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VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
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Re: Docket UE 245

Attention Filing Center:

Enclosed for filing in Docket UE 245 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 enclosed service list.

Please contact this office with any questions.

Very truly yours,

Katherine McDowell

Enclosure

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

In the Matter of PACIFICORP d/b/a PACIFIC POWER 2013 Transition Adjustment Mechanism.	**UE 245**

PACIFICORP'S REPLY BRIEF

September 21, 2012

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In the Matter of PACIFICORP d/b/a PACIFIC POWER 2013 Transition Adjustment Mechanism.	**PACIFICORP'S REPLY BRIEF**

PacifiCorp d/b/a Pacific Power (PacifiCorp or the Company) respectfully submits this Reply Brief to the Public Utility Commission of Oregon (Commission).

I. INTRODUCTION

In PacifiCorp's 2013 Transition Adjustment Mechanism (TAM) filing, PacifiCorp requests an order increasing its rates by approximately $3.4 million, or 0.3 percent overall. The rate increase PacifiCorp seeks is relatively small, but the case presents critical policy issues.

In PacifiCorp's concurrent general rate case filing, Docket UE 246, the Company has requested a power cost adjustment mechanism (PCAM). Staff of the Public Utility Commission of Oregon (Staff), the Citizens' Utility Board of Oregon (CUB), the Industrial Customers of Northwest Utilities (ICNU), and Noble Americas Energy Solutions LLC (Noble Solutions) are parties to this case; all but Noble Solutions are also parties to Docket UE 246. Staff and intervenors oppose PacifiCorp's PCAM proposal in Docket UE 246. In addition, ICNU and CUB (collectively ICNU/CUB) also propose in that docket that the Commission eliminate the TAM.

The Commission should apply a uniform principle in deciding the net power costs (NPC) policy and modeling issues in this case and in Docket UE 246, finding that it is time to take all reasonable steps to see that PacifiCorp's prudent NPC are sufficiently and accurately reflected in rates. Application of this principle ensures fairness to all stakeholders—cost-of-service customers, direct access customers, direct access energy service suppliers, and the Company.

In this case, application of this principle should result in rejection of the parties' NPC adjustments, especially the proposals to eliminate market caps and replace the Company's GRID dispatch model. In Docket UE 246, application of this principle should result in reaffirmation of the TAM and approval of the Company's PCAM, which is specifically designed to operate in conjunction with the TAM, the Renewable Adjustment Clause (RAC), and the GRID model.

Instead of responding constructively to PacifiCorp's efforts to address its under-recovery of NPC in rates, ICNU/CUB's positions in this docket and Docket UE 246 would increase that under-recovery. ICNU/CUB's proposals in the two dockets push back the clock a decade by opposing a PCAM, eliminating the TAM, and replacing GRID. ICNU/CUB claim that the TAM has harmed them, even though the evidence is undisputed that NPC in PacifiCorp's rates have been far understated. ICNU/CUB claim that the TAM process is unfair, even though they actively engaged in designing that process in the TAM Guidelines. ICNU/CUB allege that PacifiCorp has aggressively manipulated the regulatory process and GRID to increase rates, ignoring the fact that the CUB has settled with the Company in all but one of the past TAM filings and ICNU has joined in four of the five settlements. The Company settled in past TAM dockets despite the fact that the settlement adjustments materially contributed to its NPC under-recovery.

PacifiCorp proposes that the Commission build on the efforts of the last decade, adding a PCAM to the NPC mechanisms and models now in place for PacifiCorp. Specifically, PacifiCorp requests that the Commission approve the Company's modest TAM increase in this case, reject ICNU/CUB's proposal to replace GRID, and reject Noble Solutions' proposed adders to the transition adjustment calculation.

II. ARGUMENT

A. Contrary to ICNU/CUB's Claims, the TAM is an Important Part of a Regulatory Model that Accurately Captures NPC in Rates for the Benefit of All Stakeholders.

ICNU/CUB claim that the TAM "always harms customers and has an inconsequential impact on direct access."[1] On this basis, ICNU/CUB ask the Commission to begin dismantling the TAM in this case by ordering a rate decrease and directing PacifiCorp to stop using its GRID model. ICNU/CUB support their claims against the TAM with aggressive rhetoric and a disingenuous rendition of the record. A full review of the record reveals a very different story and demonstrates that the TAM has become an indispensible part of PacifiCorp's Oregon regulatory framework.

- ICNU/CUB claim that the TAM harms customers because it has resulted in annual rate increases.[2] As outlined in the Company's Opening Brief, the Company's actual NPC increased over the last five years, largely as a result of declining wholesale sales revenues.[3] Staff also correctly observed that over one-third of the TAM increases in the last four years are attributable to rising coal costs;[4] other cost drivers are renewable energy Power Purchase

[1] Joint ICNU/CUB Posthearing Brief at 2.
[2] *Id.* at 4.
[3] PacifiCorp's Confidential Opening Brief at 7.
[4] Staff Post Hearing Brief at 2.

Agreements (PPAs) and Qualifying Facility (QF) contracts. One of the fundamental purposes of the TAM is to "update the forecast net power costs to account for changes in market conditions."[5] ICNU/CUB cannot reasonably claim that customers are harmed when rates are adjusted to reflect the increasing costs to provide service caused by changing market conditions.

- Since 2007, the Company's actual power supply costs have been considerably higher than the amounts reflected in the rates approved in the Company's TAM proceedings.[6] ICNU/CUB cannot reasonably claim that the TAM has hurt customers when they have paid less than actual costs for their power supply during the TAM's entire existence.[7]
- ICNU/CUB's arguments unrealistically assume that, without the TAM, the Company would have absorbed all of the costs associated with increasing NPC. But without the TAM, it would have been necessary for the Company to seek recovery of its increased NPC through additional general rate case filings. With the TAM, the Company was able to skip general rate cases for the 2008, 2009, and 2012 rate periods.[8]
- ICNU/CUB grossly exaggerate the rate increases related to the TAM, claiming that, with the current TAM and rate case proposed increases, rates for PacifiCorp's residential customers will have increased since 2006 "nearly 66% …independent of other rate increases from general rate cases, the

[5] *See In the Matter of PacifiCorp, dba Pacific Power 2009 Transition Adjustment Mechanism*, Docket UE 199, Order No. 09-274, Appendix A at 9 (July 16, 2009).
[6] Staff Post Hearing Brief at 3; PAC/300, Duvall/3, lines 7-12.
[7] PAC/300, Duvall/3, lines 7-12.
[8] Docket UE 227, Surrebuttal Testimony of Andrea Kelly, PPL/800, Kelly/3, lines 1-3. The Company requests that the Commission take official notice of this testimony under OAR 860-001-0460(1)(d).

Klamath surcharge, the renewable adjustment clause for eligible renewable resources, and other factors."[9] Contrary to this statement, Exhibit CUB/103 demonstrates that TAM rate increases have averaged approximately 2.3 percent annually on an overall basis.[10] In all TAM filings, residential customers have seen an increase less than the overall increase. ICNU/CUB's quoted increase cannot be independent of other rate increases, including pass-through items such as the reduction of the residential exchange credit during that period.

- ICNU/CUB note that few PacifiCorp customers have sought direct access during the TAM's existence. The TAM facilitates direct access by allowing for the calculation of a transition adjustment based upon a contemporaneous NPC forecast. In approving the TAM, the Commission specifically found that its design "most closely meets the requirements" of Order No. 04-156, regarding calculation of the transition adjustment.[11] As part of prior TAM stipulations, PacifiCorp has negotiated adders to the transition adjustment with Noble Solutions that were designed to further support direct access. The fact that few eligible PacifiCorp customers seek an alternative provider even with a subsidized transition adjustment is evidence of the competitive level of PacifiCorp's prices and services.

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[9] Joint ICNU/CUB Posthearing Brief at 4.
[10] CUB/103, Jenks-Feighner/1.
[11] *In re PacifiCorp*, Docket UE 170, Order No. 05-1050 at 21 (Sept. 28, 2005) ("We find that the TAM proposed by PacifiCorp, with annual updates, most closely meets the requirements [for the transition adjustment calculation] established in Order No. 04-516.")

- ICNU/CUB allege that the TAM is unfair and one-sided, citing to the Commission's Order in Docket UE 170 as support for that concern.[12] Since that order, however, the parties (including ICNU and CUB) have negotiated, and the Commission has approved, comprehensive TAM Guidelines that make the TAM process more predictable, limited, and transparent than other rate filings. ICNU/CUB's argument completely ignores the TAM Guidelines, which they helped design to address prior concerns about the potential of the TAM being one-sided or unfair.
- ICNU/CUB claim that PacifiCorp has manipulated the TAM by updating load forecasts without allowing commensurate updates to revenues.[13] One of the specific goals of the TAM Guidelines, however, was to address the "mechanism for accounting for increased/decreased revenues due to load growth/loss."[14] Section D of the TAM Guidelines provides for an update to NPC-related revenues in the manner proposed by ICNU and Staff in Docket UE 199 and reflected in a $10 million adjustment in the stipulation in that case.[15] In Docket UE 227, ICNU proposed a revenue adjustment for non-NPC revenues contrary to the TAM Guidelines, which CUB did not support. The Commission rejected ICNU's adjustment, agreeing with the Company and Staff that the adjustment violated the TAM Guidelines.[16] ICNU/CUB cannot

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[12] Joint ICNU/CUB Posthearing Brief at 5.
[13] *Id.*
[14] Order No. 09-274, Appendix A at 1.
[15] *In the Matter of PacifiCorp, dba Pacific Power, 2009 Transition Adjustment Mechanism*, Docket UE 199, Order No. 08-543, Appendix A at 2 (Nov. 12, 2008).
[16] *In the Matter of PacifiCorp, dba Pacific Power, 2012 Transition Adjustment Mechanism*, Docket UE 227, Order No. 11-435 at 6 (Nov. 4, 2011).

now legitimately claim that the Company manipulated the TAM in Docket UE 227 by following the TAM Guidelines that they helped design.

- ICNU/CUB argue that the TAM has resulted in cost shifting to cost-of-service customers.[17] As discussed in PacifiCorp's prior briefs, cost-shifting to cost-of-service customers only occurs under the TAM when PacifiCorp's NPC in rates are understated (which results in an overstatement of the transition credit or an understatement of the transition charge).[18] Ironically, by supporting adjustments in this case to artificially lower PacifiCorp's NPC, such as the proposals to remove market caps and third-party wind integration costs, ICNU/CUB reduce the accuracy of PacifiCorp's NPC forecast and increase the likelihood of cost-shifting to cost-of-service customers.
- Contrary to the historical record as summarized in PacifiCorp's Opening Brief, ICNU/CUB imply that the Company unilaterally proposed the TAM over their strong opposition.[19] PacifiCorp filed the TAM to comply with the Commission's Order in Docket UM 1081, and closely followed the views of Staff—and ICNU—on the design of the TAM. In Docket UM 1081, ICNU "propose[d] that the Commission require PacifiCorp to use a Transition Adjustment based upon a methodology similar to PGE's."[20] At hearing in that case, ICNU's witness testified that "all of the parties agree that PacifiCorp ought to work longer-term on a methodology that looks more like PGE's

[17] Joint ICNU/CUB Posthearing Brief at 2-4.
[18] PacifiCorp's Prehearing Brief at 3, n.5.
[19] Joint ICNU/CUB Posthearing Brief at 2-3.
[20] Docket UM 1081, Industrial Customers of Northwest Utilities' Direct Testimony of Linc Wolverton, ICNU/100 (May 27, 2004). The Company requests that the Commission take official notice of this testimony under OAR 860-001-0460(1)(d). A copy of this testimony was also filed as Exhibit PPL/1803 in Docket UE 170.

method in the sense that it integrates the setting of power costs with the setting of a transition adjustment."[21]

- ICNU/CUB are critical of what they claim is the Company's "aggressive approach to the regulatory process."[22] Undercutting this claim is the fact that the Company has resolved through settlement five of the six prior TAM proceedings,[23] even though the settled amount significantly under-stated the Company's actual NPC.[24] CUB joined in each of these settlements and ICNU joined in all but one.
- ICNU/CUB claim the "relentless annual rate increases" in the TAM are caused, in part, by "PacifiCorp's manipulation [of] the GRID power cost model."[25] But contrary to ICNU/CUB's claims that "PacifiCorp appears to take every available opportunity to make changes [to GRID] to maintain rates at the highest possible level,"[26] the Company's practice is to continually refine its NPC modeling to increase accuracy and limit controversy. For example, the Company reduced its TAM increase in this case by including in its filed NPC the Company's new, lower-impact market caps methodology,[27] modeled transactions with the California Independent System Operator (Cal ISO) in

[21] Docket UM 1081, Transcript of UM 1081 Hearing, Cross-Examination of Linc Wolverton (July 21, 2004). The Company requests that the Commission take official notice of this transcript excerpt under OAR 860-001-0460(1)(d). A copy of this transcript excerpt was also filed as Exhibit PPL/1801 in Docket UE 170.

[22] Joint ICNU/CUB Posthearing Brief at 5-7.

[23] *See*, Order No. 11-435; *In the Matter of PacifiCorp dba Pacific Power, 2011 Transition Adjustment Mechanism*, Docket UE 216, Order No. 10-363 (Sept. 16, 2010); *In the Matter of PacifiCorp dba Pacific Power, 2010 Transition Adjustment Mechanism*, Docket UE 207, Order No. 09-432 (Oct. 30, 2009); and Order No. 08-543; In the Matter of PacifiCorp dba Pacific Power and Light Company Request for a General Rate Increase in the Company's Oregon Annual Revenues, Docket UE 179, Order No. 06-530 (Sept. 14, 2006).

[24] Staff Post Hearing Brief at 3.

[25] Joint ICNU/CUB Posthearing Brief at 2, 4-5.

[26] *Id.* at 6.

[27] PAC/100, Duvall/19, lines 13-21.

response to ICNU's Cal ISO adjustment in the 2012 TAM;[28] removed the must-run designation from Gadsby peaking units 4, 5, and 6 at night;[29] added the DC Intertie to the GRID topology;[30] input normalized hydro generation into GRID on a weekly rather than hourly basis;[31] and continued to model the Bear River hydro project in the manner proposed by Staff and ICNU in the 2012 TAM.[32]

- ICNU/CUB also claim that the Company intentionally withheld information in its direct filing to limit the parties' ability to respond.[33] There is no evidence to support this charge. The Company's direct filing was robust and accompanied by the voluminous workpapers and notices expressly required by the TAM Guidelines. In addition, the scheduling order specifically afforded parties the opportunity to request an additional round of testimony if the Company "raised new issues or presented unanticipated evidence in it reply testimony."[34] ICNU/CUB did not request leave to file additional testimony in this case, undermining their claim of procedural prejudice.

B. The Commission Should Reject the Proposed Market Cap Adjustments.

1. Market Caps are Necessary to Model Market Liquidity.

ICNU/CUB claim that the Company has not demonstrated illiquidity at any of the six market hubs modeled in GRID and therefore market caps are unnecessary to address alleged

[28] PAC/100, Duvall/13, lines 9-18.
[29] PAC/100, Duvall/14, lines 1-6.
[30] PAC/100, Duvall/13, lines 19-22.
[31] PAC/100, Duvall/13, lines 1-4.
[32] PAC/300, Duvall/5, lines 18-21.
[33] Joint ICNU/CUB Posthearing Brief at 6.
[34] Corrected Prehearing Conference Memorandum at 3 (Mar. 20, 2012).

market liquidity concerns.[35] This argument is unpersuasive because the Company has provided extensive evidence of market illiquidity and demonstrated that GRID requires the use of market caps to reasonably model actual Company operations. Market caps have always been an integral part of the GRID model's simulation of NPC and there is no evidence that they have produced unreasonable results.[36]

PacifiCorp has demonstrated that without market caps, revenue related to market transactions increases because GRID shifts sales from liquid hubs, with their generally lower market prices, to illiquid hubs, with their generally higher market prices.[37] PAC/304 shows clearly and unequivocally that the two most liquid hubs modeled in GRID—Mid-C and Palo Verde[38]—experience significantly decreased sales without market caps.[39] On the other hand, the four relatively illiquid hubs modeled in GRID—COB, Four Corners, Mona, and Mead—experience significantly increased sales when market caps are removed.[40] This shift in sales volumes from liquid to illiquid markets distorts the actual operation and interaction of the six power markets modeled in GRID.

These facts are not disputed by any other party. At hearing, ICNU specifically admitted that in this case, the increase in revenues associated with removing market caps "is tied almost exclusively to an increase in sales at the less liquid hubs and a decrease in sales a[t] the more liquid hubs."[41] In addition, Staff's analysis in this case demonstrates that

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35 Joint ICNU/CUB Posthearing Brief at 14.

36 *See In the Matter of PacifiCorp, dba Pacific Power*, 2008 Transition Adjustment Mechanism, Docket UE 191, Order No. 07-446 at 26 (Oct. 17, 2007) ("We defer to the Company's judgment where it has been running the model using [this approach] for several years and ICNU has not shown that the results are unreasonable.")

37 PAC/304; TR 76, lines 20-25; Confidential TR 72, lines 17-20; TR 100, lines 15-18; Confidential Staff/100, Schue/16, lines 15-18.

38 TR 92, lines 2-9.

39 PAC/304.

40 PAC/304; PAC/300, Duvall/21, lines 6-7.

41 TR 104, line 23-TR 105, line 5.

removal of market caps not only increases the volume of sales, but also the average sales price.[42] This confirms that without market caps, GRID models increased transactions at illiquid hubs that have higher prices, contrary to actual market operations.

2. ICNU/CUB's Post-Hoc Distinction between Forward and Real Time Market Liquidity is Unpersuasive.

To refute PacifiCorp's evidence demonstrating the need for market caps, ICNU/CUB attempt to distinguish between liquidity in real time electricity markets and liquidity in longer-term markets.[43] Similarly, Staff argues that the liquidity tests developed in Docket UE 250 apply to Portland General Electric's (PGE) natural gas hedging activity, but not PacifiCorp's modeling of NPC. For at least three reasons, these distinctions are not meaningful in analyzing the need for market caps in GRID.

First, the evidence ICNU relied on to show that "there are no market liquidity concerns at any of [PacifiCorp's] six hubs"[44] makes <u>no distinction between forward and real time (*i.e.*, spot market) transactions</u>. Confidential Exhibit ICNU/103 compares PacifiCorp's trading activity to the total market activity at each of the market hubs for every quarter from 2008, 2009, and 2010.[45] This exhibit was compiled using "all sales activity" reported to FERC—including spot market purchases and both long- and short-term firm transactions.[46] If the distinction between forward and real time markets is meaningful as ICNU/CUB now claim, then presumably Confidential Exhibit ICNU/103 would have tracked PacifiCorp's spot market sales compared to the total spot market sales at each hub. The fact that ICNU made no distinction between spot and forward market liquidity until confronted with

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[42] Confidential TR 73, lines 16-23; TR 74, lines 17-23; Confidential Staff/100, Schue/16, lines 15-18.
[43] Joint ICNU/CUB Posthearing Brief at 14-16.
[44] *Id.* at 16.
[45] ICNU/100, Deen/9, lines 18-24; Joint ICNU/CUB Posthearing Brief at 16.
[46] ICNU/100, Deen/9, lines 20-22.

compromising evidence at hearing demonstrates the fundamental flaws with this "distinction."

Second, ICNU/CUB now claim that the real time market is the only market for which liquidity is relevant to market cap modeling.[47] But GRID models all types of sales—both forward and real time transactions. Under the Company's new approach to market caps (as suggested by ICNU in Docket UE 207), it uses total short-term firm and balancing sales volumes (including spot sales) to calculate market caps.[48] Because current market caps account for both spot market purchases and a range of forward transactions, it is not only the "real time electricity market" that is relevant to the determination of liquidity. ICNU correctly reviewed liquidity in terms of a broader market in Confidential Exhibit ICNU/103. ICNU cannot avoid its prior admissions on market liquidity by now claiming that they refer to markets that are inapplicable to the operation of market caps.

Third, ICNU's new claim that only real time market liquidity is relevant to the operation of market caps is contrary to the position ICNU has taken in past TAMs. In Docket UE 207, ICNU witness Mr. Randall Falkenberg testified that market caps "control the assumed size of the external market" where PacifiCorp buys and sells electricity.[49] Mr. Falkenberg testified that the "size" of the market is the "amount of electric power which can be bought or sold before the market becomes illiquid—meaning that the price can no longer be reliably estimated by the forward price curve."[50] Here, ICNU/CUB claim that the fact that the Intercontinental Exchange, Inc. (ICE) does not provide a forward price curve for less

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[47] Joint ICNU/CUB Posthearing Brief at 15.

[48] PAC/300, Duvall/12, lines 1-6. ICNU/CUB recognize this fact when they discuss the prior market cap methodology that examined only spot market purchases, which ICNU and CUB describe as the "real time electricity market." Joint ICNU/CUB Posthearing Brief at 17.

[49] PAC/407 at 9.

[50] *Id.*

liquid hubs is irrelevant because the "long-term forward market is different from the real time or short-term markets."[51] However, applying the standard set forth by ICNU in Docket UE 207, the inability to establish a forward market price in a market hub is the ultimate proof of illiquidity.

3. The Distinction between Natural Gas and Electric Markets is Irrelevant to the Analysis of Liquidity and Market Caps.

ICNU/CUB also argue that the standards for determining liquidity in natural gas markets is irrelevant because natural gas "is a completely different commodity . . . ."[52] Staff makes a similar argument.[53] Importantly, nothing in the record supports this claim that the determination of power market liquidity is dependent on the commodity being bought and sold. Rather, as Staff's proposal in Docket UE 250 and Confidential ICNU/103 make clear, it is the number of transactions in a particular power market that determines liquidity. This is also consistent with Commission precedent that has determined that power market liquidity is a function of the number of transactions within a relevant time period, not the type of commodity being bought or sold.[54]

4. Generation and Transmission Constraints Do Not Adequately Account for Illiquidity.

ICNU/CUB claim that market caps are unnecessary in GRID because other constraints, *i.e.*, generation and wheeling limitations, adequately constrain market sales.[55] This is incorrect for two reasons. First, as ICNU's witness admitted at hearing, without

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[51] Joint ICNU/CUB Posthearing Brief at 15.
[52] *Id.* at 16.
[53] Staff Post Hearing Brief at 5.
[54] *Re Portland General Elec. Co.*, Docket UE 139, Order No. 02-772 at 8-12 (Oct. 30, 2002). In Docket UE 139, Staff defined a liquid market as a "market where many buyers and sellers are conducting a large number of transactions." Order No. 02-772 at 8.
[55] Joint ICNU/CUB Posthearing Brief at 10.

market caps there is no specific constraint related to market liquidity.[56] Second, ICNU's own testimony undermines this argument because ICNU correctly concluded that the vast majority of the additional sales in GRID when market caps are removed are supplied from market purchases, not from the Company's generation facilities.[57] Limitations on the Company's generation capacity and associated transmission do not adequately restrict these incremental market purchases.

5. Without Market Caps, GRID Substantially Overstates Market Transactions.

ICNU/CUB claim that the elimination of market caps will not result in GRID overstating market transactions because they include "bookouts" in their calculation of total transactional volumes.[58] To support this claim, ICNU/ CUB claim, *without citation*, that "PacifiCorp previously included 'bookouts' in past estimates of short-term sales."[59] In fact, the record in this case is clear that GRID has never included bookouts in its modeled short-term sales.[60] In addition, even CUB recognized that "[t]oday the GRID model greatly overestimates wholesale sales volumes rather underestimating them."[61] Removing bookouts from ICNU's calculation of historical transactions demonstrates that GRID overestimates transaction volumes.[62]

Staff also admits that without market caps sales will increase,[63] but claims that the increase will be minimal.[64] The increase Staff admits will occur—2,500 GWh on a system-

[56] TR 83, lines 6-10.
[57] ICNU/100, Deen/10, lines 19-21; Joint ICNU/CUB Posthearing Brief at 13-14.
[58] Joint ICNU/CUB Posthearing Brief at 11.
[59] *Id.*
[60] PAC/300, Duvall/15, lines 1-2.
[61] CUB/100, Jenks-Feighner/2, lines 14-17.
[62] PAC/300, Duvall/16, Corrected ICNU Table 2 Comparison of MWh Sales.
[63] Staff/100, Schue/6, lines 19-22.
[64] Staff Post Hearing Brief at 6.

wide basis—is substantial. For comparison, the Company observed that the total Oregon industrial sales forecast for 2013 was only 2,300 GWh.[65] Staff now criticizes this comparison as a "mismatch between system-wide and Oregon measures."[66] However, this mischaracterizes the Company's argument, which was simply a demonstration that an increase of 2,500 GWh in sales is substantial by any comparison.

6. Without Market Caps, GRID Overstates Coal Generation.

ICNU/CUB support the elimination of market caps claiming that this will not result in GRID overstating coal generation.[67] Contrary to ICNU's claims,[68] removing market caps from GRID will also produce an unreasonable increase in coal generation. ICNU's own analysis[69] shows that even with market caps in place, GRID already produces more coal generation than the historical actual generation in both the most recent 12-month period and in the 48-month average.[70] The complete removal of market caps from GRID will result in an even greater increase in coal generation over historical actual levels, further decreasing the accuracy of the NPC forecast.

7. Removal of Market Caps Further Exacerbates PacifiCorp's Consistent Under-Recovery of NPC.

Staff claims that the Company's past under-recovery of NPC does not support the continued use of market caps because "the Company's unfavorable NPC results over the 2007-2011 period may not be representative of future periods."[71] The only support for this assertion is Staff's unsupported statement that "for the first six months of 2012, actual unit

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[65] PAC/300, Duvall/16, lines 12-15.
[66] Staff Post Hearing Brief at 7.
[67] Joint ICNU/CUB Posthearing Brief at 12.
[68] ICNU/100, Deen/10, lines 17-18.
[69] ICNU/104.
[70] *Id.*; *see also* PAC/300, Duvall/21, lines 14-20.
[71] Staff Post Hearing Brief at 8.

NPC were slightly lower than GRID forecasts for that same period."[72] The evidence in the record in this case makes clear that removal of market caps from GRID would result in a 23 percent increase in the volume of short-term sales.[73] Coupled with the fact that GRID already overestimates actual sales,[74] this increase will unreasonably reduce NPC.[75] And even though Staff claims that under-recovery in past periods should be ignored, ICNU acknowledged at hearing that when reviewing its proposed adjustment, it is appropriate to "review whether the Company is under-recovering or over-recovering its projected net power costs."[76]

C. The Commission Should Allow Continued Use of GRID.

ICNU/CUB propose that the Commission require PacifiCorp to use a new power supply model developed by a third-party vendor, rather than GRID.[77] ICNU/CUB have provided no evidence in support of this proposal, which is admittedly designed to "dismantle the TAM" and hinder PacifiCorp's ability to recover its prudent NPC in rates.[78]

ICNU/CUB simply argue that GRID should be abandoned because it is controversial.[79] But replacing GRID with a third-party designed model will be just as controversial. Indeed, ICNU's preferred model—AURORA—has been the subject of contentious litigation both here in Oregon and elsewhere.[80] It is clear that implementation of

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[72] *Id.*
[73] PAC/300, Duvall/18, Figures 1 and 2; PAC/300, Duvall/19, lines 1-4; PAC/300, Duvall/16, lines 8-9.
[74] PAC/100, Duvall/20, Table 5.
[75] PAC/300, Duvall/4, lines 11-17.
[76] TR 112, lines 12-18.
[77] Joint ICNU/CUB Posthearing Brief at 28-29.
[78] *Id.* at 2.
[79] *Id.* at 29.
[80] *See In re Idaho Power Company's Application for a General Rate Increase*, Docket UE 167, Order No. 05-871 at 8 (July 28, 2005) (Commission reduced Idaho Power's NPC by almost $50 million on a system basis, stating that "we are persuaded by Staff's argument that, even with revised gas inputs, the [AURORA] model fails to accurately forecast market electricity prices under normalized conditions."); PAC/405 at 8-9 (ICNU

a third-party dispatch model will require significant time and resources for testing and customization. ICNU/CUB fail to acknowledge this reality, which renders their proposal completely impractical.

Contrary to ICNU/CUB's claim, the Company does not believe that GRID is "fundamentally flawed,"[81] nor has it ever "admitted" that GRID has understated its NPC in rates or implied that the GRID model produces inaccurate results.[82] Instead, the Company has testified "that the inherent volatility of key NPC inputs (notably wind generation) results in a bias toward the under-forecast of NPC in rates," a bias "made worse when multiple adjustments decreasing NPC are proposed in the regulatory process without consideration of whether they improve the accuracy of the overall NPC forecast."[83] In Docket UE 246, the Company described the challenges that any model faces when forecasting NPC given the large and unpredictable variables involved, including future market prices, loads, resource volatility (most notably wind and hydro, which in turn make natural gas and coal generation unpredictable as well) and market purchases and sales.[84]

Staff suggests the potential for testing the accuracy of GRID through a backcasting process. The Company agrees with Staff's observation that such a process would be both time-consuming and inconclusive. As noted in Company's Opening Brief, after a decade of refinement, GRID now models the Company's NPC as accurately as possible. Had the

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testified that AURORA grossly understated sales); *Id.* at 3 (ICNU proposed more adjustments in Puget Sound Energy case using AURORA than in this TAM); TR 117, line 5 – TR 118, line 3.

[81] Joint ICNU/CUB Posthearing Brief at 28.

[82] ICNU/CUB cite to PAC/300, Duvall/3 for the proposition that "PacifiCorp argues that the GRID model is flawed because it has allegedly resulted in the Company under-recovering its net power costs in prior proceedings." Joint ICNU/CUB Posthearing Brief at 29. Again, this completely misrepresents the record because the Company never argued that GRID was flawed and even a cursory reading of PAC/300, Duvall/3, makes this fact clear.

[83] PAC/300, Duvall/4, lines 4-8.

[84] Docket UE 246, Reply Testimony of Stefan Bird, PAC/1700, Bird/8-10.

Commission used the results of GRID to set PacifiCorp's NPC in rates, rather than adjust these results downward for TAM settlements, the Company's NPC recovery since 2007 would have been reduced by approximately 45 percent.[85]

The next step in improving the accuracy of the Company's NPC modeling in rates is a PCAM, integrated with the use of GRID to forecast NPC in the TAM. The resources of the parties are best devoted to refinement and implementation of such a PCAM, not to GRID model backcasting or further litigation over the design and operation of the TAM. The Commission has previously recognized that "no model is perfect,"[86] underlining the importance of now focusing on a PCAM, rather than on further testing of GRID.

D. The Commission Should Reject ICNU's Hydro Forced Outage Adjustment.

ICNU argues that hydro forced outages should simply be removed from GRID runs, claiming that "in general terms"[87] the Company has "potential flexibility"[88] to respond to forced hydro outages by reshaping hydro output to take advantage of storage potential.[89] ICNU's approach models NPC as if no forced outages ever occurred.[90] The record lacks support for ICNU's unsupported contention that the Company's flexibility results in no losses due to hydro outages. Indeed, the evidence in the record here is clear that the Company has limited flexibility at its hydro units to reshape hydro around forced outages.[91] Moreover, the overall level of hydro generation modeled in this case is 6.9 percent higher than the average hydro generation for the last ten years.[92] Thus, ICNU/CUB's claim that

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[85] PacifiCorp's Confidential Opening Brief at 12.
[86] Order No. 02-772 at 19-20.
[87] ICNU/100, Deen/13, lines 17-18.
[88] ICNU/100, Deen/13, line 23.
[89] Joint ICNU/CUB Posthearing Brief at 20-21.
[90] PAC/300, Duvall/27, lines 5-8.
[91] PAC/300, Duvall/27, lines 3-5.
[92] PAC/300, Duvall/25, lines 7-9.

modeling hydro forced outages "substantially" reduces the amount of hydro generation is meritless.

E. The Commission Should Discontinue the Arbitrage and Trading Adjustment.

The findings underlying the Commission's decision to adopt the arbitrage and trading adjustment no longer exist, and the Commission should eliminate this adjustment. The Commission originally adopted this adjustment to impute a profit margin on certain short-term firm transactions that at the time were not modeled in GRID because of two findings: GRID systematically understated wholesale sales volumes, and GRID did not model arbitrage transactions.[93] Now, GRID's topology includes both short-term firm transmission and non-firm transmission. Moreover, GRID no longer underestimates wholesale sales volumes[94] and, in fact, overestimates these sales volumes. In addition, the transactions covered by this adjustment have been steadily declining, along with the associated revenue credit, suggesting that this revenue credit will soon become de minimus.[95]

ICNU/CUB argue that the arbitrage and trading adjustment should be continued, in part, because GRID does not understate actual short-term sales.[96] To reach this conclusion, ICNU/CUB again erroneously include bookouts in their calculation of actual transactions, resulting in an over-statement of actual sales.[97] CUB also argues that the arbitrage adjustment acts as a safeguard for customers.[98] However, this safeguard is not necessary because, as even CUB acknowledges, GRID currently "greatly overestimates" wholesale

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[93] *In the Matter of PacifiCorp, dba Pacific Power, 2008 Transition Adjustment Mechanism*, Docket UE 191, Order No. 07-446 at 10-11 (October 17, 2007).
[94] PAC/100, Duvall/20, Table 5; PAC/100, Duvall/22, lines 19-22.
[95] Confidential ICNU/102, Deen/3.
[96] Joint ICNU/CUB Posthearing Brief at 19.
[97] ICNU/100, Deen 5, lines 3-13.
[98] CUB/100, Jenks-Feighner/2, lines 19-22.

sales volumes compared to actual sales volumes,[99] and NPC have been consistently understated in PacifiCorp's rates.[100]

F. The Commission Should Reject ICNU's Wind Integration Charge Adjustment.

ICNU/CUB's newly proposed adjustment is inconsistent with ICNU's original arguments and should be rejected.[101] ICNU/CUB claim that "Oregon ratepayers should pay for power that serves retail load and PacifiCorp should obtain compensation from the third-party wind generators that are responsible for imposing integration costs on the Company."[102] ICNU/CUB continue that "[b]asic cost causation principles require that Oregon retail customers should not subsidize PacifiCorp's wholesale transmission customers or otherwise pay for costs for which they neither receive benefits nor bear responsibility."[103] Despite these arguments, ICNU/CUB's adjustment is not based on cost causation principles, nor is it based on Oregon customers paying for only power used to serve retail load. Rather, ICNU/CUB now claim that Oregon retail customers should bear the costs and receive the revenue associated with all third-party contracts for which PacifiCorp is fully compensated and PacifiCorp's Open Access Transmission Tariff (OATT) customers should bear the costs associated with all others.[104] In other words, if a contract results in net revenue, customers should be entitled to the benefit, but if a contract results in a net cost, PacifiCorp should bear that cost.

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99 CUB/100, Jenks/Feighner/2, lines 14-15.

100 *See In re Portland General Electric Company*, Docket Nos. UE 180/UE181/UE 184, Order No. 07-015 at 12 (January 12, 2007) (rejected adjustment for unaccounted-for extrinsic value because of under-forecast bias in NPC model).

101 Originally, ICNU proposed removing the costs associated with all third-party wind projects. ICNU/100, Deen/15, lines 14-16. However, after admitting that doing so would actually increase the total costs to customers, ICNU has now changed its adjustment to remove the costs associated with only those projects for which PacifiCorp is not fully compensated. TR 125, lines 6-12; Joint ICNU/CUB Posthearing Brief at 25.

102 Joint ICNU/CUB Posthearing Brief at 22-23.

103 *Id.* at 23.

104 *Id.* at 25.

ICNU/CUB's new position is completely at odds with ICNU/CUB's claim that cost causation principles should govern this issue. It is also at odds with their claim that retail customers should pay for only power that serves retail load because none of the contracts meet this description. This cherry picking is unreasonable because the Company has no ability to choose to provide service to some projects and refuse others. Either all the costs and revenues should be included, as the Company has proposed, or all the costs and revenues should be excluded, in which case the total costs to customers will increase.

ICNU/CUB also incorrectly claim that FERC will allow a transmission provider, like PacifiCorp, to recover these integration charges through its OATT.[105] The Company has refuted these arguments previously in its Pre-Hearing Brief.[106]

G. The Commission Should Reject Noble Solution's Proposed Transition Credit Adjustment.

Noble Solutions has requested that the Commission approve two adjustments to the transition credit, both of which ask the Commission to reconsider its two prior rejections of the "market plus" proposal.[107]

Noble Solution's first adjustment calls for the relaxation of the market caps as originally agreed to in the stipulation in the Company's 2009 TAM.[108] Noble Solution's proposal should be rejected for the following reasons. First, any relaxation of market caps amounts to a subsidy to direct access customers, which directly conflicts with the TAM's purpose of avoiding cost shifting.[109] Second, contrary to Noble Solution's arguments,[110] the

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[105] *Id.* at 24.
[106] *See* PacifiCorp's Prehearing Brief at 21-22.
[107] *In re Commission Investigation into Direct Access Issues*, Docket UM 1081, Order 04-516 at 9 (Sept. 14, 2004) (rejecting a "market plus" approach); Order No. 05-1050 at 21 (same).
[108] Noble Solutions/100, Higgins/4, lines 12-16.
[109] PAC/300, Duvall/35, lines 20-23; Order No. 05-1050 at 21 (TAM intended to prevent unwarranted cost shifting).

fact that this adjustment was agreed to in past stipulations does not mean it is binding on the Company in this case. Indeed, the stipulations in past dockets specifically provided that they are non-precedential.[111] Third, the underlying assumption of Noble Solution's adjustment—that market liquidity increases when a customer chooses direct access—is faulty because GRID already overestimates market transactions.[112]

Noble Solution's second adjustment calls for the extension of the BPA transmission credit that was agreed to in past TAM stipulations and an increase in the amount of the credit.[113] The Commission should reject this adjustment as well. First, the fact that the Company agreed to a BPA transmission credit in prior, non-precedential stipulations is no basis for requiring the Company to continue to apply the credit here.[114] Second, it is unreasonable to assume PacifiCorp can or would sell transmission freed up when a direct access customer leaves.[115] Third, Noble Solution's adjustment is one-sided and fails to account for the fact that the Company may actually need to acquire additional transmission to deliver freed-up generation to market in order to realize the transition credits determined for the lost loads; such transactions are not reflected in the Company's calculation of the transition credit.[116] The Company's proposal restores the "market even" approach the Commission found to be appropriate for PacifiCorp in Dockets UM 1081 and UE 170.

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[110] Noble Solutions' Post-Hearing Opening Brief at 6-9.
[111] *See, e.g.*, Order No. 11-435, Appendix A at 5.
[112] PAC/300, Duvall/36, lines 2-6.
[113] Noble Solutions/100, Higgins/4, lines 1-2; Noble Solutions/100, Higgins/3, lines 18-23.
[114] *See, e.g.*, Order No. 11-435, Appendix A at 5.
[115] PAC/300, Duvall/35, lines 12-16.
[116] PAC/300, Duvall/35, lines 2-6.

ICNU supports Noble Solution's proposed adjustment, noting that it is "modest."[117] In fact, there is nothing modest about the proposal. Noble Solution's would increase the transition credit substantially—from a range of $5.58 to $8.62 per MWh to between $12.43 and $12.92 per MWh.[118]

III. CONCLUSION

PacifiCorp respectfully requests that the Commission approve PacifiCorp's 2013 TAM and allow a rate increase of $3.4 million, subject to the TAM Final Update on November 15, 2012. PacifiCorp also asks the Commission to reject ICNU/CUB's proposal requiring the Company to replace the GRID model and Noble Solutions' proposal for adders to the transition adjustment.

Respectfully submitted this 21st day of September 2012,

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[117] Joint ICNU/CUB Posthearing Brief at 31-32.
[118] PAC/300, Duvall/37, lines 8-16.

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UE 245 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.

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