

# McDowell Rackner & Gibson PC



KATHERINE MCDOWELL  
Direct (503) 595-3924  
katherine@mcd-law.com

October 12, 2011

## VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center  
Public Utility Commission of Oregon  
PO Box 2148  
Salem, OR 97308-2148

Re: **UE 227 – PacifiCorp's 2012 Transition Adjustment Mechanism**

Attention Filing Center:

Enclosed for filing in the above captioned docket are the original and five copies of PacifiCorp's and Staff's Reply Brief.

A copy of this filing was served on all parties to this proceeding as indicated on the attached Certificate of Service.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Katherine McDowell', written over a horizontal line.

Katherine McDowell

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

UE 227

In the Matter of :  
PACIFICORP, dba PACIFIC POWER  
2012 Transition Adjustment Mechanism

PACIFICORP'S AND STAFF'S  
REPLY BRIEF

Pursuant to Administrative Law Judge (ALJ) Lisa Hardie's Ruling on September 22, 2011 (Ruling), Staff of the Public Utility Commission of Oregon (Staff) and PacifiCorp d/b/a Pacific Power (or the Company) submit this Reply Brief to the Public Utility Commission of Oregon (Commission) in reply to the Opening Brief of the Industrial Customers of Northwest Utilities (ICNU), filed on October 5, 2011. Both Staff and PacifiCorp jointly sponsor Section I of this Reply Brief; PacifiCorp also sponsors Section II. This brief is filed concurrently with the Joint Parties' Reply Brief.<sup>1</sup>

**I. PACIFICORP'S AND STAFF'S JOINT REPLY TO ICNU'S GENERAL ARGUMENTS**

ICNU's Opening Brief includes incorrect statements regarding the nature of the Joint Parties' settlement and the Company's Transition Adjustment Mechanism (TAM) filing in this case in addition to those discussed in the Joint Parties' Reply Brief. First, ICNU criticizes the TAM and alleges that the rate increase in this case is driven by the structure of the TAM.<sup>2</sup> ICNU also claims that the rate increase is a result of "PacifiCorp's manipulation of the regulatory process."<sup>3</sup> ICNU fails to recognize that the Company's TAM filing is governed by the Commission-approved TAM Guidelines that ICNU helped to draft and agreed to only two

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<sup>1</sup> The Joint Parties are Commission Staff, PacifiCorp, the Citizens' Utility Board of Oregon (CUB), and Noble Americas Energy Solutions, LLC.

<sup>2</sup> Opening Brief of ICNU at 3.

<sup>3</sup> *Id.* at 12.

1 years ago.<sup>4</sup> Along with the other parties to the TAM Guidelines, ICNU represented to the  
2 Commission that “[t]he Guidelines represent a reasonable compromise among the Parties and  
3 set forth clear objectives and principles presumptively governing future Company TAM  
4 filings.”<sup>5</sup> For ICNU to now claim two years later that PacifiCorp is manipulating the regulatory  
5 process by filing consistently with the TAM Guidelines is disingenuous. Absent the TAM  
6 process, the Company testified that it would have filed a general rate case, which would have  
7 added additional upward pressure on rates.<sup>6</sup>

8 Second, the Commission should disregard ICNU’s Oregon and Utah rate comparison.<sup>7</sup>  
9 ICNU’s argument in this case is literally unsupported, as ICNU has provided no citation to the  
10 rate increases it references in its brief. In any event, ICNU’s comparison fails to acknowledge  
11 differences between the Company’s service territories that can result in differences in rates.

12 Third, ICNU claims that its adjustments related to the Company’s power cost model—  
13 Cal ISO, DC Intertie, market caps, wind integration costs, and forward price curves—are  
14 necessary because these items do not represent actual cost increases.<sup>8</sup> The Company’s  
15 witness Greg Duvall explained the major, actual cost drivers in this case, including an  
16 increase in retail load, the impact of the expiration of lower cost contracts, and increases in  
17 third-party coal costs.<sup>9</sup> ICNU fails to acknowledge that in the case of the Cal ISO, DC Intertie,  
18 and forward price curves, the Company’s treatment of these issues is consistent with the  
19 treatment in prior cases.<sup>10</sup> It is ICNU that is proposing changes to the modeling of these

20 <sup>4</sup> *Re PacifiCorp 2009 Transition Adjustment Mechanism*, Docket UE 199, Order No. 09-274,  
21 Appendix A at 9 (July 16, 2009).

22 <sup>5</sup> *Re PacifiCorp 2009 Transition Adjustment Mechanism*, Docket UE 199, Joint Explanatory Brief  
at 7 (June 19, 2009).

23 <sup>6</sup> PPL/400, Kelly/4, ll. 15-16.

24 <sup>7</sup> See Opening Brief of ICNU at 4.

25 <sup>8</sup> *Id.* at 2.

26 <sup>9</sup> PPL/100, Duvall/5-6.

<sup>10</sup> Staff agrees with the resolution of these issues in the Stipulation, but reserves its right to review  
and challenge these issues in the future as appropriate.

1 inputs. In the case of market caps, the Company testified that its modeling *decreases* NPC  
2 from the approach to market caps used in prior cases. And in the case of wind integration  
3 costs, ICNU is not criticizing the overall level of wind integration costs in this case. In sum,  
4 ICNU's claim that the rate increase in this case is driven by modeling issues rather than actual  
5 costs is unfounded.

6 Finally, ICNU claims that the Stipulation does not account for ICNU's case position.<sup>11</sup>  
7 In addition to the responses to this argument outlined in the Joint Parties' Reply Brief, Staff  
8 and PacifiCorp note that the fact that the NPC reduction in the Stipulation was more than  
9 Staff's and CUB's remaining adjustments implies consideration of ICNU's overall, lower  
10 recommended rate level.

## 11 II. PACIFICORP'S REPLY TO ICNU'S ARGUMENTS ON SPECIFIC ADJUSTMENTS

### 12 A. ICNU's Proposed Fixed Revenue Adjustment Violates the Matching Principle and 13 is an Unjustifiable and Significant Departure from the TAM Guidelines.

14 As explained in the Joint Parties' Opening Brief, the Company accepted Staff's  
15 proposal to update the 2012 load forecast with the Company's latest forecast in July 2011.<sup>12</sup>  
16 This adjustment reduced the Company's total system NPC by approximately \$67 million and  
17 Oregon-allocated NPC by \$4.7 million.<sup>13</sup> Contrary to ICNU's characterization, the load growth  
18 included in the Company's Initial Filing was not the 7.5 percent calculated by Staff, but was  
19 actually 3.1 percent on a total Company basis and 2.5 percent on an Oregon basis.<sup>14</sup>  
20 Although the Company used the appropriate load forecast in developing the Initial Filing

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22 <sup>12</sup> PPL/110.Duvall/3, ll. 9-11.

23 <sup>13</sup> PPL/110, Duvall/2, ll. 19-22; PPL/110, Duvall/5, ll. 13-14.

24 <sup>14</sup> PPL/105, Duvall/13, ll. 4-10. Staff's 7.5 percent calculation resulted from comparing the  
25 October 2009 forecast for 2011 and the November 2010 forecast for 2012. PPL/105, Duvall/9, ll. 18-  
26 19. Appropriately comparing the November 2010 forecasts for 2011 and 2012 results in a 3.1 percent  
total-Company load growth between 2011 and 2012. PPL/105, Duvall/12, ll. 12-14; PPL/105, Duvall/13, ll.  
4-10.

1 consistent with the TAM Guidelines, in response to Staff's concerns, the Company agreed in  
2 its surrebuttal filing to update its load forecast to the July 2011 forecast.<sup>15</sup>

3 ICNU proposes to reinvent the structure of the TAM by recognizing "additional fixed  
4 cost revenue recovery from the additional sales" that are expected in the test period.<sup>16</sup> ICNU  
5 calculates this adjustment by taking the difference between non-NPC revenue at present rates  
6 as applied to the 2012 test period and the non-NPC revenue at present rates as applied to the  
7 2011 test period and reducing NPC by the amount of this "additional margin revenue."<sup>17</sup>  
8 ICNU's adjustment would decrease the Company's proposed NPC increase by \$30.8 million  
9 on an Oregon basis.<sup>18</sup> This is a reduction of \$11.8 million from the load adjustment originally  
10 proposed by ICNU in this case, reflecting the Company's adoption of Staff's proposal to  
11 update (and lower) the Company's load forecast.

12 ICNU's adjustment provides no basis for rejecting or amending the Stipulation. First,  
13 ICNU's proposal violates the TAM Guidelines to which ICNU agreed and the Commission  
14 approved only two years ago.<sup>19</sup> ICNU claims that PacifiCorp "does not argue that the TAM  
15 guidelines explicitly bar ICNU's recommendation."<sup>20</sup> ICNU is wrong. The Company presented  
16 testimony explaining that the TAM Guidelines specifically set forth the Federal Energy  
17 Regulatory Commission (FERC) NPC accounts that can be updated through the TAM and that  
18 non-NPC revenue accounts are not included in this list.<sup>21</sup> ICNU concedes that its adjustment

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20 <sup>15</sup> PPL/110, Duvall/2, ll. 19-22.

21 <sup>16</sup> ICNU/100, Schoenbeck/9, ll. 21-22.

22 <sup>17</sup> ICNU/100, Schoenbeck/10, ll. 3-9.

23 <sup>18</sup> Opening Brief of ICNU at 3.

24 <sup>19</sup> Order No. 09-274, Appendix A at 9.

25 <sup>20</sup> Opening Brief of ICNU at 14.

26 <sup>21</sup> PPL/600, Griffith/2-5. See Order No. 09-274, Appendix A at 14. Moreover, last year the parties  
revisited the issue of what revenue accounts should be included in the TAM and revised the TAM  
Guidelines to allow for non-NPC accounts that are related to NPC to be included in the TAM Guidelines.  
Order No. 10-363. ICNU did not propose updating all non-NPC revenues in that proceeding.

1 is composed entirely of non-NPC revenues, confirming that the adjustment is contrary to the  
2 TAM Guidelines.<sup>22</sup> In addition, the Commission has previously made clear that Portland  
3 General Electric Company's (PGE) NPC update (upon which the TAM was modeled) is limited  
4 to net variable power costs and should not cover fixed generation or other non-NPC-related  
5 costs.<sup>23</sup> It should therefore not impute additional revenues related to these costs.

6 Additionally, the TAM Guidelines expressly contemplate that revisions to the TAM will  
7 be addressed in a general rate case or other proceeding, not in a stand-alone TAM.<sup>24</sup> ICNU's  
8 proposal to make a significant and one-sided change to the TAM should not be entertained in  
9 this stand-alone TAM proceeding.

10 Second, the proposal is a clear violation of the matching principle. ICNU's adjustment  
11 updates non-NPC revenues for changes in load, but does not update corresponding non-NPC  
12 costs.<sup>25</sup> Because ICNU updates all non-NPC revenues, the matching principle requires  
13 consideration of all updated non-NPC costs, not just generation-related costs. ICNU has  
14 provided no analysis showing to what extent its proposed adjustment would be reduced,  
15 eliminated, or could result in an increase in rates if non-NPC costs were accounted for in the  
16 calculation. ICNU's adjustment should be rejected as a violation of the Commission's long-  
17 standing policy of matching costs and revenues.

18 ICNU presents no basis to ignore both Commission policy and the agreed-upon TAM  
19 Guidelines. ICNU claims that its proposed adjustment will eliminate the "gaming opportunity  
20 of artificially inflating a TAM only forecast to achieve a higher net power cost recovery while  
21 maintaining a higher fixed cost rate recovery."<sup>26</sup> ICNU, however, has presented no evidence

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22 <sup>22</sup> See Exhibit PPL/601.

23 <sup>23</sup> *Re. Portland General Electric Co.*, Order No. 02-772 at 2, UE 139 (2002).

24 <sup>24</sup> Order No. 09-274, Appendix A at 9 ("Nothing in this agreement prevents any Party, including  
25 the Company, from advocating in a future general rate case or other proceeding *other than a stand-alone*  
TAM, that the TAM should be eliminated or revised." (emphasis added)).

25 <sup>25</sup> PPL/600, Griffith/4, ll. 17-23.

26 <sup>26</sup> ICNU/100, Schoenbeck/10, ll. 11-13.

1 of such gaming. In contrast to ICNU's claim, the evidence shows that PacifiCorp used the  
2 same process for developing its TAM load forecast as it does for all other load forecasts,  
3 including the Integrated Resource Plan and general rate cases.<sup>27</sup> The Commission should  
4 disregard ICNU's unsupported allegation of gaming.

5 ICNU also claims that its adjustment is appropriate because to do otherwise is to  
6 "ignore relevant and extraordinary circumstances."<sup>28</sup> As support for the extraordinary nature  
7 of the circumstances, ICNU cites the eight percent rate increase implemented last year.  
8 PacifiCorp notes that the parties, including ICNU, stipulated to that rate increase. A stipulated  
9 increase of this level does not warrant ignoring the matching principle or the TAM Guidelines.

10 ICNU's secondary recommendation on the load forecast issue is to use the load levels  
11 from the prior TAM to set rates in this proceeding.<sup>29</sup> This proposal is in direct conflict with the  
12 position taken by ICNU in Docket UE 199. In that case, ICNU witness Randall Falkenberg  
13 objected to the Company's use of forecast billing units from a prior test period to set TAM  
14 rates.<sup>30</sup> ICNU also agreed to a stipulation in that case in which the Company agreed "that its  
15 future stand-alone TAM filings should be designed to recover the Company's Oregon-  
16 allocated NPC, including consideration of increased/decreased revenues due to load  
17 growth/loss."<sup>31</sup> For ICNU to now advocate for using a load forecast from a prior period is  
18 inconsistent with ICNU's position in UE 199 and the stipulation in that case.

19 ICNU's alternative proposal is also inconsistent with the TAM Guidelines and is  
20 unreasonable. The TAM Guidelines that ICNU agreed to provide for using the "most  
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22 <sup>27</sup> PPL/105, Duvall/12, ll. 15-18; PPL/105, Duvall/13, ll. 4-10.

23 <sup>28</sup> ICNU/110, Schoenbeck/13, ll. 10-11.

24 <sup>29</sup> Opening Brief of ICNU at 14.

25 <sup>30</sup> *Re PacifiCorp 2009 Transition Adjustment Mechanism*, Docket UE 199, ICNU/100,  
Falkenberg/9-11 (June 23, 2008).

26 <sup>31</sup> *Re PacifiCorp 2009 Transition Adjustment Mechanism*, Docket UE 199, Order No. 08-543,  
Appendix A at 7 (Nov. 12, 2008).

1 recent . . . forecast load” in the Company’s Initial Filing.<sup>32</sup> ICNU now claims that it cannot  
2 adequately review an updated load forecast in the TAM.<sup>33</sup> Given that ICNU was a key drafter  
3 of the TAM Guidelines and has been operating under them for the prior two proceedings  
4 without claiming that evaluating the load forecast is too burdensome, ICNU’s claim lacks  
5 credibility. Moreover, using a load forecast from a prior period undermines the goal of  
6 accurately projecting NPC in the rate effective period.

7 **B. ICNU’s Hedging Adjustment is Based on a Hindsight Review of Hedging**  
8 **Outcomes and Should Be Rejected.**

9 The Stipulation accepts Staff’s proposal that the Company convene a series of  
10 workshops to review, in depth, the Company’s existing hedging practices and potential  
11 changes to future hedging strategies. Staff did not propose any disallowance of hedging costs  
12 in this case, finding that the Company’s hedges in this case were prudent.<sup>34</sup> CUB initially  
13 proposed disallowances similar to ICNU’s,<sup>35</sup> but narrowed and reduced its adjustment on  
14 rebuttal.

15 ICNU’s hedging adjustment retroactively imposes natural gas hedging parameters on  
16 the Company’s hedges during the time period 2007-2010.<sup>36</sup> ICNU argues that recovery for  
17 hedges falling outside ICNU’s hedging parameters should be disallowed as imprudent.<sup>37</sup>  
18 ICNU’s proposed disallowances reduce the Company’s NPC by approximately \$16.2 million.<sup>38</sup>

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<sup>32</sup> Order No. 09-274, Appendix A at 9.

21 <sup>33</sup> ICNU/100, Schoenbeck/8, l. 18-8, l. 2.

22 <sup>34</sup> Staff/300, Durrenberger/5, ll. 5-7. “[T]he Commission does not generally dictate specific hedging  
23 strategies or practices. However, for the utility to be able to include hedging expenses in rates its  
24 decisions and actions must be found to be prudent.” Staff/300, Durrenberger/6, ll. 17-20.

24 <sup>35</sup> CUB/200, Jenks-Feighner/8, ll.2-5

25 <sup>36</sup> ICNU/103, Schoenbeck/15.

25 <sup>37</sup> ICNU/100, Schoenbeck/4-13.

26 <sup>38</sup> ICNU/100, Schoenbeck/3, ll. 4-5.



1           **1.     ICNU Ignores Evidence Demonstrating the Overall Prudence and Benefits**  
2           **of the Company’s Hedging Practices.**

3           ICNU’s arguments disregard important evidence demonstrating the overall prudence of  
4           the Company’s hedging policy and the benefits of this policy to customers. ICNU’s adjustment  
5           focuses on the Company’s hedges from 2007-2010. Only two years prior, Staff reviewed the  
6           Company’s hedging practices as a part of its Natural Gas Procurement Study and concluded  
7           that PacifiCorp achieved an 82 percent reduction in volatility and a 15 percent decrease in  
8           price through its natural gas hedging.<sup>39</sup> PacifiCorp updated the Staff’s analysis for the period  
9           2005-2010 and demonstrated a continued significant reduction in volatility—50 percent  
10          associated with power hedges and 52 percent associated with natural gas hedges.<sup>40</sup>  
11          PacifiCorp also demonstrated that customers have experienced a total company net benefit of  
12          \$118 million from the Company’s hedges since 2008, even taking into account the hedging  
13          costs in this case.<sup>41</sup> ICNU has not controverted any of these facts.

14          ICNU also disregards the important admissions of its witness Donald Schoenbeck that:  
15          (1) the goal of PacifiCorp’s hedging strategy was to reduce price volatility and provide price  
16          certainty, a goal which customers value and comes at a cost;<sup>42</sup> (2) PacifiCorp’s hedging  
17          program was appropriately diversified in terms of length and type of hedges;<sup>43</sup> (3) PacifiCorp’s  
18          natural gas hedges were well-timed to meet its natural gas supply needs;<sup>44</sup> and (4) ICNU is  
19          not challenging PacifiCorp’s current hedging program on a going-forward basis, but only on a  
20          backward-looking basis to the 2007-08 time period.<sup>45</sup>

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21           <sup>39</sup> PPL/403 at 56.

22           <sup>40</sup> PPL/400, Bird/11, ll. 18-22.

23           <sup>41</sup> PPL/105, Duvall/7 at 13-17.

24           <sup>42</sup> Hearing Transcript, Volume IV, Page 158, ll. 14-18.

25           <sup>43</sup> *Id.* at 155, ll. 17-21.

26           <sup>44</sup> *Id.* at 156, ll. 15-21.

<sup>45</sup> *Id.* at 155, ll. 7-16.

1           **2.       The Company Did Not Imprudently Hedge “Too Much Too Soon.”**

2           ICNU argues that the Company hedged too much of its open position and hedged too  
3 far out, as compared to other utilities.<sup>46</sup> ICNU’s argument ignores the fact that the Company is  
4 hedged at only [REDACTED] of its total natural gas open position in the 2012 GRID study.<sup>47</sup> In  
5 its initial testimony, ICNU cited favorably to Northwest Natural Gas Company’s (NW Natural)  
6 hedging program, under which NW Natural was hedged at 77 percent for the 2010-2011  
7 prompt year—a higher percentage than PacifiCorp’s in this case.<sup>48</sup> Similarly, ICNU fails to  
8 reconcile its characterization of PacifiCorp’s hedging program as overly aggressive<sup>49</sup> with the  
9 fact that PacifiCorp’s hedging horizon is shorter than either NW Natural’s<sup>50</sup> or PGE’s.<sup>51</sup>

10           In addition, ICNU ignores the Company’s evidence that it hedged in a deliberate,  
11 continuous, and programmatic manner. Consistent with its Risk Management Policy, the  
12 Company’s net open position for 2012 has been gradually but steadily reduced from the fourth  
13 quarter in 2007 to the third quarter in 2011.<sup>52</sup>

14           Finally, ICNU applies hindsight analysis to argue that the Company transacted too  
15 many gas hedges in the 2007-2008 timeframe. As Staff notes, at the time PacifiCorp  
16 executed the contested hedges in this case, natural gas prices were increasing each year  
17 through 2012 and beyond.<sup>53</sup> PacifiCorp submitted significant evidence demonstrating this

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19           <sup>46</sup> ICNU/100, Schoenbeck/14. ll. 17-24, 15 l. 17

20           <sup>47</sup> PPL/400, Bird/18 l. 16

21           <sup>48</sup> PPL/400, Bird/24, ll. 8-9

22           <sup>49</sup> ICNU cites to an independent audit of the Company’s hedging program by the Utah Division of  
23 Public Utilities in an attempt to categorize the Company’s hedging program as outside standard industry  
24 norms. ICNU fails to point out that the study specifically declined to conclude the Company’s hedging  
25 policy is “inappropriate,” instead concluding that it “adhered to generally accepted standards found  
26 elsewhere in the industry.” Exhibit PPL/404, Bird/9.

24           <sup>50</sup> PPL/400, Bird/24, ll. 7-8

25           <sup>51</sup> PPL/400, Bird/24, ll. 12-18.

26           <sup>52</sup> PPL/406, Bird/4-5.

<sup>53</sup> Staff/300, Durrenberger/7, ll.21-22.

1 fact,<sup>54</sup> to which ICNU failed to respond. Had natural gas prices for 2012 remained as forecast  
2 in 2007-2008, the hedges in this case would have decreased total company NPC by  
3 \$120.5 million.<sup>55</sup>

4           **3. The Company's Hedges Were Consistent with its Risk Management**  
5           **Policy.**

6           ICNU claims that the Company's hedges were imprudent because they were executed  
7 outside of the Risk Management Policy. ICNU claims both that the Company lacks adequate  
8 documentation to support the hedges in this case, and that some of PacifiCorp's hedges were  
9 for periods longer than the 48 months authorized by the Company's policy.<sup>56</sup> Contrary to  
10 ICNU's claims, the record demonstrates that all of the hedges in this case were properly  
11 executed under the Company's Risk Management Policy.

12           First, the Company has provided voluminous documentation of the hedges. In  
13 response to the Commission's bench request for the Company's workpapers that had been  
14 provided to parties in the proceeding documenting its hedges, PacifiCorp submitted an eight-  
15 page, 11" by 17" spread sheet.<sup>57</sup> This exhibit lists every natural gas hedge in the case, along  
16 with all relevant underlying data for each hedge, including the transaction type, counter-party,  
17 date of execution, delivery start and end dates, quantity, delivery market, market price, fixed  
18 price, and mark to market value.

19           Second, neither the audit by Oregon Staff nor the audit by the Utah Division of Public  
20 Utilities (DPU) indicated documentation or control issues associated with the Company's  
21 hedging program. Indeed, the DPU audit report specifically found that the Company's  
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23           <sup>54</sup> PPL/400, Bird/28-32.

24           <sup>55</sup> PPL/400, Bird/30, ll. 19-21.

25           <sup>56</sup> Opening Brief of ICNU at 16.

26           <sup>57</sup> *Re. PacifiCorp 2012 Transition Adjustment Mechanism*, Docket UE 227, Affidavit of Stefan Bird  
and Confidential Exhibit 1 (Sept. 13, 2011).

1 hedging program was "well-documented and controlled," that the Company's hedging program  
2 has "well-stated goals and strategy that is aimed at mitigating price volatility," and that the  
3 Company was "self-monitoring compliance with...[its] risk management procedures through its  
4 own internal audit function."<sup>58</sup>

5 Third, the hedges in this case that exceeded 48 months in length were executed to  
6 take advantage of cost savings associated with standard market products<sup>59</sup> and on average  
7 were only 2.3 months in excess of 48 months.<sup>60</sup> This period is well within the 15-25 percent  
8 range of flexibility that ICNU's witness Mr. Schoenbeck testified he supported for both hedging  
9 length and volume targets.<sup>61</sup> In addition, the Risk Management Policy specifically allowed  
10 transactions over 48 months in length with management approval, and the Company provided  
11 evidence from its Senior Vice President of Commercial and Trading Mr. Stefan Bird that each  
12 of these transactions was approved as the least-cost option available.<sup>62</sup>

13 In any event, in Order No. 02-469, the Commission specifically rejected a similar  
14 argument made by ICNU, which claimed that in order to properly review the prudence of the  
15 Company's decision in that proceeding, the Company needed to provide contemporaneous  
16 evidence of its decision making process. The Company responded that contemporaneous  
17 documentation is "not a prerequisite to establishing the prudence of a utility's actions, because  
18 prudence determinations are based on an objective standard of reasonableness."<sup>63</sup> The  
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20 <sup>58</sup> Exhibit PPL/404, Bird/17.

21 <sup>59</sup> PPL/400, Bird 10, ll. 4-5.

22 <sup>60</sup> Hearing Transcript, Volume III, Page 124, ll. 5-18.

23 <sup>61</sup> Hearing Transcript, Volume IV, Page 188, ll. 1-7.

24 <sup>62</sup> ICNU improperly cites to the testimony of Mr. Bird at the hearing as support for ICNU's  
25 statement "utility should evaluate the benefits and costs of all potential hedging strategies and should  
26 document all hedging decisions." Opening Brief of ICNU at 17. In fact, ICNU asked whether Mr. Bird  
agreed with that statement, to which Mr. Bird replied "I agree with it in a certain context." Hearing  
Transcript, Volume I, Page 60-61, ll. 20-25, 1-3.

<sup>63</sup> *Re PacifiCorp*, Docket UM 995/UE 121, Order No. 02-469, 5 (July 18, 2002).

1 Commission rejected ICNU's position, stating that the Company "correctly stated the legal  
2 standard."<sup>64</sup>

3 The Company's hedging policy did not require the sort of documentation ICNU is  
4 seeking, nor did the policy prohibit the Company from entering the hedges ICNU is contesting.  
5 The Company prudently entered into hedges longer than 48 months, in compliance with its  
6 internal risk management policy, in order to mitigate risks and lower the costs associated with  
7 market volatility.

8 **4. ICNU's Adjustment is Based Upon a Flawed Hedging Program.**

9 ICNU's adjustment is based upon its proposed hedging parameters. These  
10 parameters are 18.1 percent in year 1, 36.3 percent in year two, 54.4 percent in year three  
11 and 72.5 percent in year four.<sup>65</sup> There are fundamental problems in the operation of ICNU's  
12 hedging targets and associated adjustment. Given these problems, it is not surprising that  
13 Mr. Schoenbeck admitted that he knew of no other utility that had a hedging program exactly  
14 like the one he was proposing in this case.<sup>66</sup>

15 First, ICNU's adjustment removes PacifiCorp's hedges that exceed ICNU's target  
16 levels in a particular month. ICNU never adds the removed hedges back in later months when  
17 PacifiCorp's total hedges are below ICNU's hedging targets. Mr. Schoenbeck acknowledged  
18 that his failure to "backfill" in his adjustment produced a hedge percentage for PacifiCorp in  
19 the prompt year of [REDACTED], far lower than his 72.5 percent target for that year.<sup>67</sup>

20 Mr. Schoenbeck also acknowledged that if his adjustment was changed to add the removed  
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24 <sup>64</sup> *Re PacifiCorp*, Docket UM 995/UE 121, Order No. 02-469, 5 (July 18, 2002).

25 <sup>65</sup> Hearing Transcript, Volume IV, Pages 162-163.

26 <sup>66</sup> *Id.* at Page 186, l. 20-187, l. 2.

<sup>67</sup> *Id.* at Page 185, ll. 2-16.

1 hedges in months where PacifiCorp was under the hedging target, it would reduce his  
2 adjustment by approximately 50 percent.<sup>68</sup>

3 Second, ICNU removes a number of multi-year hedges that were already in rates.  
4 Approximately 20 percent of the hedges ICNU removed fall into this category.<sup>69</sup> ICNU has not  
5 explained why it is appropriate to disallow hedges already in rates, especially when ICNU  
6 previously raised no objection to these hedges.

7 Third, while Mr. Schoenbeck testified that hedging parameters should be applied  
8 flexibly to respond to current conditions (within a range of 15 to 25 percent for both volume  
9 and length), he admitted that he did not apply this flexibility in calculating his adjustment.<sup>70</sup>

10 Fourth, ICNU has not responded to the testimony demonstrating the significant  
11 increase in volatility associated with its proposed hedging parameters. Mr. Bird's testimony  
12 demonstrated that ICNU's hedging parameters would have increased risk to customers as  
13 much as \$60 million total company as of November 30, 2008.<sup>71</sup> This increased risk results  
14 from a much larger net open position exposure in the face of escalating forward prices and  
15 high price volatility at the time. During the Western energy crisis, ICNU challenged  
16 PacifiCorp's NPC on the basis that PacifiCorp was not sufficiently hedged against the  
17 markets.<sup>72</sup> In this case involving hedges executed only one-half a dozen years later, ICNU is  
18 asserting the opposite.

19 For all of the foregoing reasons, and given the additional fact that CUB's settled  
20 hedging adjustment overlaps with ICNU's, there is no basis to reject the settlement because of  
21 ICNU's hedging adjustment.

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22 <sup>68</sup> *Id.* at Page 185, ll. 11-13.

23 <sup>69</sup> PPL/406, Bird/13.

24 <sup>70</sup> Hearing Transcript, Volume IV, Page 187, ll. 7-15.

25 <sup>71</sup> PPL/406, Bird/12, ll. 9-11.

26 <sup>72</sup> *Re. Application of PacifiCorp for an Accounting Order Regarding Excess Net Power Costs*,  
Docket UM 995, Order No. 02-469 at 16 (2002)

1 **C. ICNU's Proposal to Remove Market Caps is Inconsistent with the Inclusion of**  
2 **Market Caps in Every Past TAM Proceeding.**

3 ICNU proposes to remove market caps from GRID, resulting in a reduction to Oregon-  
4 allocated NPC of approximately \$1.4 million.<sup>73</sup> While Staff proposed reverting to the  
5 Company's prior market cap methodology,<sup>74</sup> CUB did not present evidence on market caps.  
6 Rather than reverting to the prior methodology as proposed by Staff, PacifiCorp proposed that  
7 the Commission adopt the Company's market cap approach on a non-precedential basis, in  
8 part because the Company's approach reduced NPC as compared with Staff's proposal.<sup>75</sup>

9 ICNU's proposal to remove market caps is unreasonable. Market caps have been  
10 used since the implementation of the GRID model and their removal would be a departure  
11 from the Company's well-established modeling.<sup>76</sup> In addition, without market caps, GRID  
12 allows for unlimited sales at every market at all times.<sup>77</sup> Historical data shows the Company's  
13 ability to sell in certain markets is sometimes limited, and the Company's market caps  
14 appropriately reflect these limitations.<sup>78</sup>

15 ICNU provides a number of arguments in support of the proposal to remove market  
16 caps. ICNU claims that the Company's market caps result in many hours when the actual  
17 hourly sales amount exceeded the average sales value.<sup>79</sup> In fact, the Company's method  
18 results in cap values that are equal to the actual transactions the Company has executed at  
19 each trading hub on an energy basis.<sup>80</sup> PacifiCorp also explained that ICNU's claim that the

20 \_\_\_\_\_  
21 <sup>73</sup> ICNU/100, Schoenbeck/3, ll. 22-23.

22 <sup>74</sup> Staff/100, Durrenberger/5, ll. 1-18

23 <sup>75</sup> PPL/110, Duvall/7, ll. 3-17.

24 <sup>76</sup> PPL/105, Duvall/16, ll. 10-13.

25 <sup>77</sup> PPL/105, Duvall/16, ll. 15-16.

26 <sup>78</sup> PPL/105, Duvall/19, ll. 15-18.

<sup>79</sup> Opening Brief of ICNU at 24.

<sup>80</sup> PPL/110, Duvall/10, ll. 16-21.

1 level of transactions in GRID does not come close to historical actual levels is irrelevant.<sup>81</sup> As  
2 was discussed before this Commission in UE 191, this is a characteristic of any dispatch  
3 model that balances and optimizes a forecast test year on an hourly basis with perfect  
4 foresight.<sup>82</sup>

5 ICNU also claims that PacifiCorp's approach produces counterintuitive results.<sup>83</sup> ICNU  
6 does not dispute, however, that in over 90 percent of hours evaluated by ICNU, the  
7 Company's market caps are *higher* than actual transactions.<sup>84</sup> This means that in over 90  
8 percent of the hours analyzed by ICNU, GRID can model more transactions than the  
9 Company actually experienced, undermining ICNU's claim that the Company's market caps  
10 inappropriately limit transactions in GRID. This fact demonstrates that the Company's market  
11 caps are an appropriate response to the market illiquidity that ICNU concedes exists.

12 ICNU attempts to undermine PacifiCorp's testimony explaining the Utah Commission's  
13 evaluation of market caps.<sup>85</sup> ICNU's argument on this point is irrelevant, because the context  
14 of that testimony was to explain that ICNU's prior TAM witness, Mr. Randall Falkenberg,  
15 abandoned his market cap adjustment in Docket UE 216 after proposing it in UE 207, and the  
16 Utah Commission rejected his market cap adjustment in the intervening period.<sup>86</sup>  
17 Nevertheless, ICNU does not dispute the fact that no commission has approved an  
18 adjustment removing market caps.<sup>87</sup>

19 ICNU also responds to the Company's testimony that markets caps are necessary to  
20 address illiquidity. ICNU does not dispute that the market is sometimes illiquid or that utilities

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21 <sup>81</sup> PPL/105, Duvall/19, I. 19-20, I. 28.

22 <sup>82</sup> PPL/105, Duvall/20, II. 3-16.

23 <sup>83</sup> Opening Brief of ICNU at 25.

24 <sup>84</sup> PPL/110, Duvall/11, II. 3-8.

25 <sup>85</sup> Opening Brief of ICNU at 26.

26 <sup>86</sup> PPL/105, Duvall/17, II. 4-17.

<sup>87</sup> PPL/105, Duvall/17, II. 15-17.



1 “experience actual limitations on their ability to sell generation.”<sup>88</sup> Instead, ICNU argues that  
2 the Company is only one player in a larger market, implying that PacifiCorp could sell more  
3 than its historical experience. ICNU’s argument, however, does not negate the fact that the  
4 Company’s ability to sell in these markets is limited.<sup>89</sup>

5 ICNU also claims that no other Pacific Northwest utility uses market caps to address  
6 market illiquidity.<sup>90</sup> ICNU does not try to reconcile these utilities’ dispatch models with the  
7 Company’s or explain how NPC modeling for those utilities relates in any way to NPC  
8 modeling for the Company.<sup>91</sup>

9 Finally, ICNU disputes the fact that removing market caps will result in a double  
10 counting of short term firm trading transactions.<sup>92</sup> The Company provided testimony that  
11 removing market caps will result in increased trading transactions that are already reflected in  
12 the trading market adjustment.<sup>93</sup> The Company showed that 90 percent of the increased sales  
13 that occur when market caps are removed are attributable to arbitrage, the benefits of which  
14 are already reflected in GRID and would be double counted if the same amount is not  
15 removed from GRID.<sup>94</sup>

16 ICNU has failed to present any evidence that removing market caps from the GRID  
17 model is reasonable and ICNU’s market cap arguments provide no basis for rejecting or  
18 amending the Stipulation.

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<sup>88</sup> Opening Brief of ICNU at 27.

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<sup>89</sup> PPL/105, Duvall/19, II. 11-18.

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<sup>90</sup> Opening Brief of ICNU at 27.

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<sup>91</sup> PPL/110, Duvall/13, II. 6-11.

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<sup>92</sup> Opening Brief of ICNU at 28.

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<sup>93</sup> PPL/110, Duvall/12, II. 3-16.

<sup>94</sup> PPL/110, Duvall/12, II. 9-16.

1 **D. ICNU Has Not Evaluated the Company's Wind Integration Costs, so ICNU's**  
2 **Selective Removal of the Must Run Designation from Gadsby is Unreasonable.**

3 ICNU opposes the Company's designation of the Gadsby units as must run and  
4 proposes the designation be removed in GRID.<sup>95</sup> ICNU's proposed adjustment reduces the  
5 Company's Oregon-allocated NPC by approximately \$0.8 million.<sup>96</sup> In the initial round of  
6 testimony, Staff also proposed removing the must run designation from the Gadsby units.<sup>97</sup>  
7 However, after the Company filed rebuttal testimony on the issue, Staff conceded this  
8 adjustment.<sup>98</sup> No other party opposed the must run designation of the Gadsby units.

9 The Company's proposed overall wind integration charges are reasonable. No party  
10 to the proceeding, including ICNU, has argued that the Company's overall wind integration  
11 charge is unreasonable. In fact, ICNU concedes that it did not even analyze the Company's  
12 wind integration costs in this case.<sup>99</sup> ICNU's claim that it did not have time to do so during the  
13 expedited TAM schedule is unavailing, as ICNU was a participant in the process to evaluate  
14 the Company's 2010 Wind Integration Study (Wind Study) prior to this case and had ample  
15 opportunity to review the Wind Study.<sup>100</sup> The Company provided the Wind Study to parties on  
16 April 16, 2010—about a year before this case was filed—and issued subsequent drafts based  
17 on stakeholder comments.<sup>101</sup> ICNU's argument that the Wind Study should be vetted in a rate  
18 case ignores the in depth review of the Wind Study already conducted by ICNU and other  
19 stakeholders.

20 A comparison of wind integration costs of other utilities demonstrates that the  
21 Company's wind integration costs are reasonable. PGE's wind integration study yielded a

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22 <sup>95</sup> ICNU/100, Schoenbeck/31 I. 6

23 <sup>96</sup> ICNU/100, Schoenbeck/5, II. 5-6.

24 <sup>97</sup> Staff/100, Durrenberger/6, II. 10-13.

25 <sup>98</sup> PPL/112.

26 <sup>99</sup> Opening Brief of ICNU at 29.

<sup>100</sup> PPL/105, Duvall/26-30.

<sup>101</sup> PPL/105, Duvall/27, II. 3-14.

1 wind integration charge more than twice the Company's to integrate a much smaller amount of  
2 wind.<sup>102</sup> The Company also explained that the Bonneville Power Administration's (BPA) wind  
3 integration charge is higher than the Company's.<sup>103</sup> ICNU discounts this comparison using  
4 wind penetration information that is not contained in the record, but has not quantified the  
5 impact of this element on the Company's or BPA's wind integration charges.

6 ICNU cites capacity factors from the twelve months ended June 30, 2011 to argue that  
7 the Gadsby's capacity factor is lower than if modeled as a must run resource.<sup>104</sup> As the  
8 Company explained, ICNU's analysis uses a time period with high levels of hydro and wind  
9 generation and low market prices, and that under these conditions it would be expected that  
10 the Gadsby units would operate at a lower capacity factor.<sup>105</sup> Given that the units have  
11 operated as high as 39 percent capacity factor, the 32 percent modeled in GRID is  
12 reasonable.<sup>106</sup>

13 In addition, ICNU fails to respond to the Company's testimony that the use of a must  
14 run designation for the Gadsby units allows the Company to release reserves that would  
15 otherwise be held on coal plants, increasing system reliability.<sup>107</sup>

16 In summary, this issue does not provide a basis for rejecting or amending the  
17 Stipulation.

18 **E. ICNU Has Presented No Justification for Altering the Company's Forward Price**  
19 **Curve Methodology.**

20 ICNU proposes an alternative method of generating the Company's forward price  
21 curve (FPC). ICNU proposes that the Company use a third-party source for its FPC and

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22 <sup>102</sup> PPL/105, Duvall/30, ll. 1-2.

23 <sup>103</sup> PPL/110, Duvall/14, ll. 18-22.

24 <sup>104</sup> Opening Brief of ICNU at 30.

25 <sup>105</sup> PPL/110, Duvall/16, ll. 6-14.

26 <sup>106</sup> PPL/110, Duvall/16, ll. 6-14.

<sup>107</sup> PPL/110, Duvall/15, ll. 8-10.

1 remove hour-to-hour variability from the calculation.<sup>108</sup> ICNU's method results in a \$1.7 million  
2 decrease to NPC on an Oregon-allocated basis.<sup>109</sup> Staff testified that the Company's forward  
3 price curve is reasonable and comparable to forward price projections from other sources  
4 used by Staff.<sup>110</sup> Staff also did not find an advantage to ICNU's proposal that the forward price  
5 be based on a commercially available forward price curve.<sup>111</sup> CUB did not weigh in on the  
6 issue of forward price curves.

7 ICNU presents three recommendations for altering the Company's FPC methodology,  
8 none of which have merit. First, ICNU argues that it is preferable to use a publicly available  
9 FPC rather than a Company-generated FPC.<sup>112</sup> However, there is no publicly available FPC  
10 that provides information for all of the market hubs in which PacifiCorp transacts.<sup>113</sup> ICNU  
11 claims that historical price spreads can be used for the missing market hubs, but PacifiCorp  
12 provided un rebutted testimony that historical price curves are not a suitable replacement for  
13 forward price spreads.<sup>114</sup> The evidence therefore shows that there is no publicly available  
14 FPC that can accurately reflect forward prices for the Company.

15 ICNU claims that using a third-party source for the forward price curve is necessary  
16 because PacifiCorp designated its FPC information as highly confidential and review of the  
17 FPC information was difficult.<sup>115</sup> ICNU fails to clarify that the Company's official FPC used to  
18 set rates in this case is designated as confidential, not highly confidential.<sup>116</sup> The FPC-related  
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20 <sup>108</sup> ICNU/108, Schoenbeck/11, ll. 6-12, l. 15.

21 <sup>109</sup> ICNU/108, Schoenbeck/12, ll. 16-21.

22 <sup>110</sup> Staff/300, Durrenberger/12, ll. 15-19.

23 <sup>111</sup> Staff/300, Durrenberger/12, l. 20-13, l. 3.

24 <sup>112</sup> Opening Brief of ICNU at 32.

25 <sup>113</sup> PPL/500, Link/6, ll. 19-22.

26 <sup>114</sup> PPL/500, Link/7, ll. 2-16.

<sup>115</sup> Opening Brief of ICNU at 33.

<sup>116</sup> PPL/500, Link/5, ll. 8-15.

1 information requested by ICNU that was designated as highly confidential was not used to  
2 determine NPC.<sup>117</sup> In addition, PacifiCorp provided all requested FPC-related material to  
3 ICNU and ICNU provided no evidence that the Modified Protective Order in this case limited  
4 its ability to review the FPC information.<sup>118</sup> Therefore, ICNU's claim that use of third-party  
5 data would eliminate the need to use highly confidential material to set a transition adjustment  
6 is off base, because no highly confidential material is used to do so in the first instance.

7 ICNU also claims that the Company's use of an internal FPC "creates a process rife  
8 with gaming opportunity."<sup>119</sup> ICNU conceded, however, that Mr. Schoenbeck did not observe  
9 any gaming of the Company's FPC.<sup>120</sup> Also, ICNU itself noted that there is an insignificant  
10 difference between PacifiCorp's internally generated forward prices and those reported by  
11 Intercontinental Exchange, demonstrating that there is no problem with the Company's  
12 method for calculating the FPC.<sup>121</sup> Finally, the Company uses the same methodology to  
13 develop its FPC to establish NPC that is used in daily operations and financial reporting,  
14 undermining ICNU's claims of the potential for gaming.<sup>122</sup>

15 Second, ICNU argues that the hour-to-hour price variability should be removed from  
16 the Company's FPC methodology and that day-ahead prices from a third-party source be  
17 used.<sup>123</sup> ICNU's proposal would remove hour-to-hour price variability from the calculation of  
18 the Company's FPC.<sup>124</sup> As a result, the price for all on-peak hours for a given day type in a  
19 month would be the same.<sup>125</sup> However, it is an un rebutted fact that there is hour-to-hour price

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20 <sup>117</sup> PPL/500, Link/5, ll. 1-8.

21 <sup>118</sup> PPL/500, Link/6, ll. 3-8.

22 <sup>119</sup> Opening Brief of ICNU at 33.

23 <sup>120</sup> PPL/500, Link/4, ll. 18-5, ll. 3.

24 <sup>121</sup> ICNU/100, Schoenbeck/19, ll. 2-7.

25 <sup>122</sup> PPL/500, Link/8, ll. 14-17.

26 <sup>123</sup> ICNU/108, Schoenbeck/11, ll. 12-14.

<sup>124</sup> PPL/500, Link/13, ll. 23-14, ll. 1.

<sup>125</sup> PPL/500, Link/14, ll. 1-4.

1 variability in the hourly market.<sup>126</sup> ICNU's approach, therefore, would produce hourly price  
2 profiles that would deviate from known market trends.<sup>127</sup> It would be unreasonable to  
3 calculate rates based on a methodology that is demonstrably inaccurate.

4 Alternatively, ICNU proposes that if the Commission does not accept its method for  
5 converting forward prices into hourly values, the Commission should require [the Company to  
6 use a shorter historical period to develop hourly price scalars.<sup>128</sup> This adjustment would  
7 reduce NPC by \$0.9 million on an Oregon-allocated basis.<sup>129</sup> PacifiCorp's evidence shows  
8 that using a longer period of historical price data is appropriate because it increases the  
9 amount of data used to derive the hourly prices and achieves the Company's objective of  
10 incorporating long-term and short-term trends in hourly price profiles.<sup>130</sup> Moreover, ICNU's  
11 concerns regarding the amount of data available are inconsistent with ICNU's proposal to use  
12 a third-party data source, because such a source is not available for certain hubs.<sup>131</sup>

13 Finally, it would be inappropriate to require the Company to use a different FPC  
14 methodology for the TAM as it uses for operations and financial reporting.<sup>132</sup> In a direct  
15 access stipulation, the Company expressly agreed with Staff and ICNU to use the same FPC  
16 for Company operations as it uses for determination of transition adjustments.<sup>133</sup> ICNU has  
17 presented no evidence that altering the Company's FPC methodology is reasonable. There is  
18 no basis for the Commission to accept either of ICNU's proposed methodologies and reject  
19 the Stipulation on this basis.

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20 <sup>126</sup> PPL/500, Link/14, ll. 4-8.

21 <sup>127</sup> PPL/500, Link/14, ll. 6-8.

22 <sup>128</sup> ICNU/108, Schoenbeck/2, ll. 15-22.

23 <sup>129</sup> ICNU/108, Schoenbeck/13, ll. 17-21.

24 <sup>130</sup> PPL/500, Link/15, ll. 4-23.

25 <sup>131</sup> PPL/500, Link/12, ll. 17-13, ll. 5.

26 <sup>132</sup> PPL/500, Link/8, ll. 14-19.

<sup>133</sup> *Re. PacifiCorp's Proposal to Restructure and Reprice Its Services in Accordance With the Provisions of SB 1149, Docket UE 116, Stipulation (June 19, 2001).*

1 **F. Removing Cal ISO Transactions from GRID Will Increase NPC.**

2 ICNU contends that CallISO wheeling expenses and fees should be removed from the  
3 GRID model, resulting in a \$1.1 million reduction in Oregon-allocated NPC.<sup>134</sup> Staff initially  
4 proposed this adjustment, but later stated that the adjustment was unnecessary.<sup>135</sup>

5 ICNU argues that benefits associated with CallISO costs are not included in NPC.<sup>136</sup>  
6 ICNU is incorrect. The Company enters into transactions with the Cal ISO if the Cal ISO is the  
7 most economic option for serving load at that time.<sup>137</sup> If the Company is forced to forgo these  
8 least-cost transactions with the Cal ISO, the Company will necessarily need to serve load with  
9 higher-cost counterparties, resulting in higher NPC.<sup>138</sup> The Company's continued ability to  
10 enter into transactions with the Cal ISO ensures the Company has the greatest flexibility to  
11 transact in the market at the lowest cost thereby reducing NPC. The Cal ISO transactions  
12 provide benefits to customers and the inclusion of Cal ISO costs in rates is just and  
13 reasonable.

14 **G. The DC Intertie Provides Benefits to Customers.**

15 ICNU proposes removing costs associated with the DC Intertie agreement, which  
16 would result in a \$1.2 million reduction to Oregon-allocated NPC.<sup>139</sup> Staff originally proposed  
17 removing these costs, but later found the adjustment to be unnecessary.<sup>140</sup> No other party  
18 presented evidence on the DC Intertie.

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22 <sup>134</sup> Opening Brief of ICNU at 36.

23 <sup>135</sup> PPL/112.

24 <sup>136</sup> ICNU/100, Schoenbeck/25, ll. 11-12.

25 <sup>137</sup> PPL/105, Duvall/25, ll. 5-6.

26 <sup>138</sup> PPL/105, Duvall/26, ll. 1-3.

<sup>139</sup> Opening Brief of ICNU at 38.

<sup>140</sup> Staff/100, Durrenberger/7, ll. 21-22; PPL/110, Duvall/2, l. 8.

1 This is the first time a party has proposed removing costs associated with this contract  
2 from Oregon rates, despite the fact it has been included in rates for 17 years.<sup>141</sup> ICNU's  
3 proposal to reexamine the prudence of this contract based on what is known to the Company  
4 now, rather than 17 years ago, is in conflict with the Commission's prudence standard.

5 Regardless of this fact, the Company has demonstrated that the DC Intertie continues  
6 to provide value to customers. The Company explained that it made over 200 power  
7 purchase transactions at NOB each year for the past five years.<sup>142</sup> The cost of the DC Intertie  
8 is \$1.99 per kW-month, which compares favorably to BPA's capacity charge of \$8 per kW-  
9 month and, ultimately, saves Oregon customers money.<sup>143</sup> The DC Intertie provides capacity  
10 and diversity benefits to the Company.<sup>144</sup> For example, the DC Intertie allows the Company to  
11 capitalize on the load diversity between California's summer peak and Oregon's winter  
12 peak.<sup>145</sup> Finally, ICNU presents no evidence to rebut Mr. Duvall testimony that, in the  
13 absence of the DC Intertie agreement, the Company would need to seek out a new 200 MW  
14 resource to meet peak loads.<sup>146</sup>

15 ICNU supports its position with reference to a decision of the Washington Utilities and  
16 Transportation Commission (WUTC) in the Company's 2010 Washington rate case to disallow  
17 DC Intertie costs.<sup>147</sup> ICNU, however, fails to explain that there was a critical evidentiary  
18 difference in the two cases, which caused the WUTC to find, incorrectly, that no DC Intertie  
19 transactions were modeled for the test year in that case.<sup>148</sup> The WUTC specifically

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20 <sup>141</sup> PPL/105, Duvall/21-24.

21 <sup>142</sup> PPL/105, Duvall/22, ll. 10-15.

22 <sup>143</sup> PPL/105, Duvall/22, ll. 18-20.

23 <sup>144</sup> PPL/105, Duvall/23, ll. 7-8.

24 <sup>145</sup> PPL/105, Duvall/22, ll. 4-5.

25 <sup>146</sup> PPL/105 Duvall/22, l. 23; PPL/105, Duval/23, ll. 1-2.

26 <sup>147</sup> *Wash. Util. and Transp. Comm'n., v. PacifiCorp d/b/a Pacific Power and Light Co.*, Docket No. 100749, Order No. 06 at ¶ 152 (Mar. 25, 2011).

<sup>148</sup> *Id.* at ¶¶ 149-150.



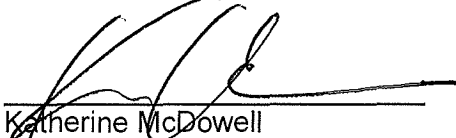
1 acknowledged the possibility of the DC Intertie being useful in the future.<sup>149</sup> In this proceeding  
2 the Company has provided ample evidence showing the DC Intertie is used and useful and  
3 provides benefits to customers.

4 **III. CONCLUSION**

5 For the reasons stated in the Joint Parties' Opening Brief, the Joint Parties' Reply  
6 Brief, and this brief, Staff and PacifiCorp respectfully request that the Commission find that the  
7 Stipulation produces just and reasonable rates, reject ICNU's arguments to the contrary, and  
8 approve the Stipulation as filed.

9  
10 DATED: October 12, 2011

McDowell Rackner & Gibson PC

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12   
13 Katherine McDowell  
Amie Jamieson  
Attorneys for PacifiCorp

14 **PUBLIC UTILITY COMMISSION STAFF**  
15 Jason Jones  
Attorney for Staff  
16 Oregon Department of Justice  
1162 Court Street NE  
17 Salem, OR 97301-4096

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<sup>149</sup> *Id.* at ¶ 151.

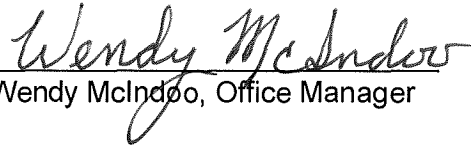
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**CERTIFICATE OF SERVICE**

I hereby certify that I served a true and correct copy of the foregoing document in UE 227 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

Ed Durrenburger Public Utility Commission of Oregon ed.durrenberger@state.or.us	Jason W. Jones, Assistant AG Department of Justice jason.w.jones@state.or.us
Gregory Marshall Adams Richardson & O'Leary greg@richardsonandoleary.com	Oregon Dockets PacifiCorp oregondockets@pacificorp.com
Gordon Feighner Citizens' Utility Board of Oregon Gordon@oregoncub.org	Donald W. Schoenbeck Regulatory & Cogeneration Services, Inc. dws@r-c-s-inc.com
Maury Galbraith Public Utility Commission maury.galbraith@state.or.us	Robert Jenks Citizens' Utility Board of Oregon bob@oregoncub.org
Greg Bass Nobel Americas Energy Solutions, LLC gbass@noblesolutions.com	G. Catriona McCracken Citizens' Utility Board of Oregon Catriona@oregoncub.org
Irion A. Sanger Davison Van Cleve ias@dvclaw.com	Kevin Higgins Energy Strategies LLC khiggins@energystrat.com

DATED: October 12, 2011

  
Wendy McIndoo, Office Manager