount of one-sidedness to PacifiCorp's annual updates without concomitant adjustments by intervenors and Staff. We will continue to look at the TAM and investigate to whatever extent we believe is necessary.

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Id. PacifiCorp's treatment of the GP Camas contract is one such "one-sided" increase that would allow the Company to increase rates when it "does not actually pay anything for GP Camas power, while it seeks to increase NVPC to reflect an 'artificial' contract price increase." ICNU/100, Falkenberg/7-8.

PacifiCorp claims that it is allowed to increase its rates related to the GP Camas contract because of how the Company has structured the TAM. The price for the GP Camas contract has increased, and thus, the Company proposes to increase NVPC to reflect this increase. Id. at Falkenberg/2. The contract is complex, however, and there are numerous "contract offsets" which reduce the actual costs of the contract to the point that PacifiCorp is not actually paying any additional amounts. Id. at Falkenberg/8. PacifiCorp structured the TAM to place these contractual offsets in an "Other Revenue" account, not NVPC. Id. While in a general rate case these "Other Revenues" would be accounted for, in the TAM they are excluded. Therefore, "the Company is reflecting one side of the GP Camas contract (the contract price increase) while ignoring the other side (the offsets that render the price increase moot)." Id.

PacifiCorp argues that "this adjustment should be rejected because it is outside the scope of the TAM." PPL/102, Kelly/12. PacifiCorp admits the GP Camas contract is complex, and that the only reason it can increase rates for the contract is because only a portion of the contract is "updated through the TAM." Id. Essentially, PacifiCorp is arguing that the complexity of the TAM and this particular contract allow the Company to increase NVPC when its actual costs do not increase. The Commission has already rejected this position in a recent PGE proceeding in which it adopted Staff's

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proposal to offset NVPC with "Other Revenues" that PGE did not include in its NVPC. PGE, Docket Nos. UE 180, UE 181 and UE 184, Order No. 07-015 (Jan. 12, 2007).

The Commission should make adjustments when the structure of the TAM produces artificial price increases. If the Commission allows PacifiCorp to increase NVPC for the GP Camas contract, then it will be inviting PacifiCorp to tailor additional contracts in a similar manner to increase rates when its actual costs have not changed.

4. Hydro Generation Should Be Modeled Based on Realistic Assumptions

The Commission should adopt ICNU's proposed hydro modeling adjustment because PacifiCorp's VISTA model overstates the likelihood of extreme hydro conditions. Use of more accurate hydro generation levels instead of the VISTA methodology in the GRID model would reduce NVPC by approximately $452,000. ICNU/114, Falkenberg/2.

The VISTA model PacifiCorp used to set NVPC in its direct case contained erroneous assumptions and data. ICNU/100, Falkenberg/15-20. The most significant problem was that VISTA assumed that all of its hydro resources (even those in separate regions) were perfectly correlated and would experience the same monthly conditions. Id. at Falkenberg/16. The VISTA model significantly overstated "the likelihood of extreme events, whether they be drought or flood conditions." Id. at Falkenberg/18. Mr. Falkenberg proposed to remedy this problem by "comput[ing] the mean hydro using the inputs to the VISTA model." Id. at Falkenberg/19. Specifically, Mr. Falkenberg calculated the mean after running the GRID model under wet, median and dry hydro conditions.

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PacifiCorp recognized the problem with the VISTA model and Mr. Widmer testified that "I agree with Mr. Falkenberg's statements regarding the correlation (or lack thereof) among the individual hydro plants and river systems." PPL/204, Widmer/27. Mr. Widmer agreed "that it would be a relatively rare occurrence if the entire region including the Mid-Columbia River and the Utah plants would be either significantly dry or wet contemporaneously." Id. at Widmer/28; ICNU/217.

Although PacifiCorp openly questions its original hydro analysis, in its rebuttal testimony the Company proposes to buttress its approach through use of a "full regression" model instead of Mr. Falkenberg's analysis. See id. at Widmer/31. PacifiCorp's revisions reduce the value of ICNU's adjustment to zero and effectively reinstate the original modeling approach, which even the Company recognizes to be deficient. See id. ICNU notes that the procedural schedule did not provide the opportunity to respond to what is essentially an entirely new hydro modeling methodology that PacifiCorp made in its rebuttal testimony, or to supplement the record by providing a new GRID study based on the mean hydro conditions with updated assumptions. Nevertheless, the Commission should still adopt ICNU's proposed hydro adjustment for this proceeding or direct PacifiCorp to recompute the GRID model inputs using mean hydro conditions because they more accurately model expected hydro conditions.

PacifiCorp disputes Mr. Falkenberg's use of the mean to measure the shape of hydro distribution and suggests that the median should be used. PPL/204, Widmer/28-29. The use of the mean is appropriate because it "does not depend on the

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shape of the distribution and, therefore, may be computed accurately." ICNU/100, Falkenberg/19. In addition, in large sample sizes, the use of the mean is normally more accurate. See ICNU/214, Widmer/1.

PacifiCorp's real challenge to Mr. Falkenberg's original analysis was to recalculate his hydro adjustment using a full regression analysis. PPL/204, Widmer/30-31. However, PacifiCorp completely ignored the fact that ICNU's hydro adjustment is also reasonable because the overall adjustment is similar to the amount if the GRID model is run under mean hydro conditions (instead of calculating the mean or median after running the GRID model under wet, median, and dry conditions). See ICNU/215. PacifiCorp acknowledged that a GRID run computed under mean hydro conditions produced an adjustment comparable to, but even larger than, Mr. Falkenberg's original adjustment. Id.

5. The Commission Should Reject PacifiCorp's Station Service Adjustment

PacifiCorp has proposed a one-sided station service adjustment that inappropriately increases NVPC by approximately $906,000. ICNU/114, Falkenberg/2. PacifiCorp's station service proposal would arbitrarily include a hypothetical transaction in GRID that produces no revenues in the GRID model to reflect alleged station service requirements during plant outages. ICNU/100, Falkenberg/40. The station service proposal is inappropriate because it is unverified and contrary to standard industry practice. Id. at Falkenberg/40-41. PacifiCorp's station service proposal should also be rejected because it would increase outage rates for a loss of generation, while at the same

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time the Company "ignores times when generators run above their maximum rated capacity." Id. at Falkenberg/3.

PacifiCorp's station service adjustment is "novel and contrary to standard industry practice." Id. at Falkenberg/40. PacifiCorp admits that its station service proposal is unique, but argues that the fact that other utilities do not model station service during outages in their power cost models "is irrelevant and is not a sound reason for rejecting the adjustment." PPL/204, Widmer/31. Contrary to these opinions, the fact that PacifiCorp's one-sided adjustment is inconsistent with how the industry as a whole treats this issue is highly relevant.

PacifiCorp claims that its station service proposal attempts to correct a problem that the GRID model does not perfectly simulate how generators actually operate. Id. at Widmer/31-32. The fundamental problem with the station service proposal is that it attempts to correct an alleged problem "when unit generation is reduced due to station service, but ignores . . . when generators are operating at higher capacity than the GRID model inputs assume." ICNU/100, Falkenberg/40. GRID does not perfectly model actual PacifiCorp operations and PacifiCorp should not ignore "situations when extra power is available from its generators," while modeling "the minor generation losses due to station service." Id. at Falkenberg/41.

6. The Cholla 4 Minimum Capacity Should Be Based on Actual Practice

PacifiCorp changed the minimum capacity of the Cholla 4 generating unit from 150 MWs to 250 MWs. Cholla 4 seldom operates in the 250 MW range and a 150 MW minimum capacity is more realistic. ICNU/100, Falkenberg/39. The minimum

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capacity of a generation unit is similar to the physical limit of the plant and is not the regular output of the plant. A generation unit must run at a certain minimum capacity to be efficient and operate properly. The Commission should set Cholla 4's minimum capacity based on its actual operating physical limitations and reduce PacifiCorp's rate increase request by about $120,000. ICNU/114, Falkenberg/2.

The minimum capacity for Cholla 4 is set based on a sodium depletion problem at the unit. ICNU/100, Falkenberg/39. After an outage, the unit is generally limited to a minimum of 150 MW[6/] minimum capacity, but the sodium depletion problem causes the actual minimum to increase to 250 MW in a period of 60 days. Id. After an outage, however, the minimum is "reset" and the lower operating minimum becomes effective again. Mr. Falkenberg points out that the unit has outages frequently enough that the minimum is reset quite often. Id. This suggests that "150 MW is a much more typical minimum loading level." Id. Thus, when actual operations are considered, "the unit seldom operates in the 250 MW range. In fact, the unit logs show no basis for assuming any change to the minimum capacity for the unit." Id. at Falkenberg/39-40.

7. PacifiCorp Incorrectly Reduced the Maximum Capacity of Dave Johnston

PacifiCorp has proposed to reduce the maximum capacity of the Dave Johnson unit 3 ("DJ") from 230 MW to 220 MW. The Commission should set the DJ maximum capacity at 230 MW, because DJ actually often exceeds the 220 MW maximum capacity and there is "no basis for this 10 MW reduction in capacity now being

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6/ The physical minimum of the plant is 95 MW, but the minimum capacity is normally set at 150 MWs because of transmission constraints.

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proposed by the Company." ICNU/100, Falkenberg/39. A more accurate maximum capacity rating for DJ would reduce NVPC by about $783,000. ICNU/114, Falkenberg/2.

PacifiCorp argues that a 220 MW maximum capacity is appropriate because state law limits DJ's sulfur emissions. PPL/204, Widmer/33-34. PacifiCorp asserts that, to comply with this state law, it should run the unit at approximately 220 MWs. Id. The issue of the state requirements is a red-herring as the record shows that PacifiCorp operates DJ above 220 MWs and PacifiCorp has not exceeded the state imposed emission limits. ICNU/100, Falkenberg/39; PPL/204, Widmer/34. The real issue is DJ's actual historic maximum capacity and whether the Company's proposed operations are reflective of expected future conditions.

The purpose of setting a maximum capacity is to determine the expected maximum generation output of the facility. By proposing to set the maximum capacity at 220 MW instead of 230 MW, PacifiCorp wants to ignore that DJ exceeded 220 MWs in approximately 5900 hours over the last four years and in nearly 1800 hours in 2006. Modeling DJ at a 220 MW capacity would deprive ratepayers of these actual benefits PacifiCorp obtains when it is frequently able to sell power during these hours.

PacifiCorp's argument that DJ does not frequently operate at 230 MWs is based on data that excludes thermal ramping. PPL/204, Widmer/34-36. In effect, the Company argues that the dispatch target may be 220 MW, but that it sometimes overshoots this goal and generates above this amount. When this happens in actual operations, the energy that is produced during times of thermal ramping is available to meet loads or sell on the market. PacifiCorp seeks to inappropriately deny ratepayers any

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of the benefits of this energy in GRID. Thus, PacifiCorp again excludes important information from its analysis in order to change the capacity value of a unit in a manner that is inconsistent with actual operations.

V. CONCLUSION

The Commission should reject PacifiCorp's effort to inflate its rate increase request by inappropriately setting the UE 179 baseline power costs lower than the Commission approved in UE 179. PacifiCorp should not be permitted to increase rates related to the GP Camas contract because its actual costs associated with the contract have not actually increased. PacifiCorp's NVPC should also be reduced to remove outages the Company has not shown were prudent or otherwise ratepayers' responsibility, remove the one-sided station service adjustment, include accurate hydro modeling, and adopt more accurate capacity ratings for Cholla 4 and Dave Johnston. Finally, the Commission should adopt Staff's adjustment to reflect the wholesale margins that the Company earns, but are not included in the GRID model.

Dated this 5th day of September, 2007.

Respectfully submitted,

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