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August 6, 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 Prehearing Brief on behalf of the Industrial Customers of Northwest Utilities in the above-referenced docket.

Please return one file-stamped copy of the Prehearing 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 Prehearing Brief on behalf of the Industrial Customers of Northwest Utilities upon the parties, on the service list, by causing the same to be deposited in the U.S. Mail, postage-prepaid, and via electronic mail where paper service has been waived.

Dated at Portland, Oregon, this 6th day of August, 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	)	
	)	THE INDUSTRIAL CUSTOMERS OF
PACIFICORP, dba PACIFIC POWER	)	NORTHWEST UTILITIES'
	)	PREHEARING BRIEF
2013 Transition Adjustment Mechanism	)	
Schedule 201, Net Power Costs, Cost-Based	)	
Supply Service	)	
	)	

PREHEARING BRIEF OF THE

INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

August 6, 2012

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I. INTRODUCTION

The Industrial Customers of Northwest Utilities ("ICNU") submits this prehearing 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. ICNU recommends that the Oregon Public Utility Commission ("OPUC" or the "Commission") reduce PacifiCorp's proposed rate increase by $6.3 million to correct power cost modeling errors, to more accurately model hydro capability and arbitrage sales, and to remove the costs of third-party wind integration that should not be paid for by Oregon retail ratepayers.[1/] In addition, the Commission should require PacifiCorp to utilize a less controversial power cost model that is developed by a third party. Finally, ICNU supports Noble Americas Energy Solutions, LLC's ("Noble") limited proposals regarding the calculation of credits for direct access customers. Although the issue is being addressed in PacifiCorp's general rate case (Docket No. UE 246), ICNU notes that it is recommending that PacifiCorp's TAM be eliminated because it is unnecessary for direct access and serves only as a one-sided mechanism to increase power costs on an annual basis.

II. BACKGROUND

PacifiCorp initially proposed a $9.9 million rate increase related to power costs in its 2012 TAM. The average rate increase would be 0.8%, or 1.2% for industrial customers. On June 6, 2012, Commission Staff, ICNU, the Citizens Utility Board of Oregon ("CUB") and Noble filed responsive testimony. Staff and ICNU proposed material revisions to a number of

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

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PacifiCorp's proposed power cost increases and its power cost model, and Noble addressed PacifiCorp's calculation of the transition adjustment mechanism for direct access customers.

On July 11, 2012, PacifiCorp filed its reply testimony and update of its net power costs, which lowered its rate increase to about $3.4 million. PacifiCorp's update included lower market and coal prices, as well as accepting a $50,000 Staff adjustment related to the Chehalis plant modeling and about $300,000 of ICNU's wind integration adjustment. It is unclear what the final proposed power cost increases will be, as PacifiCorp will provide one more update in November.

As required by Administrative Law Judge Pines' order on July 17, 2012, ICNU's prehearing brief will not summarize all the background and legal arguments, but will instead provide a brief summary of ICNU's position on the remaining contested issues and identify the main factual support. Additional factual support may be identified at the scheduled evidentiary hearing, as discovery is ongoing.

III. SUMMARY OF CONTESTED ISSUES

ICNU has proposed four adjustments to the manner in which PacifiCorp models its net power costs and makes a separate proposal that the Commission should order PacifiCorp to use a new power supply model that is developed and marketed by an independent third party. The following table includes ICNU's current estimate of the revenue requirement impact of ICNU's proposed adjustments. If the Commission accepts ICNU's recommendations, the final values will change slightly, as they will need to be re-run through PacifiCorp's power cost model with updated market prices and other updated inputs.

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ICNU Power Supply Adjustments ($ in Millions)		
Issue	**PacifiCorp NPC**[2/]	**OR NPC Allocation**
Sales Limits or Market Caps	$15.5	$3.9
Hydro Capability	$2.1	$0.5
Arbitrage Sales Adjustment	$2.3	$0.6
Third-Party Wind Integration	$5.2	$1.3
Power Supply Model	N/A	N/A
Total:	$25.1	$6.3

A. The Market Caps Limitation Should Be Removed from GRID

The Commission should remove PacifiCorp's limits or "caps" on the potential market sales in its GRID power cost model, because they inaccurately estimate the Company's actual sales activities. These caps are an artificial limit devised by PacifiCorp. PacifiCorp's power cost model caps the potential market sales based on the average energy sold during the entire monthly peak or off-peak period for the Company's most recent 48-month period of actual sales. PacifiCorp does not limit or cap the amount of power the Company can purchase at any market hub. ICNU recommends that the market caps be removed because there are many hours in which actual sales exceed the historic sales average, which results in reducing PacifiCorp's sales in the GRID model well below its historic average. The Oregon revenue requirement impact of removing the market caps is approximately $3.9 million.

2/ NPC is Net Power Costs. Column one is a system wide number and column two reflects these adjustments on an Oregon basis.

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The evidence that supports removing the market caps is contained in the testimony and exhibits of ICNU witness Michael Deen and Staff witness Steve Schue. Messrs. Deen and Schue will establish that:

- There are many hours in the historical period in which the actual sales exceed the average sales value and the market caps act as a constraint upon sales transactions simulated in GRID. The market caps impose a market limitation for many hours that is substantially lower than the actual transactions. ICNU/100, Deen/6-9; Staff/100, Schue/5.

- No other Northwest utility includes a market cap limitation. ICNU/100, Deen/8.

- Elimination of the market caps results in GRID's historic sales not reaching the actual historic average. This contradicts PacifiCorp's claim that elimination of the market caps will result in GRID sales exceeding historic sales. ICNU/100, Deen/7-8; Staff/100, Schue/14-15.

- PacifiCorp asserts that the market caps are necessary to address illiquid markets. There is not a significant market liquidity problem because PacifiCorp's trading activity represents on a small percentage of total market activity and GRID already includes numerous limitations on PacifiCorp's ability to sell at various markets. ICNU/100, Deen/9-10; ICNU/103.

- PacifiCorp argues the market caps are necessary to address a potential concern that GRID models too much increased coal generation. Elimination of the market caps results in only a small increase in coal generation that is well within historical norms. ICNU/100, Deen/10-11; ICNU/104; ICNU/105.

B. The Commission Should Maintain Its Trading and Arbitrage Sales Adjustment

PacifiCorp has proposed to eliminate an arbitrage and trading adjustment ordered by the Commission in a previous TAM proceeding (Docket No. UE 191). This issue is different from the market cap issue, because the market caps are an artificial limit on the total amount of sales included in PacifiCorp's power cost model, while the arbitrage and sales adjustment accounts for transactions that are not included at all in GRID. Maintaining the Commission-

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established arbitrage and trading adjustment would decrease net power costs by about $0.6 million.

The Commission required PacifiCorp to include revenues associated with trading and arbitrage, because the GRID model does not fully account for these revenues. Re PacifiCorp, Docket No. UE 191, Order No. 07-446 at 5-6, 10-11 (Oct. 17, 2007). The Company is proposing to eliminate the arbitrage trading adjustment due to the assertion that GRID has forecasted greater system sales than actually achieved by the Company over the past five years. PAC/100, Duvall/22. ICNU will sponsor the following evidence that contradicts PacifiCorp's assertions and supports continuation of the Commission's trading and arbitrage adjustment:

- The original purpose for the trading and arbitrage adjustment was that GRID does not model these types of transactions because of the remote nature of the rate year. This has not changed, and the trading and arbitrage adjustment merely accounts for a portion of the transactions that GRID does not simulate but the Company will profitably engage in during the rate year. ICNU/100, Deen/4-5.

- PacifiCorp's power cost model is not over-forecasting sales activity relative to the Company's historical levels. The Company's rationale for removing the adjustment (i.e., GRID is over forecasting) is not supported by the evidence. Id. at 5.

- The trading and arbitrage adjustment does not double count revenues associated with these transactions, but instead imputes revenues that GRID does not count. PacifiCorp's power cost model only accounts for a small portion of hourly system balancing sales, and the trading and arbitrage adjustment ensure that the Company's modeling more realistically accounts for all the Company's sales. Id.

C. PacifiCorp's New Hydro Modeling Adjustment Should Be Removed from GRID

The Commission should remove PacifiCorp's controversial hydro modeling adjustment that would reduce the amount of expected hydro generation in its power cost model. PacifiCorp has proposed a new methodology that estimates hydro forced outages for the test period and increases net power costs to account for alleged lower levels of hydro generation.

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Eliminating PacifiCorp's hydro modeling method will lower net power costs in this proceeding by about $0.5 million on an Oregon basis.

ICNU opposes PacifiCorp's complex hydro modeling adjustment, because it is poorly supported, fails to account for hydro storage capability, and does not even attempt to remove extraordinary or imprudent outages. Thus, this new PacifiCorp adjustment does not result in an accurate calculation of its hydro generation. The evidence in this proceeding will establish that:

- PacifiCorp's hydro modeling adjustment is complex, utilizes a model not provided to ICNU, and is not based on information that is easily reviewed by the parties. ICNU/100, Deen/12-13; ICNU/102, Deen/1.
- PacifiCorp does not account for the Company's opportunity to re-optimize the system to avoid lost generation after a forced outage has occurred. ICNU/100, Deen/13.
- PacifiCorp has not carefully analyzed whether the outages were extraordinary, imprudent or otherwise not appropriate for inclusion in normalized rates. ICNU/100, Deen/14.

D. Third-Party Wind Integration Costs that Do Not Provide Any Benefits to Oregon Retail Customers Should Be Removed from Rates

PacifiCorp has proposed to charge Oregon retail ratepayers the costs of integrating third-party wind resources that do not serve Oregon retail loads. PacifiCorp has elected not to even try to seek recovery from these wholesale transmission customers and has instead requested that Oregon retail customers subsidize these third parties. Removing the costs of integrating these third-party wind resources would reduce net power costs by about $1.3 million. ICNU will sponsor the following evidence that supports removal of these costs:

- PacifiCorp has proposed that Oregon retail customers pay for the variable (but not the fixed) costs of integrating third-party wholesale transmission customers. ICNU/100, Deen/15-16.

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- Third-party transmission customers are not providing any electricity or other benefits to Oregon retail customers. Id.

- PacifiCorp has not attempted to obtain recovery of the variable costs of integrating its wholesale transmission customers from the third parties. PacifiCorp has filed a new Open Access Transmission Tariff at the Federal Energy Regulatory Commission ("FERC") seeking recovery of its fixed wind integration costs, but has not sought approval from FERC to recover the variable costs from those that impose the cost on the Company. Id.

- PacifiCorp should not be permitted to ask for recovery of these costs from Oregon ratepayers until the Company has first sought permission from FERC to charge these costs to the generators that are imposing the costs upon PacifiCorp.

E. PacifiCorp Should Be Required to Use a New, Third-Party Power Cost Model

ICNU recommends that the Company be required to use a power cost model that is designed by an independent third party in all future proceedings in Oregon. PacifiCorp's internally developed GRID power cost model has been fraught with controversy and modeling disputes and always estimates increases in net power costs, even when its power costs and gas prices are declining. ICNU will sponsor the following evidence in support of this recommendation:

- The GRID model is internally developed and has been controversial in many proceedings. ICNU/100, Deen/17.

- The GRID model is very burdensome, complex, time consuming, and requires numerous ad hoc adjustments. The GRID model also requires upon the output of a separate hydro model, which has not been provided or reviewed by ICNU. Id. at 17-18.

- There are readily available third-party models that will reduce the complexity and burden of reviewing PacifiCorp's net power costs. Id. at 18-19.

- PacifiCorp is already exploring the possibility of using a different power cost model. Id. at 20.

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IV. CONCLUSION

The evidence in this proceeding will establish that PacifiCorp's net power costs should be reduced by approximately $6.3 million. The testimony and exhibits of ICNU witness Michael Deen and Staff witness Steve Schue will establish that PacifiCorp's power cost model should be revised to remove the market caps limitation. Mr. Deen's testimony and exhibits also will demonstrate that the costs of any third-party wind integration that does not provide benefits to Oregon retail ratepayers should be removed from rates, PacifiCorp's new hydro forced outage methodology should be rejected, PacifiCorp's proposal to remove the Commission-required trading and arbitrage sales adjustment should be rejected, and the Company should be required to use a new power cost model.

Dated this 6th day of August, 2012.

Respectfully submitted,

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/s/ Irion A. Sanger

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