

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

**UE 264**

**In the Matter of**

**PACIFICORP, dba PACIFIC POWER's  
2014 Transition Adjustment Mechanism.**

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**OPENING TESTIMONY**

**OF THE**

**CITIZENS' UTILITY BOARD OF OREGON**

**June 4, 2013**



**PACIFICORP, dba PACIFIC POWER's  
2014 Transition Adjustment Mechanism.**

# OPENING TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON

4           The Citizens' Utility Board of Oregon (CUB) submits the following Opening  
5    Testimony related to the 2014 Transition Adjustment Mechanism (TAM). CUB's  
6    Opening Testimony addresses two issues and provides two recommendations. The first  
7    issue involves PacifiCorp's (the Company) interruptible contract negotiation; CUB does  
8    not recommend that the Company be granted the exceptions it seeks to the TAM  
9    guidelines. The second issue pertains to the Company's new approach to its wind  
10   modeling methodology. As opposed to using its traditional method, the Company is  
11   switching to modeling its wind generation based on actual energy output data from 2011.  
12   CUB's recommendation is that the Commission not grant the Company's request to  
13   change its methodology in this way because wind generation is volatile, and 2011 may  
14   not be an accurate predictor of hourly wind distribution.

## II. Interruptible Contract Negotiation

The Company explains that various contracts are currently being renegotiated with Monsanto, Nucor, and US Magnesium.<sup>1</sup> The contracts would allow PacifiCorp to curtail loads for these large customers as non-spin reserve capacity. Both the Nucor and Monsanto contracts are set to expire on December 31, 2013, while the US Magnesium contract is set to expire on December 31, 2014.<sup>2</sup> The new contracts are still being negotiated and have yet to be finalized. For the purposes of the 2014 TAM, the Company is assuming that current contract prices and curtailment levels will hold true. However, the Company also recognizes that there is a possibility that the curtailment levels and prices of the new contracts could change depending on the eventual outcome of the contract negotiations.<sup>3</sup> The Company is therefore asking to be allowed to update not only the contracts when negotiations are complete but also “proposes to update all aspects of the TAM impacted by changes to these large interruptible contracts, including loads and allocation factors”.<sup>4</sup> The Company is thus calling for an exception to the TAM guidelines<sup>5</sup>, and CUB believes that this is inappropriate.

While CUB agrees that current prices and curtailment levels should stay in the 2014 TAM as assumed, CUB does not agree with an exception to the TAM guidelines without the opportunity to review the special contracts. Agreeing to an update before the contracts have been seen by stakeholders, and after the record is closed, does not give

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<sup>1</sup> Docket No. UE 264 Exhibit PAC/100, Duvall 12.

<sup>2</sup> See CUB Exhibit 102, PacifiCorp’s response to OPUC Data Request 5.

<sup>3</sup> Docket No. UE 264 Exhibit PAC/100, Duvall 12. In addition to potential changes in the amount of load curtailment, the Company suggests the possibility that “curtailed load would be reflected as reductions to the jurisdictional load used to compute allocation factors under the 2010 Protocol allocation method” (Docket No. UE 264 Exhibit PAC/100, Duvall 13).

<sup>4</sup> UE 264 PAC/100 Duvall/13 lines 12-14.

<sup>5</sup> UE 264 PAC/100 Duvall/13 lines 12-14.

1 CUB the opportunity to investigate the prudence of the Company's negotiations. The  
2 contracts should be subject to an appropriate reviewing process available to all  
3 stakeholders so that they may have an adequate opportunity to inspect the potential  
4 effects of any changes to the TAM.

5 CUB notes that the Company fails to cite to any specific provision of the  
6 "OREGON TRANSITION ADJUSTMENT MECHANISM (TAM) Agreement of the  
7 Parties on General Guidelines," (TAM Guidelines) which appear as Appendix A to Order  
8 No. 09-274 and as amended by Order No. 09-432. Instead, the Company states:

9 The Company proposes to update all aspects of the TAM impacted by changes to  
10 these large interruptible contracts, including loads and allocation factors. This  
11 would require an exception to the TAM Guidelines.<sup>6</sup>

12  
13 The Company also states,

14 As previously discussed, the Company has proposed an exception to the TAM  
15 Guidelines in this case to allow an update for changes in load and allocation  
16 factors if the Company's interruptible contracts are renewed with a structure that  
17 is different than the modeling included in the 2014 TAM Initial Filing.<sup>7</sup>

18  
19 It is CUB's position that the exception sought is too great to be granted. The  
20 TAM Guidelines provide that "[i]n any case, parties to a TAM proceeding should have a  
21 full opportunity to review, challenge and litigate issues raised in the case."<sup>8</sup> The  
22 Company is expecting to update all aspects of the TAM when it adds these contracts, but  
23 the updates will not occur until after the stakeholders have filed their final testimony. As  
24 the contracts have yet to be negotiated, parties will not have the full opportunity to review  
25 the case.

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<sup>6</sup> UE 264 PAC/100 Duvall/13 lines 12-14.

<sup>7</sup> UE 264 PAC/100 Duvall/22 at lines 7-11.

<sup>8</sup> TAM Guidelines, Order No. 09-274 Appendix A Page 9 of 19.

1 Furthermore, under the Revised Protocol (unchanged by amendments in the 2010  
2 Protocol), there are two ways to handle Special Contracts. Special Contracts *without*  
3 Ancillary Service Contract Attributes are allocated to the State that approved of the  
4 contract. Special Contracts *with* Ancillary Service Contract Attributes are System  
5 Resources allocated to all states:

6 Discounts from tariff prices provided for in Special Contracts that recognize the  
7 Customer Ancillary Service Contract attributes of the Contract, and payments to  
8 retail customers for Customer Ancillary Services will be allocated among States  
9 on the same basis as System Resources.<sup>9</sup>

10 The Special Contracts at issue here are the second type and are therefore added as System  
11 Resources that are allocated to all states. However, as System Resources, these contracts  
12 are subject to a prudency review. Oregon may not agree that the payment for ancillary  
13 services is reasonable.

14 Stakeholders should be given the opportunity to review contracts in other states  
15 for prudence. A Special Contract could be used to give a large industrial customer a  
16 discount that is related to economic development rather than the provision of interruptible  
17 service. Oregon should not assume that contracts in other states have terms that would be  
18 considered prudent in Oregon. Thus, CUB does not recommend that the Company be  
19 granted an exception to the TAM guidelines. CUB instead recommends that the  
20 Company should continue to assume no changes in the contract terms between the old  
21 and the new contracts as it is currently doing. New contracts can be submitted with the  
22 2015 TAM in April, and parties will then have an opportunity to review them for  
23 prudence.

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<sup>9</sup> OPUC Order 05-021, Revised Protocol, Appendix D.

### 1    **III. Shift in Wind Modeling Methodology**

2            CUB is concerned about the Company's shift in its wind modeling methodology. As  
3    opposed to using traditional methods involving flat generation over six four-hour blocks,  
4    the Company is switching to modeling its wind generation based on actual energy output  
5    data from 2011. The Company states that its reasons for doing so involve encouragement  
6    from the Commission to enhance its modeling techniques and that "the most recent  
7    reliable data should be used to set rates for the test period."<sup>10</sup> The Company argues that  
8    using 2011 actual data would reflect the volatility involved in wind generation.<sup>11</sup>

9            While CUB agrees with the Commission that the Company should refine its  
10   modeling techniques, CUB is not convinced that choosing data from 2011 is the most  
11   accurate method of capturing wind volatility. In a response to a data request from the  
12   Industrial Customers of Northwest Utilities (ICNU)<sup>12</sup>, the Company stated that it used  
13   actual values in order to model the hourly shape of wind generation and that ultimately,  
14   annual generation and the monthly average capacity factor for each of the six four-hour  
15   blocks will remain unchanged. The Company also states that 1) 2011 is the first year that  
16   all of its owned resources were brought online for a full calendar year and that a number  
17   of plants could not have been used in the analysis under a different year; 2) the 2011 data  
18   is used in PacifiCorp's 2012 Wind Integration Study; and 3) 2011 was its most recent  
19   data.

20           CUB recognizes that there is quite a bit of data for 2011 actuals, and CUB also  
21   appreciates that the Company is exploring new methods to make its modeling reflect the  
22   nature of wind generation. Nevertheless, CUB believes that even though 2011 may be the

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<sup>10</sup> Docket No. UE 264 Exhibit PAC/100, Duvall 19.

<sup>11</sup> *Ibid.*

<sup>12</sup> See CUB Exhibit 103, PacifiCorp's response to ICNU Data Request 1.5.

1 most recent year with the most data, this does not mean that choosing it to reflect future  
2 generation is the best approach. As the Company has already acknowledged, wind  
3 generation is volatile, and 2011 may not prove to accurately model its hourly shape.  
4 Modeling actuals in a singular year will not guarantee similar patterns for years to come;  
5 it is possible that wind may blow in other shapes and that the distribution of the hourly  
6 data will change from year to year. Additionally, it is unclear whether the Company is  
7 planning on using 2011 hourly data in all its future modeling. Averaging hourly data  
8 based on a single year does not seem appropriate to CUB, especially when we consider  
9 that for hydropower, modeling is often based on 50 years of data.

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

#### 18 **IV. Conclusion**

19 As noted above, CUB makes two recommendations in this testimony. The first is  
20 that the Company should not be granted the requested exceptions to the TAM guidelines.  
21 Stakeholders have not had the opportunity to subject the contracts to a prudence review,  
22 and the contracts should be submitted in a future docket for that review.

1           The second recommendation is that the Company should continue using its  
2   current wind modeling methodology. The new approach should be denied until the  
3   Company can either provide more evidence that 2011 is an appropriate year to model  
4   hourly wind generation or until the Company can gather more data on actual wind  
5   generation.



### **WITNESS QUALIFICATION STATEMENT**

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**EXPERIENCE:** Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 172, UE 173, UE 207, UE 208, UE 210, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, UM 1209, UM 1355, UM 1635, UE 233, and UE 246. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates.

Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.

**MEMBERSHIP:** National Association of State Utility Consumer Advocates  
Board of Directors, OSPIRG Citizen Lobby  
Telecommunications Policy Committee, Consumer Federation of America  
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### **WITNESS QUALIFICATION STATEMENT**

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**WORK EXPERIENCE:** I have previously provided comments in dockets including UM 1505 and LC 55. I have also worked at CUB as an analyst on various other dockets, including UE 246, UE 262, UE 263, and UM 1460. Additionally, I have participated as a CUB representative in various stakeholder meetings, including the PacifiCorp Integrated Resource Plan (IRP) and the PGE IRP.

UE-264/PacifiCorp  
April 25, 2013  
OPUC Data Request 5

**OPUC Data Request 5**

Regarding PAC/100, Duvall/12, where the Company represented:

*“The Company currently has contracts with three large industrial customers, one in Idaho (Monsanto) and two in Utah (Nucor and US Magnesium), that give the Company the ability to curtail the customer’s load for economic purposes or as non-spin reserve capacity. The Monsanto and Nucor contracts expire at the end of 2013, and the Company is actively working with the customers to negotiate contracts for 2014 and beyond. US Magnesium’s contract expires at the end of 2014.”*

- (a) Provide the 2014 Net Variable Power Costs (NPC) excluding the Monsanto and Nucor contracts after their respective ending dates; and
- (b) For each contract (i.e., Monsanto, Nucor and US Magnesium) please provide:
  - i. Starting date of such contract;
  - ii. Expiration date of such contract;
  - iii. A brief description of the curtailment types (e.g., economic purposes, non-spin reserve capacity, etc.), levels and conditions in such contract;
  - iv. Pricing of electricity of such contract;
  - v. Copy of such contract;
  - vi. A list of interruptions by year that happened for the past five calendar years (2008 – 2009). Please include for each interruption the following information: Reason of interruption (e.g., economic purposes, non-spin reserve capacity, etc.); a brief description of the driving circumstances that produced the interruption; starting date and time of interruption; and ending date and time of interruption.

**Response to OPUC Data Request 5**

- (a) The Company has not prepared the requested net power cost (NPC) studies.
- (b) Please see below for the Company’s responses to (i) through (vi):
  - i and ii – Please refer to the information below, which provides the start dates and expiration dates of the Monsanto, Nucor and US Magnesium contracts:

Monsanto - January 1, 2012/December 31, 2013  
Nucor - January 1, 2007/December 31, 2013  
US Magnesium - January 1, 2010/December 31, 2014

UE-264/PacifiCorp  
April 25, 2013  
OPUC Data Request 5

iii – Please refer to Confidential Attachment OPUC 5-1, which provides a brief description of the curtailment types in each of the Monsanto, Nucor and US Magnesium contracts.

iv – Please refer to the information below, which provides a contract reference to the pricing terms of the Monsanto, Nucor and US Magnesium contracts:

Monsanto – Section 4  
Nucor – Article V  
US Magnesium – Article III

v – Please refer to Confidential Attachment OPUC 5-2, which provides a copy of the Monsanto, Nucor and US Magnesium contracts.

vi – Information related to curtailment/interruption relates to interruptible/curtailment special contract customers. The Company cannot provide specific customer information without customer consent. Please refer to Confidential Attachment OPUC 5-3, which provides information without specific customer identification. Note: “curtailments” are economic interruptions, and “interruptions” are related to non-spinning reserve capacity.

The information provided in Confidential Attachments OPUC 5-1 through OPUC 5-3 is designated as confidential under the protective order in these proceedings and may only be disclosed to qualified persons as defined in that order.

UE-264/PacifiCorp  
April 11, 2013  
ICNU Data Request 1.5

### **ICNU Data Request 1.5**

With reference to the prefiled testimony of Mr. Duvall, pages 18-20, please explain why the Company believes the use of a single year (2011) is appropriate for deriving an hourly shape for wind energy. As part of this response, please explain why the Company chose 2011 and not some other year and the impact this modeling change had on the proposed net power cost of this proceeding.

### **Response to ICNU Data Request 1.5**

The use of a single year wind shape is a way of creating a pattern of wind generation that reflects the actual operation of PacifiCorp's wind resources while maintaining the correlations between the various projects in the Company's fleet. The 2011 wind shape is based on actual results, so the wind patterns have the same distribution of hourly and daily wind generation volumes as actually occurred and inherently reflect the degree of correlation across the Company's fleet. If various wind patterns were selected from multiple periods or from different periods for different resources, the distribution and correlation would need to be calculated and maintained in the final result.

The 2011 hourly data is only used for creating the hourly shape of wind generation. The annual generation and monthly average capacity factor for each four-hour block at each project is equal to the "P50" forecast and is unchanged from the Company's prior transition adjustment mechanism (TAM) filings. A "P50" forecast is one where there is an equal probability of the generation being above or below forecast. For projects where 2011 hourly data was unavailable, no changes were made to the P50 forecast of wind generation or shape.

The Company chose to use 2011 actual wind generation to shape the test period wind generation for several reasons. First, 2011 was the first year that all of the Company's owned wind resources were online for a full calendar year. If a prior year had been used, several plants could not have been incorporated in the analysis. Second, actual wind data from 2011 is also used in the 2012 Wind Integration Study, which was used to determine the load and wind reserve requirements in this case. Finally, 2011 represents the most recent data available at the time of the filing.

The Company has not prepared a study quantifying the impact of this modeling change on this case; however, the data necessary to do so was included in the Company's five-day Confidential workpaper entitled "5-A1 - ORTAM14\_EOR (Conf).xlsx." Excluding the tab "A GRID 2011shapeP50 OR" from the GRID inputs will revert the modeling to the values used in the Company's 2013 TAM.

## UE 264 – CERTIFICATE OF SERVICE

I hereby certify that, on this 4<sup>th</sup> day of June, 2013, I served the foregoing **OPENING TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** 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)

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