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September 14, 2012

Via FedEx and Electronic Mail

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

Re: In the Matter of PACIFICORP 2013 Transition Adjustment Mechanism
Docket No. UE 245

Dear Filing Center:

Enclosed please find an original and five (5) copies of the Joint Posthearing Brief on behalf of the Industrial Customers of Northwest Utilities and Citizens' Utility Board of Oregon in the above-referenced docket.

Please return one file-stamped copy of the Posthearing Brief in the self-addressed, stamped envelope provided.

Thank you for your assistance, and please do not hesitate to contact our office if you have any questions.

Sincerely yours,

/s/ Sarah A. Kohler
Sarah A. Kohler

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing the Joint Posthearing Brief on behalf of the Industrial Customers of Northwest Utilities and the Citizens' Utility Board of Oregon upon the parties, on the service list, by causing the same to be deposited in the U.S. Mail, postage-prepaid, and via electronic mail where paper service has been waived.

Dated at Portland, Oregon, this 14th day of September, 2012.

/s/ Sarah A. Kohler
Sarah A. Kohler

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 245

In the Matter of PACIFICORP, dba PACIFIC POWER 2013 Transition Adjustment Mechanism Schedule 201, Net Power Costs, Cost-Based Supply Service	)	THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES AND CITIZENS' UTILITY BOARD OF OREGON'S JOINT POSTHEARING BRIEF

JOINT POSTHEARING BRIEF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES AND CITIZENS' UTILITY BOARD OF OREGON

September 14, 2012

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I. INTRODUCTION

The Industrial Customers of Northwest Utilities ("ICNU") and the Citizens' Utility Board of Oregon ("CUB") submit this joint posthearing brief in PacifiCorp's (or the "Company") transition adjustment mechanism ("TAM") proceeding that will set net power cost rates and transition adjustment credits for the 2013 calendar year. The Oregon Public Utility Commission (the "Commission" or "OPUC") should order PacifiCorp to make four power cost modeling adjustments that will reduce the Company's Oregon net power costs by $5.8 million.[1/] Although the final number will change because of the November update, these adjustments would result in a $2.4 million rate reduction from PacifiCorp's reply testimony and last update.

Specifically, the Commission should permanently eliminate the Company's market limitation or cap on sales in the GRID model, reject PacifiCorp's new hydro forced outage methodology, maintain the Commission's previously ordered arbitrage and sales margin adjustment, and remove the costs of third party wind integration that are not offset with customer benefits. In addition, the Commission should require PacifiCorp to use a new power cost model that is developed and marketed by an independent third party since the GRID model has proven unreliable and too subject to manipulation. Finally, ICNU recommends that the Commission should adopt the direct access recommendations of Noble Americas Energy Solutions, LLC ("Noble").[2/] The following table summarizes ICNU and CUB's adjustments:

1/ Unless noted, all revenue requirement numbers are on an Oregon allocated basis.

2/ CUB does not join in the section of this brief addressing both PacifiCorp's and Noble's changes to the calculation of transition credits and charges, and CUB takes no position on Noble's recommendations.

ICNU and CUB Power Supply Adjustments ($ in Millions)		
Issue	**PacifiCorp NPC[3/]**	**OR NPC Allocation**
Sales Limits or Market Caps	$15.5	$3.9
Hydro Capability	$2.1	$0.5
Arbitrage Sales Adjustment	$2.5	$0.6
Third-Party Wind Integration	$3.1	$0.8
Power Supply Model	N/A	N/A
Total:	$23.2	$5.8

II. BACKGROUND

A. The TAM Has Failed to Live Up to Its Promise of a Transparent and Easy Process to Facilitate Direct Access and Protect Cost-of-Service Customers

The Administrative Law Judge has asked the parties to put the current TAM proceeding in context by providing a review of the purpose and execution of the TAM. Re PacifiCorp, Docket No. UE 245, Memorandum at 1 (Aug. 31, 2012). The original, claimed purpose of the TAM was that it would be a streamlined and transparent mechanism to implement direct access and not harm cost-of-service customers. The TAM has instead worked as a single issue power cost rate proceeding that always harms customers and has an inconsequential impact on direct access. The Commission will have an opportunity in the general rate case to eliminate the one-sided and unfair TAM, and the Commission should at least take the first steps toward dismantling the TAM by ordering a TAM-related rate decrease and directing PacifiCorp to abandon the use of its flawed GRID model in all future rate proceedings.

PacifiCorp set transition credits without a TAM during the first few years after the passage of Senate Bill 1149 without any cost shifts from direct access to cost-of-service customers. In 2005, PacifiCorp proposed a new method for calculating transition adjustment

[3/] NPC is Net Power Costs. Column one is a system wide number and column two reflects these adjustments on an Oregon basis, based on an approximate allocation factor of 25%.

credits and charges for direct access customers and resetting power costs for all customers, which has become known as the TAM. Re PacifiCorp, Docket No. UE 170, Order No. 05-1050 at 21 (Sept. 28, 2005). PacifiCorp claimed that all customers would benefit from the better alignment of customers rates with actual costs, and that the TAM should result in improved levels of direct access customer participation. Docket No. UE 170, PPL/701, Omohundro/8-9. ICNU and CUB objected to the TAM on the grounds that it was unnecessary to update power costs for cost-of-service customers, that the risks associated with power costs and Utah load growth would be shifted to customers, that there would be significant disputes about the scope and prudence of inputs included in GRID, and that there would be insufficient time and opportunity to review PacifiCorp's costs. E.g., Docket No. UE 170, ICNU/100, Falkenberg/56-58; Docket No. UE 170, CUB/100, Jenks/19-31.

PacifiCorp explained that rates would go up and down under its TAM, and that customers would benefit in periods of low net power costs, because if there was "a downward trend in future natural gas prices, then customers would benefit from the Company's annual net power cost updates as prices would be reduced to coincide with up-to-date costs." Docket No. UE 170, PPL/702, Omohundro/3. Staff agreed that the TAM shifted power cost risk to customers, but believed that the TAM could accurately set transition credits and charges and that many of the problems could be managed. Docket No. UE 170, Staff/700, Galbraith/12. Notably, customers have never seen a rate decrease under the TAM.

The Commission ultimately adopted PacifiCorp's TAM, with some modifications proposed by Staff. The Commission expressed concern about the one-sided nature of the TAM and stated that it was open to changes in the future. Specifically the Commission stated:

> Having adopted the TAM, however, we believe that further investigation is necessary into some of the concerns raised by

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

Order No. 05-1050 at 21.

The history of the seven subsequent TAM proceedings have shown that the concerns originally raised by ICNU and CUB have proven prescient. The TAM has been an unnecessary and flawed mechanism that has resulted in shifting costs to cost-of-service ratepayers. As explained by CUB witnesses Bob Jenks and Gordon Feighner in this proceeding:

> [S]ince the TAM was introduced in 2005, power costs always seem to move up, not down. Power costs increase whether coal costs increase or decrease, whether hydro conditions are good or bad, whether natural gas costs increase or decrease, and whether retail loads increase or decrease.

Docket No. UE 245, CUB/100, Jenks-Feighner/3. Specifically, each TAM proceeding has resulted in a rate increase to customers, including industrial rate increases between 0.5% and 8.4% each year. Docket No. UE 246, ICNU/100, Deen/17. Residential customers have experienced similar cumulative rate increases which "will be nearly 66% higher than before the MEHC merger" if the Company's TAM and general rate case increases are approved. Docket No. UE 245, CUB/100, Jenks-Feighner/1. These increases are independent of other rate increases from general rate cases, the Klamath surcharge, the renewable adjustment clause for eligible renewable resources, and other factors. In contrast, Portland General Electric Company's ("PGE") annual update tariff that resets power costs and calculates transition adjustment credits and charges has resulted in rate increases and decreases. Docket No. UE 245, Hearing Transcript ("Tr.") at 14: 23—15:9 (Duvall).

There are a number of reasons for these relentless annual rate increases, including

PacifiCorp's aggressive capital investments and the fact that the existence of an annual power cost rate case has removed an important incentive for the Company to manage its power costs. Docket No. UE 246, CUB/100, Jenks-Feighner/12-14; Docket No. UE 245, CUB/100, Jenks-Feighner/3. The Company's aggressive approach to the regulatory process, the one-sided nature of the TAM, and PacifiCorp's manipulation the GRID power cost model are also to blame. For example, in last year's TAM, the vast majority of the rate increase was related to the fact that PacifiCorp was allowed to estimate higher system load growth, but the Company did not offset these costs with the additional revenues that would result from higher sales associated with the load growth. Re PacifiCorp, Docket No. UE 227, Order No. 11-435 at 6 (Nov. 4, 2011); Docket No. UE 246, ICNU/100, Deen/19-20. PacifiCorp argued that no party should be allowed to challenge the load forecasts, even though the TAM included an institutional bias that encouraged the Company to file inaccurately high load growth forecasts. Docket No. UE 246, ICNU/100, Deen/19-20.

Another aspect of the TAM that has resulted in higher rate increases is the update process, which allows PacifiCorp to increase its costs as late as mid-November. Parties have an extremely limited opportunity to review these cost increases (especially the final updates), which can have a significant impact on the final rate increase. Id.; Docket No. UE 246, ICNU/102, Deen/2-3. PacifiCorp promised a transparent and streamlined process that would result in minimal regulatory burden on customers and the Commission, but the structure of the TAM maximized the Company's ability to increase rates in a manner that precludes effective review by Staff and intervenors.

Finally, PacifiCorp's "hope" that the TAM would "result in improved levels of customer participation" has also proven false. See Docket No. UE 170, PPL/701, Omohundro/8-

9. Instead, the TAM has become completely unnecessary, as PacifiCorp has very little direct access load. Over the last six years, only 0.6% to 0.7% eligible large customers have elected direct access, which is about 5 average megawatts. Docket No. UE 246, ICNU/105, Deen/1. Given the tiny amount of load that selects direct access, there is no need to annually update power costs to protect cost-of-service customers or to accurately estimate the costs of customers switching to direct access.

B. PacifiCorp's 2013 TAM Continues to Take Advantage of the Regulatory Process to Manufacture an Unwarranted Rate Increase

On February 29, 2012, PacifiCorp filed its 2013 TAM filing. Despite declining market prices and the expiration of PacifiCorp's expensive gas hedges, the Company initially proposed a $9.9 million rate increase in this proceeding. PacifiCorp's aggressive approach in this case is similar to past proceedings, as the Company is attempting to offset its declining power costs with harmful GRID modeling changes. For example, in this proceeding, PacifiCorp has proposed to reverse a Commission-mandated arbitrage and trading adjustment, as well as a new controversial hydro forced outage adjustment that it withdrew three years ago after opposition from Staff and ICNU. Similarly, PacifiCorp is proposing that Oregon ratepayers should pay for the costs of third-party wind integration, amounts that both the Washington Utilities and Transportation Commission ("Washington Commission" or "WUTC") and the Idaho Public Utility Commission ("Idaho Commission") have already disallowed. Even after a decade of using GRID, PacifiCorp appears to take every available opportunity to make changes to maintain rates at the highest level possible.

Another aspect that has resulted in higher power costs in this and past cases is that the Company has not been forthcoming about key issues, providing little meaningful information about controversial and significant material changes. For example, in this proceeding, the

Company's initial filing and testimony included a summary of the uncontroverted aspects of its proposed rate increase, but did not identify or explain major changes in its filing. Significant issues the parties were required to understand through the discovery process include:

- PacifiCorp proposed major changes in how its transition adjustment credits would be calculated for direct access customers, which departed from how the Company has calculated the credits for the past four years. PacifiCorp's initial testimony did not even identify these changes and provided no explanation or justification. The Company's explanation was provided in rebuttal testimony after intervenors already filed their testimony.

- PacifiCorp proposed a new hydro forced modeling methodology. The issue of modeling hydro forced outages has been controversial in prior proceedings, and the Company withdrew a previous methodology. Despite this history, in direct testimony, the Company provided only four lines of testimony on the issue, which did not provide any explanation or justification regarding why outages at its hydro facilities should be modeled or why its methodology is reasonable.

- PacifiCorp has proposed to remove the Commission-required arbitrage and sales margin adjustment. The Company did not separately identify this as an issue, but instead hid this controversial proposal in its market caps testimony.

PacifiCorp also failed to provide any new clear and convincing evidence in support of its market caps methodology. As part of the last TAM proceeding, the Commission noted that "ICNU raises legitimate concerns about whether the caps are truly necessary and whether they might be better designed to achieve fairer results" and directed PacifiCorp "to provide clear and robust evidence justifying its modeling of market caps in the company's next TAM proceeding." Docket No. UE 227, Order No. 11-435 at 23. In its initial filing, PacifiCorp did not provide new robust evidence, but instead provided a partial summary of the market cap issue and waited until its reply testimony to raise new arguments. Market caps have been raised previously in Oregon and other states, and the only reason for PacifiCorp to wait for its reply testimony to raise completely new arguments was to ensure that other parties would not have an

opportunity to respond in testimony. The Commission should be mindful of PacifiCorp's less than forthcoming approach when resolving the contested issues in this proceeding.

Staff and intervenors filed rebuttal testimony on June 6, 2012, and PacifiCorp filed reply testimony on July 11, 2012. PacifiCorp's reply testimony included updated information that included lower market and coal prices, and accepted a $50,000 Staff adjustment related to the Chehalis plant modeling and about $300,000 of ICNU's wind integration adjustment. PacifiCorp is now proposing a $3.4 million overall rate increase. An evidentiary hearing was held on August 16, 2012, and the Commission's order is scheduled for the end of October 2012. PacifiCorp will be allowed an additional market price update in November, which could materially alter the amount of the proposed rate increase and could raise new issues. New rates will be effective on January 1, 2013.

III. ARGUMENT

A. Legal Standard – PacifiCorp Maintains the Burden of Proof

PacifiCorp has the burden of proof to establish that its proposed rate increase is just and reasonable. ORS § 757.210(1); Pac. Nw. Bell Tel. Co. v. Sabin, 21 Or. App. 200, 213-14 (1975). The Commission also has the independent responsibility to ensure that PacifiCorp's customers are only charged just and reasonable rates. ORS § 756.040(1); Pac. Nw. Bell Tel. Co., 21 Or. App. at 213. The burden of proof and persuasion is borne by the Company "throughout the proceeding and does not shift to any other party." Re PacifiCorp, Docket No. UE 116, Order No. 01-787 at 6 (Sept. 7, 2001); Re PGE, Docket No. UE 228, Order No. 11-432 at 3 (Nov. 2, 2011). PacifiCorp also has the responsibility to provide the parties and the Commission with sufficient evidence to meet its burdens, and the Commission strongly disfavors parties waiting to provide both evidence and arguments late in proceedings without sufficient opportunity to

respond. See Docket No. UE 228, Order No. 11-432 at 8, 15-17. PacifiCorp has failed to meet its burden of proof in this proceeding. It has not provided sufficient and robust evidence that its proposed rate increase is reasonable or that its power cost model will accurately estimate net power costs.

B. PacifiCorp's Market Caps Are an Arbitrary Limitation that Inaccurately Inflates Net Power Costs

The Commission should remove PacifiCorp's market sales limitation or caps in the GRID model because it results in unrealistic forecasts of the Company's net power costs. The market caps limitation increases net power costs because it arbitrarily assumes that PacifiCorp will depart from actual historic practice and fail to enter into a number of profitable short-term transactions. The removal of the market caps would reduce PacifiCorp's proposed rate increase in this proceeding by approximately $3.9 million.

1. Market Caps Result in Unrealistically Low Levels of Short-Term Transactions

Like other electric utilities, PacifiCorp offsets its overall net power costs by engaging in short-term sales at each of the market hubs to which it has transmission access. Unlike any other Northwest utility, however, PacifiCorp places caps on the potential market sales in its power cost model. Docket No. UE 245, ICNU/100, Deen/6, 8. PacifiCorp limits only the amount of profitable market sales that it can make, but does not impose any limitations or caps on the amount of its costly market purchases that can be made in GRID. Id. at 6.

PacifiCorp's market caps limit the Company's ability to sell power "based on the average energy sold over the entire monthly peak or off-peak period for the Company's most recent 48 months of actual sales." Id. at 3; Docket No. UE 245, Staff/100, Schue/5. This "'average of the averages'-based limit is applied to every hour of the relevant 2013 test period

modeling." Docket No. UE 245, Staff/100, Schue/5. The practical result is that there are "many hours in the historical period where the actual sales exceeded the average sales value for a particular time interval." Docket No. UE 245, ICNU/100, Deen/6. As explained by Staff witness Steve Schue, the market caps are not justified because they "are poorly designed, as they confuse averages with widely varying hourly sales. . . ." Docket No. UE 245, Staff/100, Schue/15.

The market caps increases net power costs because they "will systematically result in GRID unrealistically cutting off sales which are higher than average." Id. at 11. The market caps uses the monthly sales averages that include hours in which there were minimal or no transactions to restrict "the sales amount below the levels that the Company has achieved historically." Docket No. UE 245, ICNU/100, Deen/8. This results in profitable sales levels that are abnormally lower than historic actuals, because the market caps "ignore the size of actual hourly transactions the Company has executed at each hub." Id.

Market caps are not needed to prevent GRID from assuming that PacifiCorp will make unlimited short-term sales. Id. at 10. The GRID model contains limitations that constrain market sales, including the amount of energy PacifiCorp's resources can physically produce and wheeling limitations. Id. As explained by ICNU's witness Michael Deen, if "GRID is able to more efficiently balance the system on an hourly basis through the use of balancing sales, this should not be cut off artificially." Id.

Removal of the market caps does not dramatically increase short-term sales, but instead increases them to levels that are well below historic averages. For example, elimination of the market caps increases PacifiCorp's total annual spot market sales for the test period by

2,458,803 megawatt hours ("MWh") or 281 average megawatts ("aMW").[4/] Docket No. UE 245, ICNU/100, Deen/7. This would result in an increase in short-term sales in the test period GRID model from 10,904,442 MWhs to 13,363,245 MWhs, which is far lower than the historic four-year average of 20,261,179 MWhs of short-term sales. Id. Thus, "even without the caps, GRID does not come close to replicating the historical sales volumes achieved by PacifiCorp." Id. Staff presented similar analysis demonstrating that removing the market caps would not result in much higher short-term sales in GRID. Docket No. UE 245, Staff/100, Schue/6-8.

PacifiCorp now argues that the historic average of actual sales is much lower by removing "bookout" transactions, which lowers the historic average to 6,975,548 MWhs. See Docket No. UE 245, PAC/100, Duvall/21; Docket No. UE 245, PAC/300, Duvall/15-16.[5/] This is a new argument, as PacifiCorp previously included "bookouts" in past estimates of short-term sales. A bookout transaction is when two utilities schedule equal and offsetting power sales at a delivery point, which can be settled financially as a scheduling convenience. ICNU/203. PacifiCorp inappropriately removes bookout transactions from the historic four-year average of actual sales, but does not remove them from the GRID forecast of sales capacity limits during the test period, resulting in an apples-to-oranges comparison.

More importantly, bookout transactions should not be removed from either the GRID forecast or the historic average, because the purpose of modeling short-term sales is to accurately estimate the economic value associated with all short-term transactions. Tr. at 138 (Deen) (GRID system balancing represents all sales transactions, including short-term firm

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4/ PacifiCorp originally designated the total market sales numbers as confidential, but removed the confidential designation in reply testimony. Docket No. UE 245, PAC/300, Duvall/15 n.9.

5/ In its opening testimony, CUB agreed with the Company that GRID overforecasts firm sales. Docket No. UE 245, CUB/100, Jenks-Feighner/3. CUB recognizes, however, that some of the arbitrage opportunities show up as system balancing sales, not as firm sales for resale.

transactions such as bookouts). There is no reason why power sales transactions that are settled financially as a scheduling convenience should not be fully accounted for when estimating the Company's net power costs. In other words, the Company dramatically understates the actual volume of its sales by inappropriately removing sales that are settled financially, and are still sales that should be considered in the context of power cost modeling.

Finally, PacifiCorp attempts to support its new argument that bookouts should be removed from short-term sales by claiming that it is consistent with the testimony of ICNU witness Randall Falkenberg in a previous TAM proceeding (Docket No. UE 207). Docket No. UE 245, PacifiCorp Prehearing Brief at 11; Docket No. UE 245, PAC/407 at 9. The positions of ICNU witnesses Mr. Falkenberg and Mr. Deen are consistent. In Docket No. UE 207, Mr. Falkenberg testified that it is difficult to estimate the size of the physical electricity market when determining market liquidity, because electricity cannot be stored, price levels impact the size of the market, and bookout transactions distort the physical market because there is no change of position. Docket No. UE 245, PAC/407 at 9. Due to these issues, Mr. Falkenberg proposed to estimate market liquidity using a different methodology (the bid-ask spreads), but was not addressing the issue of comparing GRID's forecast with actual short-term transactions. Id. at 9-10. In fact, Mr. Falkenberg's testimony later stated that elimination of the market caps will not overstate the volume of transactions in GRID, and that the proper analysis is a comparison of total sale to actual results. Id. at 14. This is exactly what Mr. Deen did in this proceeding.

2. Removal of the Market Caps Will Not Result in Overstating Coal Generation

Although the Company did not raise the issue in its direct testimony, PacifiCorp asserted in reply testimony that removal of the market caps would increase coal generation "above historical actual levels, decreasing the accuracy of the NPC forecast." Docket No. UE

245, PAC/300, Duvall/21. PacifiCorp originally modified the GRID model to include market caps because of an alleged concern associated with an increase in coal generation. Docket No. UE 245, PAC/407 at 13. PacifiCorp previously argued to the Utah Public Service Commission ("Utah Commission") that "the entire point of the caps is to ensure a reasonable amount of coal generation is included in normalized net power costs." Re Rocky Mountain Power, Utah Commission Docket No. 09-035-23, Report and Order at 26 (Feb. 18, 2010) (emphasis added). The Company, however, departed from this argument in the last TAM, because removing the market caps resulted in coal generation being well within historic norms. Docket No. UE 227, ICNU Opening Brief at 26-27 (Oct. 5, 2011).

PacifiCorp has resurrected its argument about increases in coal generation in this case, despite it being inconsistent with the facts. PacifiCorp's claim that removal of the market caps will increase coal generation above "historical actual levels" is a gross over statement. Removing the market caps results in an increase in coal generation of only 0.66%, which "is fully within historic norms." Docket No. UE 245, Confidential ICNU/100, Deen/10.[6/] Both the coal generation with and without market caps is less than the actual amount of coal generation in two of the past five years, and approximately the same as the historic average. Tr. at 20 (Duvall); Docket No. UE 245, Confidential ICNU/104. In addition, the vast majority (83%) "of the increased generation used to support the increased system sales from removing the market caps actually comes from increased system balancing sales." Docket No. UE 245, Confidential ICNU/100, Deen/10.[7/] Lifting the market caps does not have a significant impact on coal generation, but instead "allows GRID to more efficiently balance the system by allowing for

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6/ ICNU marked this information as confidential in its testimony, but PacifiCorp has agreed that the numbers can be treated as non-confidential.

7/ ICNU marked this information as confidential in its testimony, but PacifiCorp has agreed that the numbers can be treated as non-confidential.

both more system balancing purchases and sales." Id. Finally, PacifiCorp has presented no factual evidence that removing market caps will result in an inaccurate forecast of coal generation.

3. PacifiCorp Has Not Demonstrated Any Market Illiquidity Issues

PacifiCorp now argues that the market caps are necessary to address alleged market liquidity concerns at certain market hubs. Docket No. UE 245, PAC/300, Duvall/20-21.[8/] PacifiCorp, however, has failed to make a showing that any of its six hubs are illiquid in the real time or short-term electricity markets, or that market caps would be an effective remedy to any alleged illiquidity concerns. Tr. at 83 (Deen) ("the Company has not made a showing that any of the six hubs are illiquid in this proceeding.").

PacifiCorp has not submitted evidence of market illiquidity, but has instead attempted to prove market illiquidity by referring to testimony from ICNU witnesses Randall Falkenberg and Donald Schoenbeck in other proceedings. Docket No. UE 245, PAC/300, Duvall/20-21; Tr. at 140 (Deen). ICNU's testimony in previous proceedings that the forward electricity and gas hedging markets at certain hubs were illiquid in the past is irrelevant to whether the real time electricity markets are illiquid now. Tr. at 103 (Deen). PacifiCorp is essentially arguing that the market for corn in the supermarket today is illiquid, because ICNU previously argued that the futures market for purchasing corn over a year in advance is illiquid. These are different markets, and illiquidity in a future market for one commodity does not mean that there is an illiquid market for an entirely different commodity in a different time-frame. Tr. at 139 (Deen).

[8/] The Company did not address the issue of market liquidity in its direct testimony, but waited to its reply testimony.

Specifically, PacifiCorp claims that: 1) Mr. Falkenberg agreed that a market cap at Mona was necessary due to illiquidity; 2) Mr. Schoenbeck acknowledged the liquidity issues present at several of PacifiCorp's market hubs in last year's TAM (Docket No. UE 227); and 3) ICNU argued that several market hubs were illiquid in last year's PGE power cost proceeding (Docket No. UE 228). Docket No. UE 245, PAC/300, Duvall/20-21; PAC/410 at 9-11 (Reply Brief of ICNU). ICNU and CUB have never agreed that the real time electricity market at Mona is illiquid. Instead, Mr. Falkenberg testified that the Company had not provided any underlying support for the market caps and PacifiCorp should be required to develop sound analysis regarding the Mona market in future TAMs. PAC/407 at 14-15. Requesting additional analysis is far different from agreeing that the market is illiquid.

In Docket No. UE 227, Mr. Schoenbeck testified that the Intercontinental Exchange did not provide forward price curve information at four of PacifiCorp's less liquid hubs. PAC/404 at 5. Mr. Schoenbeck was referring to liquidity in the long-term forward electricity market, which is typically considered to be the market for buying power up to twelve to eighteen months (or more) in advance. Id. at 1-7; Tr. at 89, 138. (Deen). The long-term forward market is different from the real time or short-term markets, and the fact that a market may be illiquid for purchases a year and a half in the future does not say anything about whether there are liquidity concerns in the real time market. Tr. at 89, 138. (Deen).

Similarly, in Docket No. UE 228, ICNU argued that the market for purchasing annual flat strips of gas hedges three to five years in advance was illiquid. The Commission reviewed extensive evidence from all parties on this issue before ultimately concluding that the gas hedging market was liquid four years in advance and that there was insufficient information to determine if this market was liquid five years in advance. Re PGE, Docket No. UE 228, Order

No. 11-432 at 14-15 (Nov. 2, 2011); Tr. at 107-108, 138-39 (Deen). As explained by Mr. Deen, the liquidity of the natural gas hedging markets is irrelevant, because it "is a completely different commodity and also a completely different time frame." Tr. at 108 (Deen). In addition, if relevant, the Commission has found that these gas markets were liquid four years in advance, which indicates that they would be even more liquid close in time.

While PacifiCorp presented no evidence of its liquidity at the real time electricity markets, ICNU presented evidence that there are no market liquidity concerns at any of the six hubs. Mr. Deen reviewed total transactions in the real time electricity market at each hub by quarter for the years 2008, 2009, and 2010. Mr. Deen's analysis demonstrates that all of the market hubs have robust trading in the real time market and that "PacifiCorp's trading activity represents a small percentage of the total market activity." Docket No. UE 245, ICNU/100, Deen/9; Docket No. UE 245, ICNU/103. This analysis is consistent with Mr. Falkenberg's previous testimony that, in these real time electricity markets, "there is little empirical basis to assume any liquidity limits can be reliably measured." Docket No. UE 245, PAC/407 at 10.

4. PacifiCorp's Market Caps Are Not Consistent with ICNU's Past Recommendations

PacifiCorp again distorts and misrepresents ICNU's prior testimony when arguing that its market caps in this year's TAM are consistent with ICNU's past recommendations and are essentially the same as "recommended by ICNU witness Randall Falkenberg." PacifiCorp Prehearing Brief at 13. ICNU and all of its witnesses have opposed PacifiCorp's market caps, and PacifiCorp's new market caps methodology does not address the fundamental flaws in the market caps. The Commission should reject PacifiCorp's disingenuous efforts to shift the focus from the validity of the market caps by misquoting and reinterpreting previous ICNU testimony into somehow supporting the Company's positions in this case.

PacifiCorp originally developed the market caps to apply only during the real time electricity market in the graveyard shift. Docket No. UE 245, PAC/300, Duvall/11-12; Docket No. UE 245, PAC/407 at 11-12. In Docket No. UE 207, Mr. Falkenberg testified against the market caps arguing that they unnecessarily inflated net power costs, that there were no liquidity concerns, and that elimination of market caps would not overstate electricity volumes in GRID or coal generation. Docket No. UE 245, PAC/407 at 9-15. In addition, Mr. Falkenberg testified that the market caps were also flawed because applying the market caps to all hours (instead of only the graveyard hours) would reduce the detrimental impact of the caps. Id. at 11-12. While PacifiCorp has corrected the graveyard cap issue, the Company has failed to address the primary concerns raised by Messrs. Falkenberg and Deen, and has proposed a methodology that is inconsistent with ICNU's past and current recommendation that the market caps be eliminated.

C. The Commission Should Continue Its Arbitrage and Trading Adjustment

The Commission's arbitrage and trading adjustment remains equally valid today, and PacifiCorp has not provided any legitimate grounds to remove this important safeguard protection for ratepayers. Both ICNU and CUB submitted testimony arguing that the arbitrage and trading adjustment remains necessary and should be retained, lowering PacifiCorp's proposed rate increase by approximately $0.6 million.[9/] This issue is different from the market caps adjustment, "because the caps issue addresses an artificial limit on sales included in GRID, while the arbitrage and trading adjustment accounts for certain transactions that are not included at all in GRID." Docket No. UE 245, ICNU/100, Deen/6.

9/ ICNU's testimony contained a system value of approximately $2.3 million for this adjustment based on PacifiCorp's response to ICNU Data Request 2.14. PacifiCorp later provided a supplemental response updated the value to $2.5 million, which is the basis of the adjustment in this brief. Docket No. UE 245, ICNU/200.

In 2007, the Commission adopted a modified version of a Staff recommendation to include revenues associated with trading and arbitrage that was not modeled in GRID. Re PacifiCorp, Docket No. UE 191, Order No. 07-446 at 5-6, 10-11 (Oct. 17, 2007). The Commission agreed with PacifiCorp that "an hourly deterministic production dispatch model like GRID will always underestimate the volume of short-term transactions, because it balances loads and resources and optimizes the system with perfect foresight." Id. at 10 (emphasis added). The Commission then accepted Staff's underlying argument that the GRID model by its very nature will systematically understate the extent of PacifiCorp's wholesale activities, and systematically fail to capture the positive returns from trading and margin that cannot be included in GRID. Id. The Commission concluded that these revenues are not included in GRID and must be used to lower net power costs.

Although the Company claims that the adjustment is no longer warranted, the Washington Commission recently disagreed, adopting a modified arbitrage adjustment. Docket No. UE-100749, Order No. 06 ¶¶ 111-13. The Washington Commission concluded that the GRID model does not account for the Company's actual short-term sales and adopted ICNU's arbitrage adjustment as being representative of the sales PacifiCorp would anticipate during the time rates would be in effect. Id.

The Company claims that it has added short-term firm and non-firm transmission in the GRID model that allows the modeling of some arbitrage transactions, and that the GRID model now allows for the recognition of some spot market transactions. Docket No. UE 245, PAC/300, Duvall/22-24.[10/] Thus, PacifiCorp claims arbitrage sales are now modeled in GRID

[10/] As is the Company's practice, PacifiCorp did not raise its claim regarding the changes to the GRID model until reply testimony. The Commission should strongly discount all the new arguments or justifications PacifiCorp raised in its reply testimony that easily could have been raised in its opening testimony.

and that a Commission ordered adjustment is no longer necessary. PacifiCorp is wrong, as the modeling changes only include the limited number of spot market arbitrage transactions that can be estimated with an hourly dispatch model. GRID only models real time transactions, but it will always inherently exclude the vast majority of the short-term firm transactions executed by the Company for arbitrage purposes and cannot be included because of the remote nature of the test period. Docket No. UE 245, ICNU/100, Deen/4. Arbitrage transactions that occur in reality, but that cannot be accounted for in GRID, include hourly sales, day ahead sales, weekly sales and monthly sales. The entire purpose of the Commission's adjustment was "to include value for the types of transactions that GRID will inherently not simulate but which the Company can profitably engage in during the rate year." Id. at 4-5; Docket No. UE 191, Order No. 07-446 at 10-11.

PacifiCorp also argues that the Commission should abandon the arbitrage and trading adjustment because GRID no longer understates actual short-term sales. Docket No. UE 245, PAC/100, Duvall/22; Docket No. UE 245, PAC/300, Duvall/22-24. As discussed above and in the testimony of Mr. Deen, GRID continues to grossly understate the Company's short-term sales, and the Commission should not ignore the short-term sales revenues that PacifiCorp actually obtains from bookout transactions. Docket No. UE 245, ICNU/100, Deen/5. Maintaining the Commission's arbitrage and trading adjustment and the removal of the market caps still results in overall sales that are much lower than the actual sales into which PacifiCorp has historically entered. Id. at 5, 7.

Finally, as explained by Messrs. Jenks and Feighner, regardless of whether GRID over or underestimates wholesale sales volumes, the trading and arbitrage adjustment is an important safeguard that protects "customers in the event that the Company is able to take

advantage of arbitrage opportunities in a way that is not otherwise included in the TAM estimate of net power costs." Docket No. UE 245, CUB/100, Jenks-Feighner/2-3. PacifiCorp retains the ability to use ratepayer-financed assets to sell power, and Oregon customers should fully benefit from those sales. Id. at 3.

D. The Commission Should Reject PacifiCorp's One-Sided Hydro Forced Outage Revision

PacifiCorp proposed a new hydro forced outage adjustment substantially reducing the amount of expected low cost hydro generation. PacifiCorp previously proposed a similar method of attempting to account for the effects of forced outages on its hydro facilities, but withdrew the request upon opposition. Docket No. UE 245, ICNU/100, Deen/12. ICNU and CUB recommend that the Commission should reject PacifiCorp's new hydro modeling method because: 1) it is poorly supported; 2) it fails to account for the Company's ability to re-optimize its system; and 3) it has not removed extraordinary or imprudent outages. Using the Company's longstanding historic hydro methodology would lower the Company's rate increase request by approximately $0.5 million.

PacifiCorp uses the third-party Vista model to estimate its projected hydro generation, which the Company has refused to provide a copy of to ICNU. Id. at 13, 17. PacifiCorp apparently is not satisfied with the Vista model and has made a post hoc reduction to Vista's modeled generation to account for alleged lost generation based on forced outages over a four year period. Id. at 13. PacifiCorp should not be permitted to make one-sided adjustments to proprietary models that have not been fully reviewed by the parties.

PacifiCorp has not demonstrated that its new hydro modeling method accurately forecasts the effects of forced outage on its generation. PacifiCorp's proposal "does not take into account the opportunity to re-optimize the system to avoid lost generation after a forced outage

has occurred at a unit." Id. PacifiCorp also fails to account for significant storage potential and flexibility which results in the Company's method overstating the true expected impact of forced outages on hydro generation. Id. at 13-14. PacifiCorp did not consider whether its historic outages were extraordinary in nature and "form a reasonable basis for normalized, prospective ratemaking." Id. at 14.

Although PacifiCorp provided no explanation or justification for its hydro methodology in direct testimony, the Company provided one in reply testimony. PAC/300, Duvall/24-28. The Commission should give little weight to this reply testimony, because "PacifiCorp had ample opportunity to justify this change in its direct testimony and discovery. . . . " Docket No. UE 245, ICNU/100, Deen/14. PacifiCorp objects to this adjustment on the grounds that: 1) it claims that it has limited flexibility at its hydro facilities that reduces the Company's ability to reshape hydro generation around forced outages; and 2) it disagrees with Mr. Deen's estimated value of reshaped hydro energy. Docket No. UE 245, PAC/300, Duvall/27. PacifiCorp, however, does not dispute that the Company has some flexibility to reshape its hydro system, which provides value. Id. PacifiCorp's approach fails to account for any of this value, and should be rejected because it "systematically overstates the potential impact of forced outages on its net level of hydro output at the cost of consumers in this case." Docket No. UE 245, ICNU/100, Deen/14. As explained by Mr. Deen, "ICNU would not be opposed to reviewing other, more realistic Company proposals, if the Company provides ICNU with a working copy of any model used to estimate the outages and its hydro conditions" and provides a complete justification of its proposal in its initial filing. Id.

E. Oregon Ratepayers Should Not Pay for Wind Integration Costs that Are Caused by Wholesale Transmission Customers

PacifiCorp has proposed that Oregon ratepayers should pay for the costs of wind integration of third-party wholesale transmission customers that provide no power or other benefits to Oregon. ICNU and CUB recommend that the Commission should disallow these costs because PacifiCorp should charge its wholesale customers for these services through its Open Access Transmission Tariff ("OATT") or separate contracts, and retail customers should not subsidize the Company's wholesale transmission customers. Removing these costs will reduce PacifiCorp's Oregon rate increase request by $0.8 million.

1. Wind Integration Costs that Do Not Benefit Oregon Customers Should Be Removed

PacifiCorp's filing includes wind integration costs to serve both the Company's generation resources and third-party transmission customers. Docket No. UE 245, ICNU/100, Deen/15. ICNU and CUB did not analyze the reasonableness of the overall wind integration costs, but Mr. Deen instead reviewed PacifiCorp's filing to ascertain whether the costs were associated with generation facilities that provide benefit to Oregon. Mr. Deen first removed all the costs associated with the Company's imprudently built Rolling Hills facility, and PacifiCorp agreed in rebuttal that these costs should be removed, because "Rolling Hills is not included in the Company's Oregon rates and the impact of integrating its generation should not be included in the TAM." Docket No. UE 245, PAC/300, Duvall/9-10.

Mr. Deen also proposed to remove all integration costs associated with third-party-owned wind generation that the Company will not be compensated for during the test period. Docket No. UE 245, ICNU/100, Deen/15-16. Oregon ratepayers should only 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. Id. Basic 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. Id. As recently explained by the Washington Commission, adopting a similar ICNU recommendation to remove the costs of third-party wind integration costs: "These costs should be borne by the third-parties who create these costs, not by Washington ratepayers who do not receive the power generated at these facilities." Docket No. UE-100749, Order No. 06 ¶ 126.

PacifiCorp has filed a new OATT with the Federal Energy Regulatory Commission ("FERC"), which includes a charge to recover the Company's fixed costs of third party wind integration. Docket No. UE 245, ICNU/100, Deen/16; Docket No. UE 245, PAC/300, Duvall/30; Docket No. UE 245, ICNU/202. In its FERC filing, PacifiCorp elected to seek recovery of only its "fixed costs already paid for by retail customers such as return on investment and fixed O&M expenses from owners of variable generating resources." Docket No. UE 245, ICNU/100, Deen/16. PacifiCorp did not propose to recover any of its variable costs of wind integration in its OATT, but is instead seeking to recover these costs associated with third-party transmission owners from Oregon retail ratepayers. Id. at 15-16. PacifiCorp could have filed an OATT that sought recovery of these variable costs from its wholesale transmission customers, but instead "made a voluntary choice to attempt to seek recovery of only fixed but not variable third party wind integration costs from those customers who are causing PacifiCorp to incur these costs." Id. at 16.

PacifiCorp argues that its OATT wind integration charge is "as broad as currently allowed by FERC" and that FERC does not allow recovery of the variable costs of wind

integration. Docket No. UE 245, PAC/300, Duvall/32. For support, PacifiCorp cites FERC Order No. 764, which was published on June 22, 2012, over a year after the Company filed its OATT with FERC. Docket No. UE 245, PAC/300, Duvall/30-32. PacifiCorp argues that FERC will only allow it to recover these costs if it makes operational changes (including the 15 minute scheduling). PacifiCorp, however, inaccurately summarizes FERC's position regarding the recovery of the variable costs of wind integration in OATTs.

FERC actually concluded the opposite, finding that it will allow transmission providers to include variable costs of wind integration in OATTs. Integration of Variable Energy Resources, 139 FERC ¶ 61,246, Order No. 764 at PP. 315-335 (June 22, 2012). FERC did not condition recovery upon transmission providers making certain operational changes, but instead simply mandated that all transmission providers make operational changes, including providing the option of 15-minute, intra-hour scheduling. 139 FERC ¶ 61,246 at PP. 91-92. FERC specifically declined to impose the conditions for wind integration charges because "the Commission concludes that condition to be satisfied." Id. at P. 322. The Commission also explained it was "not persuaded that these additional reforms are a necessary precondition to proposals that require different transmission customers to purchase or otherwise account for different quantities of generator regulating reserves." Id. at P. 335.

Finally, PacifiCorp has confirmed that it intends to comply with the requirement to adopt 15 minute scheduling . Docket No. UE 245, ICNU/206; ICNU/205. Thus, not only has FERC confirmed that transmission providers like PacifiCorp can recover variable wind integration costs, but PacifiCorp is already planning to make the operational changes that the Company claims prevent it from including the variable costs of wind integration in its OATT. In addition, PacifiCorp ignores that Bonneville Power Administration ("BPA") and at least one

other transmission provider have been allowed by FERC to recover these costs. Westar, 130 FERC ¶ 61,215 at P. 35 (Mar. 18, 2010); BPA Administrator's Record of Decision, 2012 Wholesale Power and Transmission Rate Adjustment Proceeding at 189 (July 2011).

Ultimately, it is impossible to know if FERC would have accepted a charge in PacifiCorp's OATT to recover the variable wind integration costs, since the Company never asked for it. The Commission should note that PacifiCorp originally requested that Idaho and Washington allow the Company to charge those retail customers both the variable and fixed costs of integrating third-party wind integration, and its requests were rejected because these costs should be recovered from the third-party generators causing the Company to incur them. Re Rocky Mountain Power 2010 General Rate Case, Idaho Commission Case No. PAC-E-10-07, Order No. 32196 at 30 (Feb. 28, 2011); Docket No. UE-100749, Order No. 6 at ¶ 125. PacifiCorp now agrees that Oregon retail ratepayers should not be required to pay the fixed costs of third-party wind integration, but should pay for their variable costs, because the Company has not even bothered to request recovery from FERC. PacifiCorp has had plenty of opportunity to seek recovery of these costs from FERC and this "lack of regulatory diligence on behalf of the Company should not result in costs to retail consumers." Docket No. UE 245, ICNU/100, Deen/15-16.

PacifiCorp's reply testimony also notes that Mr. Deen's adjustment removed costs for third-party wind integration for which PacifiCorp receives revenue credits. Docket No. UE 245, PAC/300, Duvall/31. ICNU and CUB agree in principle that any third-party wind resources for which PacifiCorp is being fully compensated should be removed from Mr. Deen's adjustment. Tr. at 121-22 (Deen). ICNU reviewed and conducted discovery on PacifiCorp's reply testimony, and ICNU and CUB agree that the costs associated with the BPA, Eugene

Water and Electric Board, and Seattle City Light contracts should not be removed from rates. Id.; PAC/300, Duvall/31. This is consistent with ICNU and CUB's position that only those costs "incurred to integrate third party generation for which the Company's retail customers receive no benefit" should be removed from rates. Docket No. UE 245, ICNU/100, Deen/15. This, in combination with the removal of Rolling Hills, reduces Mr. Deen's adjustment on an Oregon basis from $1.6 million in responsive testimony to $0.8 million. PacifiCorp should either obtain recovery of the remaining costs from the third-party wind generators through its OATT or separate contractual agreements.

2. Mr. Deen's Adjustment Is Not Barred by the Supremacy Clause or the Filed Rate Doctrine

PacifiCorp asserts that the Supremacy Clause of the United States Constitution and the filed rate doctrine would be violated if the Commission adopts Mr. Deen's proposal to remove the costs associated with providing wind integration services to wind projects which are not owned by the Company. Docket No. UE 245, PAC/300, Duvall/32. PacifiCorp essentially argues that the Supremacy Clause and the filed rate doctrine mandate that Oregon retail customers must subsidize the Company's wholesale transmission customers. This argument is a complete misapplication of both Supremacy Clause and filed rate doctrine, has not been accepted by the Oregon Commission, and flies in the face of FERC's own proposed guidelines. PacifiCorp raised exactly the same arguments to the Washington Commission, which rejected them, ruling:

> We agree with Staff and ICNU that the Supremacy Clause of the United States Constitution does not require the Commission to pass through these costs. FERC has not set a wholesale wind integration rate under the Company's OATT, and accordingly, PacifiCorp's remedy is to file with FERC for an amendment to its OATT.

Docket No. UE-100749, Order No. 6 at ¶ 126. There is no reason for the Oregon Commission to reach a different conclusion.

To support its position, PacifiCorp cites Nantahala Power & Light Co. v. Thornberg, 476 U.S. 953 (1986) and Mississippi Power & Light Co. v. Mississippi, 487 U.S. 354 (1988). PAC/300, Duvall/32; PacifiCorp Prehearing Brief at 23. The Supreme Court held that "FERC clearly has exclusive jurisdiction over the rates to be charged Nantahala's interstate wholesale customers," and that "[o]nce FERC sets such a rate, a State may not conclude in setting retail rates that the FERC-approved wholesale rates are unreasonable." Nantahala, 476 U.S. at 966. This holding does not apply here because FERC has not set a wholesale wind integration rate to recover PacifiCorp's variable wind integration costs. The Commission cannot find that "the FERC-approved wholesale rates are unreasonable" in this rate case nor that they violate the Supremacy Clause, because no such FERC-set variable wind integration rates actually exist, due to the Company's own failure to file with FERC. FERC's exclusive jurisdiction over interstate transmission rates will not be affected if the Commission adopts Mr. Deen's proposal, and FERC is and will still be free to approve whatever wind integration service rates it deems appropriate, as soon as PacifiCorp seeks a modification of its OATT.

The Supremacy Clause is also not implicated, because PacifiCorp is not using any FERC regulated service to provide intrastate service to Oregon retail customers. The Washington Commission recognized this flaw in the Company's argument concluding, that:

> [T]he cases cited by PacifiCorp in its Petition do not support its contention that we are preempted from excluding these costs. We establish rates for intrastate electric service provided to Washington ratepayers. The cases cited by the Company involve the provision of intrastate services using resources governed by FERC. These cases are distinguishable from the current circumstance because PacifiCorp is not using these

> resources to provide intrastate service to Washington retail customers.

PacifiCorp v. WUTC, Washington Commission Docket No. UE-100749, Order No. 7 at ¶ 50 (May 12, 2011) (citations omitted and emphasis in original). The same deficiency in the Company's Supremacy Clause arguments also proves fatal in its application of the filed rate doctrine. The filed rate doctrine is dependent upon the existence of "FERC-approved" rates in order to be applicable. As the Commission cannot set a "different" wind integration services rate at the state level, in the absence of a federal rate fixed by FERC, the filed rate doctrine does not and cannot apply. Nantahala, 476 U.S. at 964 (citing Arkansas Louisiana Gas Co. v. Hall, 453 U.S. 571 (1981)).

Nantahala demonstrates that the filed rate doctrine actually requires that the Commission abstain from including wholesale interstate wind integration charges in retail rates. As explained in that case, the Supreme Court overturned a state court decision that "assumed" that FERC's predecessor, the Federal Power Commission ("FPC"), "would have approved certain rates as reasonable and thus allowed the utility to charge that rate, although the rates were never in fact filed with the FPC." Id. This is very similar to this proceeding, in which PacifiCorp now asks the Commission to assume what FERC would find reasonable, a rate which has never in fact been filed with or approved by FERC.

F. It Is Long Past Time to Require PacifiCorp to Use an Independent Model

One thing that ICNU, CUB, and PacifiCorp can all agree upon is that the GRID model is fundamentally flawed. That PacifiCorp wants the Commission to use its faulty power model results as the basis for PacifiCorp's requested rate increase in this docket and a power cost adjustment mechanism in the general rate case is bad enough, but the Commission should reject PacifiCorp's request to allow it to keep using this model in the future and instead require

PacifiCorp to use a new power supply model that has been developed by an independent third-party vendor in all future proceedings. And better still, the Commission should simply eliminate all TAM proceedings going forward. PacifiCorp's internally developed GRID model contains significant problems that have historically resulted, and will continue to result, in numerous and contentious disputes before the Commission. In addition, GRID is both more limited in its capabilities and unnecessarily complex relative to other third-party models, and it requires intervenors to invest significantly more time and resources into merely understanding the Company's net power costs. Despite all of our best efforts, the problems with the GRID model are not going away and the only way to solve the problem is to completely discard the model.

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. Docket No. UE 245, PAC/300, Duvall/3; Docket No. UE 245, Memorandum at 1. ICNU and CUB do not agree that PacifiCorp has demonstrated that it has systematically under-recovered its net power costs in Oregon. E.g, Tr. at 114 (Deen); Docket No. UE 246, ICNU/100, Deen/10. If they have any merit, PacifiCorp's arguments, however, establish that there is no basis for the Commission to conclude the GRID accurately estimates the Company's net power costs. The GRID model should be abandoned since it is admittedly inaccurate.

PacifiCorp's GRID model has been the source of numerous controversies and problems in nearly all of its Oregon rate proceedings. In this proceeding, the parties are litigating the Company's market caps that increase net power costs and distort the transition adjustment credit, which is a problem not contained in other power cost models. Other flaws inherent to GRID are that it uses a burdensome screening process to determine the proper unit dispatch logic as a workaround to a flawed internal logic, relies upon an external model to

determine the hourly dispatch of hydro resources, and requires hourly electricity market prices be directly imputed at multiple trading hubs (the Company has to manufacture these prices through an external process, as no third-party vendor estimates real-time hourly prices a year and a half into the future). Docket No. UE 245, ICNU/100, Deen/17-18. Many of the problems associated with GRID are truly basic modeling issues, like the fact that a planned outage at a major resource in GRID does not have any impact on market prices during the outage hours. Id. at 18. There are numerous other flaws that have not been raised in this and other proceedings due to a lack of time or resources, and will likely need to be addressed by the Commission in future proceedings should GRID not be eliminated. Id.

The GRID model should also be abandoned because it "is complex, and it is extremely time consuming to review whether it is accurately modeling" the Company's net power costs. Id. The numerous deficiencies associated with the GRID model, in addition to the normal power cost review, and the fact that PacifiCorp provides far fewer workpapers and supporting documents than PGE makes it extremely difficult to adequately review PacifiCorp's net power costs during the short timelines of the TAM cases. Id. This is especially so during the final power cost updates in which the parties only have a couple of weeks to review the numerous changes that the Company typically files.

Many of these deficiencies with GRID "can be overcome by simply using a different model." Id. PacifiCorp opposes using a new model, because the Company has used GRID for many proceedings, it is unclear whether a third-party model can accurately model the Company's system, and switching models will not eliminate controversy over setting rates. PAC/300, Duvall/37-38. PacifiCorp has had its chance with its own created model (GRID) and the history of this and past proceedings demonstrates that the constant patching and duct taping

are never going result in a workable and accurate model with real results. ICNU and CUB agree that switching models will not eliminate controversy over setting rates, but it will dramatically reduce the potential disputes and the amount of analysis required to evaluate the Company's net power costs.

G. ICNU Recommends that the Commission Adopt Noble's Direct Access Proposals

PacifiCorp's direct access program is simply on life support, and the Company's proposed revisions would essentially pull the plug on the program. For the last few years, less than 1% of eligible non-residential customers have opted for direct access, and PacifiCorp's changes could bring those numbers close to zero. While attempting to covertly end direct access in its service territory, PacifiCorp continues to argue that accurate net power cost valuations are necessary to ensure that there are no impermissible cost shifts from direct access customers to cost-of-service customers. Docket No. UE 245, PAC/300, Duvall/4-5; PacifiCorp Prehearing Brief at 3. PacifiCorp fails to note that there cannot be any cost shifts if almost no customers actually select direct access, and that the alleged concern about protecting cost-of-service customers has become simply a mechanism to impose an annual rate increase outside of a general rate case.

Noble has proposed two modest direct access adjustments, which primarily reverse the Company's new revisions and would likely maintain the current status quo of limited direct access participation. First, Noble has proposed a limited relaxation in the market caps, as the market caps distort the calculation of the transition adjustment credits. Noble Prehearing Brief at 4-5. Noble's proposal is to use the same market cap relaxation that <u>all</u> parties (PacifiCorp, ICNU, Staff, CUB, and Noble) have agreed to in the last four TAM proceedings. ICNU notes that elimination of the market caps as recommended by Messrs. Deen and Schue

would also resolve Noble's concern and moot any need for market caps relaxation. Second, Noble has proposed an increase in the credit for the resale of BPA transmission that is freed up when a customer chooses direct access. Again, all parties in previous TAM proceedings have agreed to some sort of credit for the past couple years, and PacifiCorp has now proposed to completely eliminate the credit. Noble has proposed increasing the value of the credit from the current $0.75 per MWh to $1.422 per MWh, which is still less than the actual $2.28 per MWh that the transmission is potentially worth. Noble Prehearing Brief at 6-7. This would be a modest increase that would not significantly alter direct access participation, but would make the calculation slightly more accurate.

IV. CONCLUSION

ICNU and CUB have shown that despite reductions in the Company's actual net power costs, PacifiCorp has taken an aggressive approach in this proceeding to prevent customers from benefiting from these cost decreases and finally seeing a TAM-related rate decrease. PacifiCorp appears to inflate its net power costs in GRID with an unnecessary power cost modeling scheme that arbitrarily limits GRID's ability to make profitable short-term sales the Company will actually make, removes a Commission-mandated adjustment that accounts for sales that are not included at all in GRID, and inserts a new hydro forced outage method into GRID that fails to properly model the Company's hydro operations. The Commission should also reject PacifiCorp's proposal to require Oregon retail customers to pay for costs incurred to serve third-party wholesale generators from whom PacifiCorp has made no effort to obtain recovery. The Commission should direct PacifiCorp to cease using the GRID model in Oregon regulatory proceedings to reduce controversy and workload in future rate proceedings. Finally, ICNU recommends that the Commission should prevent PacifiCorp from killing its tiny direct

access program and adopt the recommendations of Noble regarding the calculation of the transition adjustment credit. If the direct access is effectively eliminated, then the TAM proceedings must also be eliminated.

Dated this 14th day of September, 2012.

Respectfully submitted,

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