

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 264

In the Matter of)	
)	CITIZENS' UTILITY BOARD
PACIFICORP, dba PACIFIC POWER)	OF OREGON'S PRE-HEARING
)	MEMORANDUM
2014 Transition Adjustment Mechanism)	
_____)	

I. INTRODUCTION

Pursuant to Administrative Law Judge (“ALJ”) Shani Pines’ memorandum, issued August 7, 2013, the Citizens’ Utility Board of Oregon (“CUB”) hereby submits its pre-hearing memorandum to the Oregon Public Utility Commission (“Commission” or “OPUC”).

II. FACTUAL BACKGROUND

PacifiCorp made its 2014 TAM filing (UE 264) on March 1, 2013 in conjunction with the filing of its General Rate Case (GRC) (UE 263). The GRC has settled, a stipulation and supporting joint testimony have been filed and the docket is awaiting a Commission decision. The TAM has not settled and for that reason CUB is filing this prehearing memorandum.

As illustrated in the Company’s Reply Testimony of Gregory N. Duvall, the Company is seeking Net Power Costs (NPC) of approximately \$364.1 million – this is a \$0.9 million increase from the initial filing but a slight overall decrease from current levels. The revised TAM

1 decrease requested by the Company was \$48,371.¹ But of course, this is subject to change with
2 further updates.

3 The Guidelines for the TAM were established in Order No. 09-274 and revised in Orders
4 09-432 and 10-363. As stated in the original Guidelines:

5 Pacific Powers Transition Adjustment Mechanism (TAM) is an annual filing with
6 the objective to update the forecast net power costs to account for changes in market
7 conditions, with the final forecast update close to the direct access window to
8 capture costs associated with direct access, and to correctly identify the proper
9 amount for the transition adjustment.

10 When filed on a stand-alone basis, the TAM is intended to be narrower and more
11 streamlined than when the TAM is filed in or processed concurrently with a general
12 rate case.²

13 This is a year in which the TAM was filed concurrently with a rate case and thus changes
14 to methodologies were permitted and are open for litigation up to an including testimony
15 as to whether the TAM should be eliminated or revised. CUB did not write testimony on
16 the efficacy of continued use of the TAM in this docket, and agreed to certain TAM
17 Guideline changes in the UE 263 docket.³

18 In its initial filing, filed on March 1, 2013, the Company's forecasted normalized
19 NPC for calendar year 2014, on an Oregon allocated basis, were \$363.1 million. This

¹ UE 264 PAC/500 Duvall/2 lines 16-20.

² UE 199, Order No. 09-274 Appendix A at (9 of 19)

³ UE 263 Stipulation at 6, Section 16 lines 7-21. "16. Revisions to Transition Adjustment Mechanism (TAM) Guidelines. The Stipulating Parties agree to request that the Commission modify its previous orders on the TAM Guidelines to implement two changes. a. The Stipulating Parties agree to eliminate the first three sentences of Section E of the TAM Guidelines adopted in Order No. 09-274 requiring the Company to file general rate cases by March 1 and to process them concurrently with the TAM. The parties agree to replace these first three sentences with the following: "Beginning January 1, 2015, if the Company files a general rate case between January 1 and March 31, then the TAM will be filed the later of March 1 or the date of the general rate case filing." b. The Stipulating Parties agree to change the procedures for challenging the TAM Final Update by adding the language "make a good faith effort to" in Section 14(b) of the stipulation approved in Order No. 10-363 as follows: "At least 10 business days before the Commission public meeting scheduled immediately prior to the effective date of the compliance filing, a Party will make a food faith effort to provide notice to the Parties of any potential concerns with the Company's Final Updates."

1 was an approximately \$0.4 million higher than the Oregon allocated NPC of \$362.7
2 million from the 2013 TAM.

3 In its Supplemental filing, filed on April 30, 2013, the Company filed testimony
4 related to natural gas contracts, swaps and hedging.

5 Then in its Reply Testimony filed on July 15, 2013, the Company provided
6 “corrections and contract, fuel, and forward price curve updates to the Company’s March
7 1, 2013 filing (Initial Filing).”⁴ CUB appreciates the Company’s correction of these
8 errors. Among the contract updates “the Company accept[ed] Staff’s and CUB’s
9 objection to the Company’s proposal to comprehensively update the TAM to reflect the
10 renewal terms of the Company’s large interruptible contracts.”⁵ The Company stated that
11 it would “forgo further updates to these contracts in this case.”⁶ CUB appreciates the
12 Company’s change in position on this issue.

13 CUB’s Opening Testimony filed on June 4, 2013, addressed two issues and
14 provided two recommendations. The first issue involved PacifiCorp’s interruptible
15 contract negotiation – CUB was against the granting of the exceptions sought by the
16 Company. Now with the Company’s acceptance of Staff’s⁷ and CUB’s objections and its
17 agreement to forgo further updates to these contracts in this case CUB no longer needs to
18 write on this issue.

19 The second issue in CUB’s Opening Testimony pertained to the Company’s new
20 approach to its wind modeling methodology – the Company has switched to modeling its

⁴ UE 264 PAC/500 Duvall/1 lines 12-13.

⁵ UE 264 PAC/500 Duvall/3 lines 3-5.

⁶ UE 264 PAC/500 Duvall/10 lines 15-17.

⁷ UE 264 Joint Staff/100 Crider-Ordonez/ at 10 lines 5-6.

1 wind generation based on actual energy output data from only one year, 2011. CUB
2 recommended, and continues to recommend, that the Commission not grant the
3 Company's request to change its methodology in this way. CUB's position is based upon
4 the volatility of wind and the fact that one year's data is likely not an accurate predictor
5 of hourly wind distribution.⁸

6 And finally, CUB notes that while it did not write testimony on coal costs it wishes
7 to take a moment to voice support for Staff's adjustments in that arena⁹ and also in the
8 hydro arena.¹⁰ Having reviewed Staff's testimony CUB supports Staff's adjustments to
9 the Company's coal costs and its recommendation that the Company follow a
10 methodology to create a normalized hydro forecast in a fashion similar to that of Idaho
11 Power and PGE.

12 III. **ARGUMENT**

13 As noted by the Company in the Reply Testimony of Greg Duvall, "Staff, CUB and
14 ICNU all propose that the Company's hourly wind shaping be removed and that the previous
15 wind shaping – a P50 forecast divided into six four-hour blocks per day – be used for each day in
16 a month. This adjustment would reduce the total-company NPC by approximately \$4.6
17 million."¹¹

18 As state by Mr. Jenks and Ms. Hanhan in their Opening Testimony:

19 While CUB agrees with the Commission that the Company should refine its modeling
20 techniques, CUB is not convinced that choosing data from 2011 is the most accurate

⁸ UE 264 CUB/100 Jenks-Hanhan/1 lines 5-14.

⁹ UE 264 Joint Staff/100 Crider-Ordonez/8 lines 4 -16 and at 9 1-2.

¹⁰ UE 264 Joint Staff/100 Crider-Ordonez/12 lines 17 -18.

¹¹ UE 264 PAC/500 Duvall/12 lines 14-17.

1 method of capturing wind volatility. In a response to a data request from the Industrial
2 Customers of Northwest Utilities (ICNU)¹², the Company stated that it used actual
3 values in order to model the hourly shape of wind generation and that ultimately, annual
4 generation and the monthly average capacity factor for each of the six four-hour blocks
5 will remain unchanged. The Company also states that 1) 2011 is the first year that all of
6 its owned resources were brought online for a full calendar year and that a number of
7 plants could not have been used in the analysis under a different year; 2) the 2011 data
8 is used in PacifiCorp's 2012 Wind Integration Study; and 3) 2011 was its most recent
9 data.¹³

10 Although 2011 may be the most recent year with the largest data set, choosing it to reflect future
11 generation is not the best approach.¹⁴ Staff agrees.¹⁵ As does ICNU.¹⁶ As evidenced by Staff's
12 testimony, the Company's proposed change to the shaping of the wind on an hourly basis using
13 actual data from 2011 "means that the . . . output shape has much more variability."¹⁷ Staff's
14 recommendation, like CUB's, is that the Company needs to utilize a much larger dataset in
15 determining a normalized wind profile. "The use of a single year of data for introducing
16 variability does not accurately reflect a normalized estimate of the wind since wind generation
17 exhibits annual, seasonal, daily and hourly variability that is not necessarily highly correlated
18 from year to year. The goal of wind modeling should be to produce a reasonable normalized
19 estimate of wind generation not a specific year's forecast."¹⁸ For that reason Staff does not
20 recommend that any change be made to the treatment of wind at this time. Staff's position
21 echoes that of CUB. As CUB's witnesses stated, "Modeling actuals in a singular year will not
22 guarantee similar patterns for years to come; it is possible that wind may blow in other shapes

¹² UE 264 CUB/100 Jenks-Hanhan/5 fn. 12 See CUB Exhibit 103, PacifiCorp's response to ICNU Data Request 1.5.

¹³ UE 264 CUB/100 Jenks-Hanhan/5 lines 9-19.

¹⁴ UE 264 CUB/100 Jenks-Hanhan/6 lines 1-2.

¹⁵ UE 264 Joint Staff/100 Crider-Ordenez/13 lines 9-10.

¹⁶ UE 264 ICNU/100 Deen 2 at lines 26-29.

¹⁷ UE 264 Joint Staff/100 Crider-Ordenez/13 lines 3-5.

¹⁸ UE 264 Joint Staff/100 Crider-Ordenez/13 lines 10-18.

1 and that the distribution of the hourly data will change from year to year.”¹⁹ The Company’s
2 statement that it intends to use the most recent year’s annual data to determine the wind shape in
3 future TAM filings brings no comfort to CUB.²⁰ Neither does its statement that 2012 figures
4 show little change.²¹ The fact that the Company does not view the monetary difference as
5 significant does not mean a) that it is not, and b) that such difference could not increase and be
6 missed without access to additional data. The Company’s proposed data set is too small.

7 Furthermore, as a counterpoint to the Company’s arguments it should be noted that for
8 hydropower, modeling is often based on 50 years of data²² and, while we don’t have 50 years of
9 wind data, the need for several years of data to ensure that we are truly modeling normal weather
10 is as true of wind as it is of hydro-power.

11 **IV. CONCLUSION**

12 CUB has reservations about choosing a random year based on the availability of data and the
13 convenience of having already incorporated the data in other studies. A single year does not seem to
14 serve as an accurate predictor of future wind generation. CUB believes that the Company should
15 collect data on at least three years of actual wind generation before it uses its information to predict
16 future values. CUB’s recommendation is that the Company’s proposed methodology be denied until
17 more evidence can be gathered to demonstrate that 2011 has reasonable predictive value or at least
18 until the Company has gathered a larger data set.²³

¹⁹ UE 264 CUB/100 Jenks-Hanhan/6 lines 4-6.

²⁰ UE 264 PAC/500/15 lines 16-18.

²¹ UE 264 PAC/500/17 lines 7-9.

²² UE 264 CUB/100 Jenks-Hanhan/6 line 9.

²³ UE 264 CUB/100 Jenks-Hanhan/6 line 19-22 and at 7 lines 1-5.

Dated this 12th day of August, 2013.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'G. Catriona McCracken', with a stylized, flowing script.

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UE 264 – CERTIFICATE OF SERVICE

I hereby certify that, on this 12th day of August, 2013, I served the foregoing **CITIZENS' UTILITY BOARD OF OREGON'S PRE-HEARING MEMORANDUM** in docket UE 264 upon each party listed in the UE 264 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and five copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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