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September 17, 2007

VIA ELECTRONIC FILING

PUC Filing Center
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Re: Docket UE 191

Enclosed for filing in the above-referenced docket are an original and five copies of PacifiCorp's Reply Brief. A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Very truly yours,

Katherine A. McDowell

Enclosures

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1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document in
3 Docket UE 191 on the following named person(s) on the date indicated below by email
4 and first-class mail addressed to said person(s) at his or her last-known address(es)
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18 DATED: September 17, 2007

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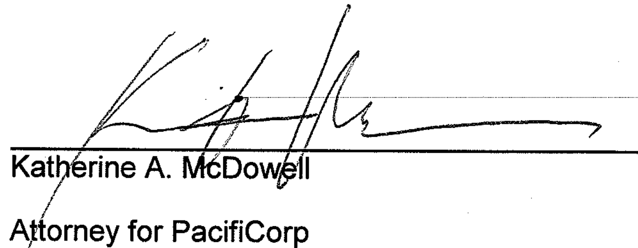

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1 BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

2

UE 191

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4 In the Matter of PACIFICORP's 2008 Transition Adjustment Mechanism.	PACIFICORP'S REPLY BRIEF

5

6

7 ## I. INTRODUCTION

8 In this Transition Adjustment Mechanism ("TAM") filing, PacifiCorp seeks a rate
9 increase of approximately $29.6 million, or approximately 3.2 percent on an overall basis,
10 subject to final TAM updates. (PPL/102, Kelly/2.)

11 In their Opening Briefs, Staff and ICNU combine their adjustments in a manner that
12 works to eliminate most of PacifiCorp's requested TAM increase. Given the generally
13 uncontested nature of the cost increases PacifiCorp is experiencing, the number of issues
14 PacifiCorp has already conceded in this case, and PacifiCorp's systematic underrecovery of
15 its net variable power costs (NVPC) in rates, a Commission order denying most of
16 PacifiCorp's TAM increase appears both harsh and unwarranted.

17 For the reasons stated in PacifiCorp's Opening Brief and in this Reply Brief,
18 PacifiCorp respectfully requests approval of its full 2008 TAM increase, without incorporation
19 of the remaining adjustments proposed by Staff and ICNU.

20 ## II. REPLY ARGUMENTS

21 ### A. Staff's Arguments in Support of the Wholesale Margin Adjustment Are Conclusory, Contrary to the Evidence, and Fail to Squarely Address the
22 Many Problems Associated with the Adjustment.

23 1. Staff's Opening Brief argues for its margin adjustment on the basis that GRID
24 systematically fails to capture nearly 75 percent of short-term transactions. (Staff Opening
25 Brief at 2.) But, Staff's testimony acknowledged that this underestimation justifies its
26 adjustment only if PacifiCorp makes a positive margin on these transactions. (Staff/100,

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1 Wordley/5.) PacifiCorp's testimony makes clear that an hourly deterministic production
2 dispatch model like GRID will always underestimate the volume of short-term transactions,
3 because it balances loads and resources and optimizes the system with perfect foresight.
4 (PPL/204, Widmer/16.) PacifiCorp's testimony also makes clear that its power costs were
5 significantly understated in rates during the time period covered by Staff's adjustment,
6 belying the contention that PacifiCorp reaped large margins on these transactions. (Tr. 147;
7 PPL/207, Widmer/1.)

8 In circular fashion, Staff points to its margin adjustment calculation as its only
9 evidence that PacifiCorp makes a "profit margin" on these transactions. (Staff Opening Brief
10 at 2; Tr. 127-28.) Using an adjustment to prove itself is unpersuasive evidence.
11 Compounding this problem, Staff's margin adjustment calculation is not even in the record.
12 Moreover, what does exist in the record, Staff's general description of the calculation, is
13 broad enough to cover Staff's "slightly different" margin calculations proposed in previous
14 PacifiCorp cases (which are also in the record.) (Staff Opening Brief at 2 (defining "margin"
15 in this docket the same as in all previous PacifiCorp cases since UE 116, as the difference
16 between the average sales and average purchase price times the average volume of
17 omitted sales and purchase transactions).) When populated with UE 191 data (but in all
18 other respects unchanged), Staff's margin adjustment calculations from UE 116 and UE 134
19 show that PacifiCorp lost money on the omitted transactions. (Tr. 104; PPL/208, Widmer/1,
20 5.) Thus, even if it were appropriate to use the margin adjustment calculation to prove the
21 premise of the adjustment—that PacifiCorp is making a profit on the omitted transactions—
22 based upon the record, Staff's margin adjustment calculation fails to demonstrate this point.

23 2. Similarly, Staff has failed to establish the factual foundation of its margin
24 adjustment, which is that PacifiCorp is engaged in large volumes of profit-producing
25 wholesale trading activity. Instead, Staff's margin adjustment is based only on the
26 <u>assumption</u> that because the volume of PacifiCorp's omitted sales nearly matches the

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1 volume of its omitted purchases, the source of omitted sales must be omitted purchases.
2 (Staff Opening Brief at 2.) Staff uses this assumption to support its position that the omitted
3 transactions are margin-producing wholesale trades, disconnected from PacifiCorp's flexible
4 generation assets. (Staff Opening Brief at 4.)

5 PacifiCorp has proved that Staff's assumption is false. PacifiCorp engages in an
6 approximately equal number of sales and purchases to balance its system, and together
7 these system balancing sales and purchases account for an average of 87 percent of
8 PacifiCorp's short-term transactions during the adjustment period. (PPL/500, Apperson/1.)
9 Thus, the source of virtually all the sales omitted from GRID is PacifiCorp's system
10 resources, not omitted purchases. This evidence also shows that these sales and
11 purchases are not linked or paired in a manner that produces a "profit margin." (Tr. 144-45
12 (colloquy with ALJ defining "margin" as the incremental cost of energy relative to the price
13 and noting that only "paired" transactions where the purchase and sale are directly related
14 have margins).)

15 3. In response to the application of Staff's previous margin calculations to this
16 case, Staff first contends, without explanation, that these involve a "mismatch of data."
17 (Staff Opening Brief at 5.) The evidence, however, is that these alternative calculations
18 input current data into margin adjustments previously proposed by Staff without any change
19 in the adjustment methodology. (Tr. 148-149.) If data mismatches exist in these
20 calculations, it is because Staff originally proposed them in the margin adjustment
21 calculations.

22 Staff also contends that these alternative calculations are "diversions" and
23 "irrelevant" because these are based upon total actual short-term sales and purchase
24 activity, not just the sales and purchase activity omitted from GRID. But Staff testified to the
25 contrary at the hearing. There, Staff admitted that both the UE 134 and UE 147 calculations
26 (which produce margin adjustments of a $2.4 million Oregon NVPC increase and a $1.2

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1 million Oregon NVPC decrease, respectively) compared modeled transactions in GRID to
2 actual results. (Tr. 112, 119-20.)
3 In any event, it is hard to understand why the results of earlier versions of the margin
4 adjustment applied to this case are irrelevant. When asked about the evolution of his
5 margin adjustment, Mr. Wordley testified: "Has it changed materially? Not in concept or the
6 basic calculation." (Tr. 112 (emphasis added).) With this testimony that the basic
7 calculation has not changed materially, one would expect all versions of the margin
8 adjustment calculation to produce generally consistent results in this case. The fact that
9 they do not is highly relevant evidence on the validity of the proposed adjustment, evidence
10 that Staff admits that it never considered. (Tr. 128 (acknowledging that Staff failed to check
11 the results in this case for consistency with past proposed margin adjustments).)
12 4. The Commission recently opened a generic docket on stochastic power cost
13 modeling, UM 1340. In response to PacifiCorp's suggestion that Staff's margin adjustment
14 be referred to that docket, Staff contends that stochastic power cost modeling will address
15 extrinsic value issues, but not the issues underlying Staff's margin adjustment. (Staff
16 Opening Brief at 4.) This is contrary to the testimony of Staff in PacifiCorp's last rate case,
17 UE 179. There Staff testified that: "If the company successfully implemented stochastic
18 power cost modeling, there may no longer be a need for staff's proposed margin and
19 extrinsic value adjustments. Stochastic power cost modeling...would help capture the
20 impact on power costs of sales and purchase transactions currently not captured by
21 GRID...." (PPL/604, Page 11 (emphasis added).)
22 5. To justify truing up one category of power costs to historic results but not
23 others, Staff refers to net power cost variables such as thermal maintenance and resource
24 availability as "random" power cost forecast errors and to the omitted wholesale transactions
25 as a "systematic" power cost forecast error. (Staff Opening Brief at 3-4.) This categorization
26 ignores the concept of "normalized" power costs, where deviations from actual costs are

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1 intentional and not a product of error. It also ignores the direct relationship between the
2 variables cited and the volume and implied margin on additional short-term transactions.
3 Staff's failure to make adjustments to its margin calculation to account for actual results in
4 related variables such as hydro conditions and resource availability is unreasonable,
5 especially when Staff apparently made such adjustments in calculating PGE's margins for
6 Exhibit Staff/201, Wordley/1.

7 6. Staff states that PacifiCorp's sur-surrebuttal testimony "finally admits" the
8 wholesale trading that actually occurs. (Staff Opening Brief at 5.) While Staff contends that
9 nearly 1000 aMW was traded in 2006, this number is inflated: the real 2006 number is 832
10 aMW and the three-year average is 360 aMW. (PPL/500, Apperson/1.)

11 Staff states that the Company's trading activity "contributes to Staff's proposed
12 margin adjustment." (Staff Opening Brief at 5.) But, the Company's actual, average
13 margins on its trading ($0.8 million) are only 4.9 % of the margin adjustment calculation in
14 this case, making the contribution small indeed. Staff does not explain how its adjustment of
15 $16.2 million can be justified in the face of uncontested evidence that PacifiCorp's wholesale
16 trading has produced average Oregon allocated revenues of only $0.8 million in the
17 adjustment period. Staff does acknowledge a fatal flaw in its adjustment, however, which is
18 that "Staff's margin adjustment does not attempt to distinguish between what PacifiCorp
19 terms its 'Arbitrage and Trading Programs' from all sales and purchases not captured by
20 GRID." (Staff Opening Brief at 5.) Staff's admission that its adjustment implies a margin on
21 transactions, whether they are the type of transactions that actually produce margins (*i.e.*,
22 arbitrage and trading transactions) or not (*i.e.*, system balancing transactions), mandates
23 rejection of this adjustment.

24 **B. ICNU's "NVPC in Rates" Adjustment Violates the UE 179 Stipulation.**

25 1. ICNU argues that PacifiCorp has overstated its NVPC/TAM increase in this
26 case, claiming that the Joint Stipulation in UE 179 (the "Stipulation") requires that 2007

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1 NVPC be calculated by simply adding $10 million to the Oregon-allocated NVPC amount
2 from UE 170. (ICNU Opening Brief at 4-6.) But, ICNU's approach[1] selectively applies only
3 one of *several* express requirements of the Stipulation—the maximum $10 million increase.
4 Most notably, ICNU's approach does not comply with the requirement that "total Company
5 NVPC for 2007 ... be capped at $834.4 million." (Section 5(b)(iii) of the UE 179 Stipulation,
6 PPL/600, Page 19; *See* Tr. 82 (admitting that its proposed $225 million Oregon allocated
7 power cost baseline translates into total company NVPC for 2007 of approximately $861
8 million).)

9 To support ICNU's adjustment, Section 5(b)(iii) of the UE 179 Stipulation would need
10 to provide that "if 2007 total Company NVPC are greater than $834.4 million, Oregon-
11 allocated NVPC for 2007 will be $225 million, which is Oregon-allocated UE 170 NVPC plus
12 $10 million." Without such language expressly divorcing the NVPC cap of $834.4 million
13 from the calculation of NVPC in rates for 2007, ICNU's proposed NVPC baseline violates the
14 Stipulation on its face because it produces a total company 2007 NVPC baseline that
15 exceeds $834.4 million.

16 2. ICNU's selective reliance on the requirements of Section 5 of the UE 179
17 Stipulation produces a regulatory "Catch 22," where the Stipulation cap is first applied to
18 reduce PacifiCorp's rate increase in UE 179 and then ignored to reduce PacifiCorp's rate
19 increase in UE 191. This result should not be implied into the UE 179 Stipulation without
20 strong evidence, especially when it is contradicted by the express language of the
21 Stipulation. (*See* Section 10 of the Stipulation, PPL/600, Page 24 (binding Joint Parties to
22 use of Section 5 methodology in future cases).)

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25 [1] ICNU calculated the 2007 NVPC/TAM increase by adding $10 million to 2006 Oregon-allocated NVPC in rates. (ICNU/100, Falkenberg/6; ICNU/103.)

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1 Contrary to ICNU's arguments at pages 5 and 6 of its Opening Brief, the Stipulation
2 established the methodology for calculating the 2007 NVPC/TAM revenue requirement for
3 this and other cases, not just the NVPC/TAM increase for UE 179. Order No. 06-530
4 expressly recognizes this point, stating that the stipulating parties agreed to specific "cost
5 levels" for "the NVPC/TAM" and that the Stipulation provided the "calculation to determine
6 the final NVPC/TAM *revenue requirement*." Order No. 06-530 at 2-3 (emphasis added).
7 3. The Commission should apply Sections 5 and 10 of the Stipulation according
8 to their express terms—without implying the qualifications ICNU suggests—because the
9 Commission's rules normally prohibit it from considering extrinsic evidence of the stipulating
10 parties' intent. *See* 860-014-0045(5) (barring admissibility of evidence of settlement
11 negotiations); 860-011-0080(3) (exempting settlement offers from disclosure).[2] These rules
12 have precluded PacifiCorp from offering supportive evidence from the UE 179 settlement
13 negotiations.
14 If the Commission concludes that the Stipulation is ambiguous, however, the
15 Commission should not accept ICNU's interpretation of Section 5, which ICNU admits
16 disregards existing terms,[3] without first allowing PacifiCorp an opportunity to offer extrinsic
17 evidence demonstrating that the parties considered and rejected ICNU's position in
18 settlement negotiations. Notwithstanding the general rules against introduction of parole
19 evidence and settlement negotiations, it is in the public interest to consider extrinsic
20 evidence of the parties' intent when an agreement, including a settlement agreement, is
21 ambiguous. *See In re Marriage of Fletcher and O'Kain*, --- P.3d ----, 2007 WL 2429844, at
22 *3-*4 (Or. App. 2007) (parole evidence admissible to determine ambiguous provision of

23 [2] General rules of contract interpretation also require a literal interpretation. *See* ORS 42.230
24 ("In the construction of an instrument, the office of the judge is simply to ascertain and declare what is, in terms or in substance, contained therein, not to insert what has been omitted[.]").

25 [3] *See* Tr. 69; ICNU/100, Falkenburg/5 (arguing that $834.4 million cap "really served no purpose, other than to determine whether the $10 million increase was going to be granted or not").
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1 marital settlement agreement that was relevant to modification of award under said
2 agreement); *Loverin v. Paulus*, 160 Or. App. 605, 612-13, 982 P.2d 20 (1999) (parole
3 evidence rule did not bar consideration of extrinsic evidence of settlement agreement when
4 settlement agreement was not fully integrated.)

5 4. PacifiCorp calculated the baseline in this case using the $834.4 total
6 company NVPC from the UE 179 Stipulation and allocating that to Oregon using the precise
7 UE 179 allocation factors dictated by the Revised Protocol. Specifically, PacifiCorp did not
8 use the UE 179 allocation factor cited in Exhibit A to the Stipulation, 26.4 percent, which
9 approximated for purposes of settlement the precise UE 179 allocation factors. (PPL/600,
10 Page 33.) PacifiCorp followed this approach to comply both with the Stipulation and with the
11 Commission's order adopting the Revised Protocol. *See In re PacifiCorp's Request to*
12 *Initiate an Investigation of Multi-Jurisdictional Issues and Approve an Inter-Jurisdictional*
13 *Cost Allocation Protocol,* Order No. 05-021 (2005).

14 The only alternative calculation to PacifiCorp's that complies with the express
15 directives of the Stipulation produces an NVPC baseline closer to PacifiCorp's than ICNU's.
16 Calculating the UE 179 NVPC baseline using the Exhibit A allocation factor of 26.4 percent
17 applied to the UE 179 NVPC cap produces an Oregon-allocated NVPC for 2007 of $220
18 million ($834.4 million * 26.40%). This would result in an NVPC/TAM increase in this case
19 of $26.8 million, based on the most recent update.

20 5. ICNU argues that its NVPC in rates approach is required in order to give the
21 benefit to Oregon customers of the Revised Protocol cost allocation methodology. (ICNU
22 Opening Brief at 4-8). Without previously having offered testimony or otherwise taken a
23 position on the issue, Staff's Opening Brief for the first time indicates its support for ICNU's
24 adjustment on this basis. (Staff Opening Brief at 6.)

25 Contrary to ICNU's and Staff's arguments, the Stipulation specifically provided for
26 allocation of the total Company NVPC amount of $834.4 million to Oregon using specified

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1 UE 179-based allocation factors. (*See* PPL/600, Pages 19, 33.) Because the stipulated
2 2007 NVPC cap and non-NVPC cap in UE 179 reflected, among other things, UE 179
3 allocation factors that are lower than UE 170 allocation factors, Oregon customers already
4 received the benefit of the decline in Oregon allocation factors from UE 170 to UE 179.
5 What ICNU now seeks is a second bite at that value, attempting in UE 191 to again recover
6 the value of the decline in allocation factors from UE 170 to UE 179, on top of the $9 million
7 in Oregon allocated NVPC savings already in this case because of the decline in allocation
8 factors from UE 179 to UE 191. The Commission should reject ICNU's attempt to double
9 recover the value of the decline in allocation factors from UE 170 to UE 179 in this case.

10 **C. ICNU Has Not Established Why the Commission Should Deviate from Both Long-Standing and More Recent Precedent to Adopt ICNU's Thermal Outage**
11 **Adjustment.**

12 1. ICNU proposes to remove outages caused by manufacturer defect,
13 management error and personnel errors from PacifiCorp's four-year outage average. (ICNU
14 Opening Brief at 8-9.) ICNU fails to acknowledge that: (1) the Commission has never
15 previously removed specific outages from the four-year average on this basis; and (2) the
16 Commission decided earlier this year that it will consider changes to the forced outage rate
17 on a generic basis, not in ad hoc rate case adjustments. *See In re Portland General*
18 *Electric*, Order No. 07-015 at 15 (2007) (UE 180 Order).

19 The Commission made its ruling in UE 180 in response to PGE's arguments that the
20 Commission has used the four-year average of actual outages since 1984, the methodology
21 was the result of a thorough process designed to achieve a uniform policy applicable to all
22 thermal plants, and the methodology should be revisited only in a generic proceeding that
23 "would enable the type of analysis that occurred when the policy was adopted, would give all
24 utilities the ability to provide input, and would also avoid the inherently unfair inconsistency
25 that abandonment for only PGE, and then only some PGE plants, would cause." UE 180,
26 Opening Brief of PGE at 42-44, citing UE 180, Staff/102, Galbraith/1-21 (Staff's July 18,

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1 1984 memo stating "The reason I propose using a 48-calendar month rolling average is that
2 it reflects recent plant experience, which I think tends to better portray expected operation
3 over the coming year.")[4]

4 ICNU claims that PacifiCorp has failed to meet its burden of proof on its forced
5 outage rate costs in this case. (ICNU Opening Brief at 9.) This is not true for a number of
6 reasons, most significantly that PacifiCorp's forced outage costs are derived using
7 PacifiCorp's most recent four-year historical average, as required by Commission precedent.
8 In light of this Commission precedent, it is ICNU that must explain why the Commission
9 should reverse course and deviate from application of the four-year average in this case,
10 especially in advance of the generic docket designed to comprehensively review the forced
11 outage rate issue. *See In re Idaho Power*, Order No. 05-817 (2005) (after company has
12 presented its evidence, burden of going forward shifts to intervenor to show that costs are
13 unreasonable.)

14 As stated by the Commission in the UE 180 Order, the purpose of the four-year
15 outage calculation is to accurately forecast forced outages. In this docket, ICNU proposes
16 to change that purpose. Instead of looking at outage data as a means to predict future
17 outages, ICNU proposes that the Commission look behind those data to determine, for each
18 individual outage, who was at fault and who should bear the financial responsibility of the
19 outage. This is a departure from precedent, one that ICNU must show is warranted and
20 reasonable.

21 2. ICNU contends that PacifiCorp's thermal reliability has declined. (ICNU
22 Opening Brief at 10.) While ICNU acknowledges that PacifiCorp's four-year outage rates
23 have improved over the past three years, it contends that this is due to the removal of the
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25 [4] PacifiCorp requests that the Commission take official notice of this section of PGE's Opening Brief in UE 180 under OAR 860-014-0050(1)(e).
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1 catastrophic Hunter 1 outage from the rates, not to an improvement in reliability. *Id.* The
2 Hunter 1 outage was removed from the four-year average beginning in 2005. PacifiCorp's
3 forced outage rate declined by approximately one-half of a percentage point from 2005 to
4 2006. (PPL/400, Mansfield/6). This reliability improvement cannot be discounted by the
5 removal of the Hunter 1 outage from the four-year average, since this outage was removed
6 a full year before the rates improved.

7 ICNU incorrectly refers to PacifiCorp's equivalent forced outage rate ending 2005 as
8 PacifiCorp's "most recent" rate and claims that it is higher than any comparable four-year
9 period in the past fifteen years. (ICNU Opening Brief at 10.) PacifiCorp's most recent
10 equivalent forced outage rate is actually the one ending 2006, which declined by almost
11 one-half of a percentage point from 2005. (PPL/400, Mansfield/6.)

12 ICNU states that PacifiCorp is "defying national trends" because its overall
13 Equivalent Availability Factor (EAF) is decreasing. (ICNU Opening Brief at 12.) In fact,
14 PacifiCorp outperformed the NERC peer group EAF every year for the last fifteen years.
15 And, similar to other thermal reliability statistics, PacifiCorp's 2006 EAF increased by
16 approximately one-half of a percentage point in 2006.

17 This review makes clear that in each of its arguments, ICNU is ignoring significant
18 improvements in PacifiCorp's thermal plant reliability in 2006. It is particularly inappropriate
19 for ICNU to discount these improvements in 2006 since ICNU "focused primarily on the 2006
20 outages." (ICNU Opening Brief at 12.) Indeed, of the fifteen outages that ICNU
21 recommends for disallowance, twelve are from 2006. (ICNU/117, Falkenberg/1
22 (Confidential).)

23 3. ICNU asks the Commission to ignore the bottom line statistic in thermal plant
24 availability and net power costs: PacifiCorp's thermal plant capacity factor. ICNU argues
25 that "capacity factors are highly dependant upon a wide range of elements, some of which
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1 have no relationship to the thermal units' actual performance (e.g., the utility's generation
2 mix and overall load)." (ICNU Opening Brief at 12.)

3 PacifiCorp's capacity factor is approximately 10 percent higher than the NERC
4 average. (PPL/400, Mansfield/13.) Ignoring this fact in considering ICNU's adjustment is
5 inappropriate for two reasons. First, capacity factors are a measure of actual plant output,
6 which is a function of a generating unit's outages, planned and forced. (PPL/400,
7 Mansfield/6.) While other variables may impact PacifiCorp's capacity factors, PacifiCorp
8 could not consistently sustain high capacity factors if it did not operate and maintain its
9 thermal plants in a prudent manner. (*See* PPL/400, Mansfield/13.)

10 Second, customers derive a huge benefit from PacifiCorp's high capacity factor,
11 approximately $292 million annually total company. (PPL/400, Mansfield/13). It is
12 inconsistent for customers to enjoy the benefits of PacifiCorp's high capacity factor in rates,
13 and then argue to lower PacifiCorp's forced outage rate and NVPC on the basis of alleged
14 imprudence in plant maintenance.

15 4. ICNU contends that PacifiCorp has reduced planned routine maintenance to
16 the detriment of overall reliability and driven up the costs of its outages. (ICNU Opening
17 Brief at 11.) ICNU has not produced any evidence that PacifiCorp's outages are more
18 expensive because its forced outage rate is only slightly higher than the NERC average,
19 while its planned outage rate is much lower than NERC averages. ICNU's unsupported
20 claim that PacifiCorp has higher outage costs ignores the facts that planned outages are a
21 significant expense and that the Company makes its best effort to delay forced outages to
22 take the unit offline in off-peak periods. (*See* PPL/606, Pages 1-2.)

23 5. ICNU claims that PacifiCorp did not prove that the outages ICNU seeks to
24 remove from the forced outage rate were prudent. (ICNU Opening Brief at 13.) As noted
25 above, PacifiCorp has demonstrated that: (1) PacifiCorp's forced outage rate is derived from
26 the Commission's four-year average; and (2) PacifiCorp's thermal reliability statistics are in

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1 line with NERC averages. In addition, PacifiCorp has demonstrated how its Root Cause
2 Analysis and related reports (RCAs) establish prudence, not the opposite (PPL/400,
3 Mansfield/5); discussed how ICNU has misinterpreted and misapplied the data in the RCAs
4 (PPL/606; Response to ICNU Data Request 13.56); and explained in detail the
5 circumstances of certain of the larger outages cited. (Conf. Tr. 47-50.) PacifiCorp has met
6 its burden of proof to establish the reasonableness of its outage costs in this case.
7 6. With regard to the 2004 Hunter 2 outage, ICNU continues to maintain that the
8 Commission should remove from rates outages resulting from manufacturer defects
9 because PacifiCorp is better suited to pursue remedies for those defects. (ICNU Opening
10 Brief at 11.) This aspect of ICNU's adjustment, which comprises nearly one-half of the total
11 adjustment, is based upon application of an aspect of *In re Portland General Electric*, Order
12 No. 95-322 at 62 (1995), which the Commission expressly noted was non-precedential.
13 ICNU has not charged that PacifiCorp was in any way imprudent with respect to the Hunter
14 2 outage, and PacifiCorp's explanation of the circumstances around the outage shows that it
15 acted reasonably. (*See* Conf. Tr. 32, 49-50.) Based upon this record, it is unreasonable to
16 remove the Hunter 2 outage from PacifiCorp's forced outage rate.
17 **D. ICNU's Other Adjustments Should Be Rejected.**
18 1. Station Service. ICNU maintains that PacifiCorp's station service adjustment
19 is one-sided, because it addresses instances in which unit generation is reduced due to
20 station service but ignores instances in which generators are operating at a higher capacity
21 than the GRID model inputs assume. (ICNU Opening Brief at 22-23.) ICNU argues that this
22 gives PacifiCorp the benefit of both outages and over-generation.
23 ICNU fails to respond to PacifiCorp's data demonstrating that, in fact, the Company's
24 GRID modeling of coal generation exceeded the actual 48-month period ending December
25 2006. (*See* PacifiCorp's Opening Brief at 32, citing PPL/204, Widmer/33.) Because GRID's
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1 modeling of generation is generous, it is not one-sided to include in rates the costs of station
2 service incurred during outages.
3 2. Cholla 4. Consistent with prior practice, PacifiCorp modeled a 250 MW
4 minimum capacity for the Cholla 4 generating unit, primarily because once hours due to
5 thermal ramping are removed, the unit historically has operated below the 250 MW level
6 only 3.0 percent of the time over the four years ending in December 2006. (Table 2,
7 PPL/204, Widmer/39.) By rerunning GRID with the minimum operating level of Cholla 4 at
8 150 MW, the operating level of the unit falls below the 250 MW level approximately 14
9 percent of the hours, which is not consistent with actual operation. (PPL/204 Widmer/37.)
10 ICNU does not respond to this data, instead repeating its previous contention that "Cholla 4
11 seldom operates in the 250 MW range and a 150 MW minimum capacity is more realistic."
12 (ICNU Opening Brief at 23.) This claim is not supported by evidence, and ICNU's position
13 should be rejected.
14 3. Dave Johnston-3 (DJ-3). ICNU claims that "because DJ actually often
15 exceeds the 220 MW maximum capacity" without exceeding state imposed emission
16 standards, there is no basis for a reduction in capacity from 230 to 220 MW. (ICNU Opening
17 Brief at 24-25.) In actuality, DJ-3 has exceeded 220 MW approximately 5 percent of the
18 time when ramping is excluded, and even in those instances, generation averaged 225 MW
19 or less. (PPL/204, Widmer/35.) Those few instances were due to variations in the sulfur
20 content of the coal source (PPL/204, Widmer/34), and should not be included in normalized
21 conditions. In order to ensure that that the unit continues to comply with emission
22 standards, DJ-3's capacity should be set at 220 MW as PacifiCorp proposed.
23 4. Hydro. ICNU contends that PacifiCorp's hydro modeling is unreliable. ICNU
24 ignores the fact, however, that the 25-50-75 percent exceedence level of hydro generation
25 used in the Company's modeling produces a range of possible generation that is close to
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1 two standard deviations, which is a reasonable range of hydro generation for the system as
2 a whole. (PPL/204, Widmer/28).
3 The issue raised by ICNU's proposed hydro modeling adjustment is not the inherent
4 ability of median or mean of a data set to calculate accurate results, but rather which
5 statistical measure is appropriate to the facts of this case. In the case of a normal
6 distribution the mean and median would be equal. As Mr. Falkenberg correctly points out,
7 the distribution of the hydrologic information is asymmetric. (PPL/204, Widmer/29.) ICNU
8 correctly notes that the mean is more appropriate to large sample sizes. (ICNU Opening
9 Brief at 22.) Here, by contrast, because the data sets are small and the distribution is
10 asymmetric, the median provides the best predictive results for future hydro generation.
11 (PPL/204, Widmer/29-30.) Since NVPC in rates are already generally understated
12 (PPL/207, Widmer/1), they should not be lowered further through this adjustment.
13 PacifiCorp did not introduce "an entirely new hydro modeling methodology" in its
14 rebuttal testimony. (ICNU Opening Brief at 21.) Instead, PacifiCorp merely recalculated the
15 adjustment using Mr. Falkenberg's own regression methodology. (*See* PPL/204,
16 Widmer/30-31 (noting and explaining Mr. Falkenberg's flawed application of his own
17 regression).) Once those errors were corrected to include all the information from Mr.
18 Falkenberg's analysis, the result was an adjustment of $0.00. (PPL.204, Widmer/31.)
19 5. <u>GP Camas</u>. PacifiCorp's NVPC for Camas include the contract costs of
20 energy, but do not include "Other Revenues" for the offset of the capital cost recovery and
21 major maintenance cost recovery amounts. ICNU claims that those "Other Revenues"
22 "reduce the actual costs of the contract to the point that PacifiCorp is not actually paying any
23 additional amounts," resulting in a one-sided increase that ignores off-sets rendering that
24 increase moot. (ICNU Opening Brief at 19.)
25 This is incorrect. There is nothing "one-sided" about PacifiCorp's GP Camas NVPC
26 update because an update to the "Other Revenues" component would have decreased

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1 "Other Revenues," and increased overall rates. (PPL/102, Kelly/13.) For this reason (and
2 because this TAM update was not filed within a general rate case like UE 170 and UE 180),
3 ICNU's citations to the orders in UE 170 and UE 180 are inapposite.

4 **III. CONCLUSION**

5 Based upon all of the foregoing, PacifiCorp respectfully requests approval of its
6 proposed 2008 TAM rates, subject to future specified updates. Using PacifiCorp's most
7 current update, this would result in a rate increase of $29.6 million, or 3.2 percent on an
8 overall basis, effective January 1, 2008.

9 DATED: September 17, 2007.

10 McDOWELL & RACKNER PC

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13 Katherine A. McDowell

14 Attorney for PacifiCorp

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