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April 22, 2016

Via Electronic Filing and Federal Express

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem OR 97301

Re: PACIFICORP, dba PACIFIC POWER
Petition for Approval of the 2017 Inter-Jurisdictional
Allocation Protocol
Docket No. UM 1050

Dear Filing Center:

Enclosed for filing in the above-referenced docket, please find the redacted version of the Cross-Answering Testimony and Exhibit of Bradley G. Mullins on behalf of the Industrial Customers of Northwest Utilities ("ICNU").

The confidential portions of ICNU's Cross-Answering Testimony and Exhibit are being handled pursuant to the general protective order issued in this proceeding and will follow to the Commission via Federal Express.

Thank you for your assistance. If you have any questions, please do not hesitate to call.

Sincerely,



Jesse O. Gorsuch

Enclosures

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the confidential portions of the Cross-Answering Testimony and Exhibit of Bradley G. Mullins upon the parties shown below by mailing a copy via First Class U.S. Mail, postage prepaid.

DATED this 22nd day April, 2016

Davison Van Cleve, P.C.



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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1050

In the Matter of)
)
PACIFICORP, dba PACIFIC POWER)
)
Petition for Approval of the 2017 PacifiCorp)
Inter-Jurisdictional Allocation Protocol.)
_____)

**CONFIDENTIAL CROSS-ANSWERING TESTIMONY OF BRADLEY G. MULLINS
ON BEHALF OF THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

(REDACTED VERSION)

April 22, 2016

1 **Q. ARE YOU THE SAME BRADLEY G. MULLINS THAT FILED RESPONSE**
2 **TESTIMONY IN THIS PROCEEDING?**

3 A. Yes. I previously filed Response Testimony on behalf of the Industrial Customers of
4 Northwest Utilities (“ICNU”), which includes large customers served by Pacific Power
5 (the “Company”).

6 **Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?**

7 A. I briefly respond to the Response Testimony of Messrs. Lance Kaufman and Bob Jenks
8 filed on behalf of Staff and the Citizens’ Utility Board of Oregon (“CUB”), respectively.

9 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

10 A. I disagree with Staff and CUB that the 2017 Protocol represents a reasonable compromise
11 for Oregon ratepayers. As discussed in my Response Testimony, acceptance of the 2017
12 Protocol will place Oregon ratepayers in a worse position relative to the status quo—the
13 2010 Protocol. Taking it a step further, I also disagree with Staff’s argument that
14 ratepayers would be worse off under the Revised Protocol. Finally, I reiterate that neither
15 the stay-out provision, nor the Oregon-specific term requiring the Company to continue
16 to evaluate sub-regional cost allocation, provides meaningful benefits to Oregon
17 ratepayers that would justify the Equalization Adjustment or the proposed limitations on
18 the Hydro Endowment.

19 **Q. DO YOU AGREE WITH STAFF’S CONCLUSION THAT RATEPAYERS**
20 **WOULD BE WORSE OFF UNDER THE REVISED PROTOCOL?**

21 A. No. The primary argument of Staff in support of the 2017 Protocol is that it believes
22 ratepayers would be better off compared to the Revised Protocol.^{1/} I disagree. First, in

^{1/} Staff/100, Kaufman/7:6-8.

1 my opinion, the Revised Protocol is not the best comparator to determine whether
 2 ratepayers would be better or worse off. Rather, Staff’s comparison may have been more
 3 informative if it was made relative to the status quo, the 2010 Protocol.^{2/} Second, Staff’s
 4 argument is based on an assumption that the rate case stay-out period is worth \$7.3
 5 million.^{3/} As discussed in Response Testimony, ICNU assigned little value to the rate
 6 case stay-out provision when evaluating the terms of the 2017 Protocol. Third, the
 7 Company forecast in the foundational studies, upon which the 2017 Protocol is based,
 8 that the Revised Protocol would produce an Embedded Cost Differential (“ECD”) of
 9 \$████ million and \$████ million in 2018 and 2019, respectively.^{4/} Thus, even relative to
 10 the Revised Protocol, the proposal to cap the Hydro Endowment at \$10.5 million and
 11 \$11.0 million in 2018 and 2019, respectively, could put ratepayers in a worse position.^{5/}

12 As detailed in Confidential Table 1, below, ICNU believes that the 2017 Protocol
 13 is worse for ratepayers than both the Revised Protocol and the 2010 Protocol.

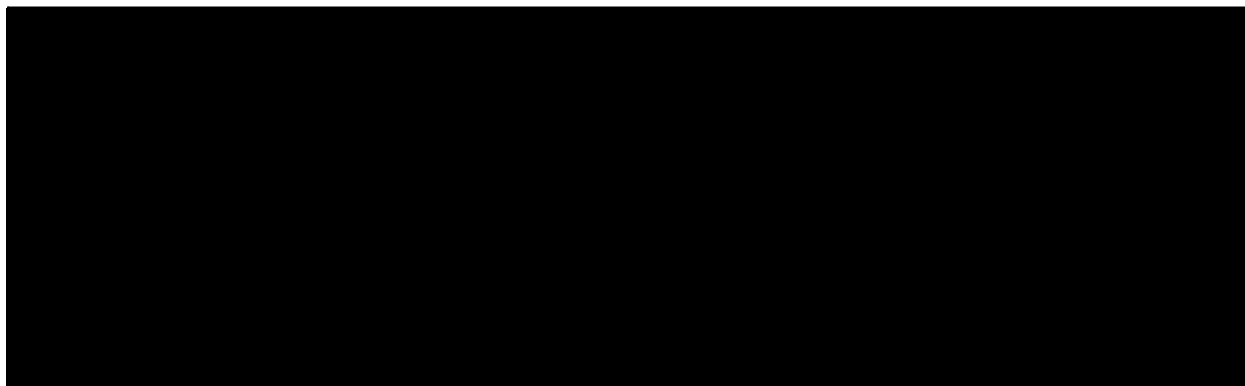
^{2/} Confidential ICNU/201 at 1 (Staff Response to ICNU Data Request (“DR”) 7.5). See also id. at 5-7 (CUB Responses to ICNU DRs 3.1 & 3.4) (conducting analysis only between Revised and 2017 Protocols).

^{3/} Staff/100, Kaufman/8:16-9:5.

⁴ See Confidential ICNU/201 at 3-4 (Company’s Confidential Response to Staff DR 50, Attach. OPUC 50 CONF, tab “Attachment E-5”). Amounts are in the credit direction on an Oregon-allocated basis.

^{5/} Cf. id. at 7-8 (CUB Response to ICNU DR 3.7 (stating that CUB does not address in testimony whether evidence supports approval of cap and floor limitations on the Hydro Endowment)).

CONFIDENTIAL TABLE 1
Net Impact of 2017 Protocol, ICNU Calculation (\$m)



1 **Q. PLEASE DESCRIBE CONFIDENTIAL TABLE 1.**

2 A. Confidential Table 1 shows ICNU's calculation of the net impact of the 2017 Protocol,
3 relative to both the Revised Protocol and the 2010 Protocol. It takes Table 2 from Mr.
4 Kaufman's Response Testimony and updates it for the assumptions used by ICNU when
5 negotiating the 2017 Protocol. Specifically, it assumes no value for the rate case stay-out
6 and it assumes the ECD values are based on calculations provided in the foundational
7 studies. As can be noted, from ICNU's perspective, Oregon ratepayers will be worse off
8 under the 2017 Protocol relative to both the Revised Protocol and the 2010 Protocol.

9 **Q. WHY DO YOU DISAGREE THAT THE STAY-OUT PROVISION IS WORTH**
10 **\$7.3 MILLION?**

11 A. As discussed in Response Testimony, ICNU did not assign great value to the stay-out
12 provision. Information asymmetry makes it difficult for a non-Company party to
13 estimate the value of a stay-out provision, whereas public utilities typically have detailed
14 long-term plans to determine when it might be beneficial to file a holistic, general rate
15 case. In addition, from my perspective, ratepayers seem to be confronted with an

1 increasing number of single-issue ratemaking requests, which dilute the value of a stay-
2 out provision. In fact, it could be true that the stay-out provision ends up being harmful
3 to ratepayers, as base rates—after accounting for all of the Company’s regulatory
4 mechanisms—may need to be reduced.

5 **Q. HOW DID STAFF DEVELOP THE \$7.3 MILLION VALUE OF THE STAY-OUT**
6 **PROVISION?**

7 A. Staff looked at the smallest general rate increase in the past ten years.^{6/}

8 **Q. DO YOU AGREE WITH THIS APPROACH?**

9 A. No. Simply looking at the smallest general rate increase in the past ten years is not the
10 most rigorous methodology to assign value to a general rate case stay-out provision. In
11 my opinion, a better way to evaluate a stay-out provision would be to review a long-term
12 financial plan.

13 **Q. HOW VALUABLE IS THE COMPANY’S COMMITMENT TO STUDY**
14 **DIVISIONAL ALLOCATION METHODOLOGIES?**

15 A. Both Staff^{7/} and CUB^{8/} cite this Oregon-specific term as a reason to accept other terms
16 that are not beneficial to Oregon ratepayers.^{9/} ICNU, on the other hand, does not believe
17 that the Company’s commitment to study alternative divisional allocation methodologies
18 is something that justifies any monetary concessions. This is something that the
19 Company should be doing irrespective of the additional revenues it stands to make
20 pursuant to the \$2.6 million Equalization Adjustment, or pursuant to the proposed caps

^{6/} Staff/100, Kaufman/8:18-9:3.

^{7/} Id. at 10:7-19.

^{8/} CUB/200, Jenks/8:8-25.

^{9/} But cf. ICNU/201 at 9 (CUB Response to ICNU DR 3.11) (“A study of ‘a Divisional Split’ may not resolve the issues between the PacifiCorp states”).

1 on the ECD. Frankly, it is not proper for the Company to be provided with additional
2 revenues, merely as a condition of performing an analytical study.

3 **Q. IS THE INTERIM NATURE OF THE 2017 PROTOCOL A REASON TO MAKE**
4 **MATERIAL CONCESSIONS?**

5 A. No. Both Staff^{10/} and CUB^{11/} suggest that the short-term or interim nature of the 2017
6 Protocol is a reason to make concessions. I disagree. Ratepayers should not be forced to
7 accept an unreasonable result, simply because the 2017 Protocol is an interim agreement.
8 As discussed in my Response Testimony, from ICNU’s perspective, the interim nature of
9 the 2017 Protocol is actually a greater reason to reject significant changes to the status
10 quo, such as the proposed caps on the Hydro Endowment. The Hydro Endowment is a
11 controversial and complicated issue. One of the reasons to adopt an interim protocol was
12 to “punt” or delay the resolution of these sorts of issues for a few more years, until the
13 policy environment could be better understood. Thus, I do not agree that it would be
14 necessarily sensible for the Commission to make material concessions on the Hydro
15 Endowment in such an interim agreement.

16 **Q. DO YOU AGREE WITH CUB THAT THE 2017 PROTOCOL MAKES THE**
17 **HYDRO ENDOWMENT PERMANENT?**

18 A. No. While ICNU shares CUB’s objective to ensure that the Company’s Oregon
19 ratepayers continue to get the benefits of Northwest hydro systems, there was no
20 agreement amongst the states to make the Hydro Endowment permanent.^{12/} The Oregon-

^{10/} Staff/100, Kaufman/14:16-19.

^{11/} CUB/200, Jenks/9:8-22.

^{12/} Cf. ICNU/201 at 7 (CUB Response to ICNU DR 3.5) (“Utah no longer includes the hydro endowment for cost allocation purposes”).

1 specific terms, requiring the reversion to the Revised Protocol, will not stop parties in
2 other states from continuing to push the Company towards fully rolled-in cost allocation
3 in future cost allocation agreements, just as they did in the negotiation of the 2017
4 Protocol.

5 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWER TESTIMONY?**

6 A. Yes.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1050

In the Matter of)
)
PACIFICORP, dba PACIFIC POWER)
)
Petition for Approval of the 2017 PacifiCorp)
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_____)

**CONFIDENTIAL EXHIBIT ICNU/201
RESPONSES TO DATA REQUESTS**

(REDACTED VERSION)

APRIL 22, 2016

ICNU Data Request 7.5:

- 7.5 Refer to 7:3:12. Would it be accurate to characterize Staff's support of the 2017 Protocol as based upon a dichotomous analysis—i.e., analyzing future Oregon rates under either the Revised Protocol or the 2017 Protocol, without analysis of an approval subject to any modifications or conditions? If no, please explain what other scenarios Staff specifically analyzed outside the aforementioned dichotomy (e.g., conditional approval of the 2017 Protocol, subject to specified modification). If Staff did base its support on a dichotomous analysis, why did Staff elect not to consider any third, or additional scenarios?

Staff Response to ICNU Data Request 7.5:

- 7.5 Yes. The analysis framed the relevant issue at hand. There could be other alternatives and staff is not going to speculate as such. However, what we have before us is a settlement that is supported by Staff. Staff's support is based on analysis that demonstrates when considering the 2017 Protocol as a whole it is beneficial to Oregon customers.

UM-1050 / PacifiCorp
April 21, 2016
OPUC Data Request 51

OPUC Data Request 51

Please refer to the file “2014 MSP Foundational Update Study_CONF.xlsx” provided to parties as a work paper for the October 16, 2014 workshop. Please provide the referenced file with cell formulae intact. Please provide the source for each hard coded number in the sheet “Attachment E-5”.

Response to OPUC Data Request 51

Please refer to Confidential Attachment OPUC 51 for the referenced file with cell formulae intact. To show the source of the hard coded numbers in sheet “Attachment E-5,” that file was added to the RBFM provided as Confidential Attachment OPUC 50. Please see the Company’s response to OPUC 50 for additional information.

The confidential attachment is designated as confidential under the protective order in these proceedings and may only be disclosed to qualified persons as defined in that order.

UM-1050 / PacifiCorp
April 21, 2016
OPUC Data Request 50

OPUC Data Request 50

Please refer to “Attach ICNU 18.9-2 1st Supp CONF.xlsx”. Please provide all external spreadsheets referenced by the electronic format of the referenced data. Please explain how the ECD values provided in this file relate to the ECD data in “Attach ICNU 18.9-1 1st Supp CONF.pdf”.

Confidential Response to OPUC Data Request 50

Please see Confidential Attachments OPUC 50, which contains the revenue requirement model (referred to as the RBFM) that was used as part of the MSP Broad Review Workgroup (BRWG) Foundational studies. This model was provided to the participants on the July 31, 2014 meeting materials disc.

Attach ICNU 18.9-2 1st Supp Conf.xlsx is an excerpt from the RBFM and can be found as Excel tabs:

- ECD Inputs
- ECD Calc
- 2010 Protocol ECD \$MWH

The amounts shown for each state in Attach ICNU 18.9-1 1st Supp CONF.pdf represent the allocated amounts calculated in Attach ICNU 18.9-2 1st Supp Conf.xlsx. The allocated amounts showing in Attach ICNU 18.9-1 1st Supp CONF.pdf can also be seen in the RBFM model. For example, the amount showing in CY 2017 for Oregon in Attach ICNU 18.9-1 1st Supp CONF.pdf of (██████████) can be found in the RBFM on Tab ‘2017’, Cell H208.

In response to OPUC 49, the Excel form of Attach ICNU 18.9-1 1st Supp CONF.pdf has been added to the RBFM and linked to show the origins of the numbers. Please note that in order for the numbers on this schedule to calculate correctly, Cell C2 on the “variables” tab must be changed to a "2" for 2010 Protocol.

In response to OPUC 51, the Excel form of Attachment E-5 from the file “2014 MSP Foundational Update Study_CONF.xlsx” provided to parties as a work paper for the October 16, 2014 workshop has also been added to the RBFM and linked to show the origins of the numbers. Please note that in order for the numbers on this schedule to calculate correctly, Cell C2 on the “variables” tab must be changed to a "1" for Revised Protocol.

The confidential attachment is designated as confidential under the protective order in these proceedings and may only be disclosed to qualified persons as defined in that order.

Page 4 of Exhibit ICNU/201 is confidential pursuant to Order No. 15-416 and has been redacted in its entirety.



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April 12, 2016

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Re: UM 1050 – CUB’s Response to ICNU Data Request 3

ICNU Data Request 3.1:

Please refer to CUB’s response to ICNU Data Request 2.2 to CUB, in which CUB explains that its “support of the hydro endowment is based on the principle of cost causality,” and that this “principle of cost causality says that Pacific Northwest customers should get the benefits from the hydro facilities in proportion to the costs that they paid for those facilities.” Please confirm that a dynamic hydro endowment constrained by a cap: a) counteracts “the principle of cost causality,” as defined by CUB; and 2) if applied, would limit the ability of Oregon customers to “get the benefits from the hydro facilities in proportion to the costs that they paid for those facilities.”

CUB Response to ICNU Data Request 3.1:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. CUB did not write and cannot confirm the above statement. There are different ways to model the hydro endowment. Over the years, CUB has not taken the position that there is only one cost allocation approach that is consistent with the principle of cost causality.

CUB supported the hydro endowment that was in the Revised Protocol and the hydro endowment that was in 2010 Protocol, even though those hydro endowments use different methodologies to calculate the value of the hydro endowment.

Currently, without the 2017 Protocol, PacifiCorp is required to file its ratecases under the Revised Protocol methodology. This contains a hydro endowment, which CUB has previously supported as consistent with the principle of cost causality. The mechanics of the hydro

endowment in the Revised Protocol will change if the 2017 Protocol is adopted, but it is expected that Oregon customers will receive greater value for the hydro endowment. Because the floor and the cap do not prevent Oregon customers from receiving a greater share of hydro benefits than would be received under the Revised Protocol, CUB cannot say that it shortchanges Oregon customers.

ICNU Data Request 3.2:

Refer to 2:16-19. Please confirm that CUB continues to believe Oregon customers “were promised that the benefits of the cheap hydropower would stay with the Northwest and not be shared.” If CUB cannot confirm, please explain why CUB no longer agrees with this statement. If CUB does confirm, please explain how the application of caps to the Oregon hydro endowment will be support the referenced promise.

CUB Response to ICNU Data Request 3.2:

Yes. CUB agrees with our testimony as cited above. To understand why the floor and cap are consistent with our testimony, see 3.1 above.

ICNU Data Request 3.3:

Refer to 3:19-4:4. Does CUB agree that the “Oregon Parties” to the 2004 MSP Stipulation quoted were the same parties to the 2017 Protocol—i.e., the Company, Staff, and CUB, with ICNU not a signatory to either?

CUB Response to ICNU Data Request 3.3:

Yes. The parties are the same. ICNU did not support the 2004 MSP Stipulation.

ICNU Data Request 3.4:

Refer to 3:35-4:1 and 7:14-25. Please confirm that, under the 2004 MSP Stipulation, CUB was willing to accept responsibility for higher near-term costs in the expectation of long-term benefits to Oregon customers. If CUB cannot confirm, please explain what responsibility CUB did accept under the referenced Stipulation terms. If CUB does confirm, please explain why it is reasonable to “give[] the Company some level of certainty” through ECD caps while Oregon customers accept the responsibility of high near-term costs.

CUB Response to ICNU Data Request 3.4:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. As we explained in our testimony, CUB believed that 2004 MSP Stipulation (Revised Protocol) contained higher short-term costs for Oregon customers in exchange for long-term hydro benefits.

As discussed in 3.1 above, even with the floor and the cap, the 2017 Protocol is expected to contain greater hydro benefits than the Revised Protocol for Oregon customers. Therefore, CUB

believes that the 2017 Protocol is consistent with the short-term/long-term trade-off made in the 2004 Revised Protocol negotiations.

ICNU Data Request 3.5:

Refer to 4:9-16, a block quote from the Commission order approving the Revised Protocol, in which it is stated that “[t]he Oregon parties’ expectations ... that the Hydro Endowment be long term, [and] that it be recognized by Utah ... are met.” Does CUB agree that the Oregon Parties’ expectations in the 2004 Stipulation concerning the hydro endowment have not actually been met by Utah? If no, please explain in light of the CUB testimony quoted at CUB/200, Jenks/2:10-19, as well as CUB/200, Jenks/9:12-14.

CUB Response to ICNU Data Request 3.5:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. While Utah acknowledged the hydro endowment in 2004, Utah no longer includes the hydro endowment for cost allocation purposes.

ICNU Data Request 3.6:

Refer to 4:18-20 (and 6:27-31). Would CUB agree that the application of ECD caps under the 2017 Protocol would be similar to “fixing the hydro benefit” under the 2010 Protocol, for which cause CUB originally opposed the 2010 Protocol because “it underestimated the value of NW hydro”? If no, please explain why these circumstances are dissimilar in substance.

CUB Response to ICNU Data Request 3.6:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. No, CUB would not agree. There is a difference between establishing floors and caps around a multiyear forecast of hydro benefits, and choosing a single fixed number that does not change as the forecast changes.

ICNU Data Request 3.7:

Refer to 5:22-25. Would CUB agree that, in lieu of the Company reverting to the Revised Protocol, “an alternate allocation methodology for Oregon” which the Commission may adopt would be approval of the 2017 Protocol subject to the condition that the ECD caps and floor are removed?

CUB Response to ICNU Data Request 3.7:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. Whether the evidence in this case supports the approval of the 2017 Protocol with the caps and floor removed is a legal question not addressed by CUB’s testimonial witness.

The stipulation adopting the 2010 Protocol states that PacifiCorp will revert to the Revised Protocol for any rate cases filed after December 21, 2016 “absent formal action by the Commission to adopt an alternate allocation methodology for Oregon.” CUB is a party to that

stipulation, which was adopted by the Commission in 2011. The stipulation clearly states that the Commission may take formal action to adopt an alternative methodology.

ICNU Data Request 3.8:

Refer to 6:1-4. Please confirm that application of ECD caps under the 2017 Protocol would weaken the hydro endowment. If CUB cannot confirm, does CUB believe that the operation of an ECD cap would strengthen the hydro endowment or be neutral in impact to Oregon customers?

CUB Response to ICNU Data Request 3.8:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. The 2017 Protocol contains both a floor and a cap. If the floor is triggered it would increase the value of the hydro endowment. If the cap is triggered it would reduce the value of the hydro endowment. From an economic standpoint, applying caps and floors to future forecasts provide more predictability for the forecasted value, but over a narrower range. Whether this strengthens or weakens the hydro endowment is a value judgement, not an economic one.

ICNU Data Request 3.9:

Refer to 9:1-7. Please confirm that CUB believes the general rate case stay-out provision in the 2017 Protocol is relevant for Commission consideration in this proceeding because it provides “value to customers,” specifically in regard to “[n]ew capital investments ... subject to regulatory lag before they can be put into rates in 2018.” If CUB cannot confirm, please explain why it believes the stay-out provision is relevant. If CUB does confirm, please explain why anticipated rate impacts regarding capital investment in 2018 *are* relevant while “CUB does not believe that the impacts of HB 4036 are relevant to this matter” (see CUB’s response to ICNU Data Request 1.2 to CUB and ICNU Data Request 2.6 to CUB, requesting that for purposes of any requests concerning House Bill 4036, CUB also consider Senate Bill 1547).

CUB Response to ICNU Data Request 3.9:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. CUB does believe that the rate case stay out provision is relevant and provides value to customers in the form of subjecting new capital investments to regulatory lag. CUB does not think the provisions of HB 4036 are relevant because HB 4036 is not established to be related to any ratebase additions that will be used and useful before 2019.

ICNU Data Request 3.10:

Refer to 9:17-19. Please confirm that several states, including Oregon, have approved prior MSP Protocols subject to state-specific conditions. If CUB cannot confirm, please explain why CUB disagrees with the Company’s response to ICNU Data Request 19.2, in which the Company confirmed that certain state commissions conditionally approved prior MSP Protocols. If CUB

“is not in a position to interpret” the orders issued by other state commissions, per CUB’s response to ICNU Data Request 2.5 to CUB, please explain on what basis CUB would ever be able to assess whether there is a “free-for-all” with how other “states implement[] their own ‘optimal’ cost allocation.”

CUB Response to ICNU Data Request 3.10:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. While CUB has not participated in MSP proceedings in other states--and may not have the context to interpret orders from other state commissions--CUB believes that states have approved prior MSP Protocols subject to state-specific conditions.

ICNU Data Request 3.11:

Refer to 9:20-21 and 10:2-5. Please confirm that the requirement that the Company “study a Divisional Split” will not actually “resolv[e] the difficult issues that divide the PacifiCorp states.” If CUB cannot confirm, please explain how the requirement to produce a study equates to “resolving” difficult issues dividing PacifiCorp states.

CUB Response to ICNU Data Request 3.11:

CUB objects to this request to the extent that it is not relevant and otherwise not reasonably calculated to lead to the discovery of admissible evidence. A study of “a Divisional Split” may not resolve the issues between the PacifiCorp states.

Sincerely,



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