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April 22, 2016

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-1166

Attn: Filing Center

Re: UM 1050 – Rebuttal Testimony

PacifiCorp d/b/a Pacific Power hereby submits for filing the Rebuttal Testimony of R. Bryce Dalley and Steven R. McDougal in the above-referenced proceeding. Confidential material has been provided to parties under the protective order in this docket (Order No. 15-416).

PacifiCorp respectfully requests that all data requests regarding this matter be addressed to:

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Please direct informal correspondence and questions regarding this filing to Erin Apperson, Manager, Regulatory Affairs, at (503) 813-6642.

Sincerely,

R. Bryce Dalley
Vice President, Regulation

Enclosures

CERTIFICATE OF SERVICE

I certify that I served a true and correct copy of PacifiCorp's Rebuttal Testimony on the parties listed below via electronic mail and/or or overnight delivery in compliance with OAR 860-001-0180.

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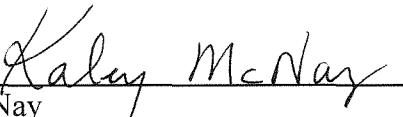
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Docket No. UM 1050
Exhibit PAC/300
Witness: R. Bryce Dalley

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

PACIFICORP

Rebuttal Testimony of R. Bryce Dalley

April 2016

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1 **Q. Are you the same R. Bryce Dalley who submitted direct testimony in this case on**
2 **behalf of PacifiCorp d/b/a Pacific Power (PacifiCorp or Company)?**

3 A. Yes.

4 **PURPOSE AND SUMMARY OF TESTIMONY**

5 **Q. What is the purpose of your rebuttal testimony in this case?**

6 A. My rebuttal testimony responds to the recommendations in the testimony filed by the
7 Industrial Customers of Northwest Utilities (ICNU) and Noble Americas Energy
8 Solutions (NAES).

9 **Q. What are the parties positions regarding approval of the 2017 PacifiCorp Inter-**
10 **Jurisdictional Allocation Protocol (2017 Protocol)?**

11 A. The Company maintains that the 2017 Protocol is in the public interest and produces
12 rates that are just and reasonable for Oregon's customers and requests that the Public
13 Utility Commission of Oregon (Commission) approve the 2017 Protocol as filed.
14 This position is also supported by Mr. Lance Kaufman from Staff and Mr. Bob Jenks
15 from the Citizens' Utility Board of Oregon (CUB) who each filed testimony that the
16 2017 Protocol provides benefits to Oregon customers, and recommended that it be
17 approved as filed. Approval of the 2017 Protocol is also supported by Mr. Bradley G.
18 Mullins, on behalf of ICNU, subject to certain recommended modifications and
19 clarifications. NAES witness Mr. Kevin C. Higgins does not make a
20 recommendation either supporting or opposing the 2017 Protocol.

21 **Q. What does ICNU recommend regarding the 2017 Protocol?**

22 A. ICNU recommends that the Commission approve the 2017 Protocol subject to three
23 modifications and clarifications. ICNU requests that the Commission modify the

1 negotiated, multi-party settlement to: (1) eliminate Oregon’s dynamic Embedded Cost
2 Differential (ECD) cap and floor parameter amounts; and (2) reduce the Equalization
3 Adjustment amount for Oregon. ICNU also requests that the Commission
4 acknowledge that the 2017 Protocol provides the Commission with full discretion
5 over the allocation treatment of loads lost to direct access programs in Oregon as well
6 as other states.

7 **Q. What is your response to ICNU’s requests to modify the 2017 Protocol?**

8 A. The 2017 Protocol was negotiated as an integrated, interdependent agreement. All
9 sections were reviewed and discussed by all the parties, resulting in a negotiated
10 agreement based on the entirety of the language. ICNU participated in negotiations.
11 Any material alteration of any terms or conditions contained in the 2017 Protocol
12 would require additional discussions among the parties and may affect other parties’
13 continued support for the agreement. Accordingly, ICNU’s two requests to modify
14 the negotiated agreement should be rejected.

15 Furthermore, ICNU’s specific modification requests are not appropriate.
16 ICNU’s use of outdated data from 2013 as the basis of its arguments undermines its
17 proposals. Using more current information shows that the 2017 Protocol is beneficial
18 to Oregon customers compared to Revised Protocol by approximately \$5.3 million
19 over the course of 2017 and 2018, increasing to \$8.6 million if extended through
20 2019.¹

21 Additionally, ICNU’s unsupported argument that the Equalization Adjustment
22 deferral was “held to be reasonable by Oregon signatories to the 2017 Protocol only

¹ Staff/100, Kaufman/8:1-2.

1 without knowledge” of the impact of Senate Bill (SB) 1547² ignores the context and
2 timing of the negotiations. Specifically, ICNU fails to acknowledge that at the time
3 of the negotiations, as part of UM 1662, PacifiCorp and Portland General Electric
4 Company (PGE) had requested that the Commission approve a new mechanism to
5 account for certain costs and benefits of renewable generation separately from the
6 existing power cost adjustment mechanism. The mechanism proposed by PacifiCorp
7 and PGE also included a proposal to track variances in production tax credit (PTC)
8 amounts. The Commission did not issue its order in that proceeding until December
9 18, 2015.³ ICNU’s claim that parties were not aware of the potential impact of a
10 mechanism to address variances in PTCs during negotiations is contradicted by
11 ICNU’s own testimony in UM 1662.⁴

12 **Q. What is your response to ICNU’s request that the Commission acknowledge that**
13 **the 2017 Protocol provides the Commission discretion over the allocation**
14 **treatment of loads lost to direct access programs in Oregon as well as other**
15 **states?**

16 A. ICNU’s general request that the Commission acknowledge that the 2017 Protocol
17 provides the Commission discretion to address loads lost to Direct Access is not an
18 issue.⁵ None of the parties to this proceeding contest ICNU’s interpretation. As
19 discussed in my direct testimony, Section X of the 2017 Protocol includes a provision
20 to clarify that if Oregon adopts new laws or regulations regarding direct access, the

² ICNU/100, Mullins/19:16-20:6.

³ *In the Matter of Portland General Elec. Co. and PacifiCorp dba Pacific Power, Request for Generic Power Cost Adjustment Mechanism Investigation*, Docket No. UM 1662, Order No. 15-408 (December 18, 2015)(denying the utilities’ request to track PTCs associated with renewable production).

⁴ *See In the Matter of Portland General Elec. Co. and PacifiCorp dba Pacific Power, Request for Generic Power Cost Adjustment Mechanism Investigation*, Docket No. UM 1662, ICNU/100, Mullins/17:1-18:2 (May 11, 2015) and ICNU/200, Mullins/4:14-5:3 (June 22, 2015).

⁵ ICNU/100, Mullins/23:9-17.

1 treatment of loads lost to those programs may be re-determined.⁶ Additionally, if any
2 state adopts laws or regulations governing customer access to alternative electricity
3 suppliers, PacifiCorp has committed to notify all of the state commissions. Nothing
4 in the 2017 Protocol is intended to abrogate the Commission's right and/or obligation
5 to determine fair, just, and reasonable rates.⁷

6 While all parties agree with ICNU's general interpretation of Section X of the
7 2017 Protocol, ICNU's specific request that the Commission make an anticipatory
8 finding to apply allocation conditions to other states' loads lost to direct access⁸
9 should be rejected. ICNU's request is premature and circumvents language in
10 Section X and the agreed upon interpretation and governance process in Section XIII
11 of the 2017 Protocol.

12 **Q. What does NAES recommend regarding the 2017 Protocol?**

13 A. NAES recommends that the Commission expand the scope of the proceeding and also
14 find that load served by PacifiCorp-owned voluntary renewable energy tariff (VRET)
15 resources would not constitute a reduction in load for purposes of the 2017 Protocol.
16 NAES also recommends that if the Commission issues future orders that modify the
17 findings in UE 267, the treatment in Section X.A of the 2017 Protocol will be made
18 consistent with the terms in those future orders.

⁶ PAC/100, Dalley/21:11-14.

⁷ PAC/101, Dalley/3:11-20.

⁸ ICNU/100, Mullins/24:12-20.

1 **Q. What is your response to NAES's recommendations that the Commission**
2 **expand the scope of the proceeding to find that load served by PacifiCorp-owned**
3 **VRET resources would not constitute a reduction in load for purposes of the**
4 **2017 Protocol?**

5 A. It would be premature for the Commission to make a finding regarding VRET in this
6 proceeding. In UM 1690, the Commission deferred for future consideration the issue
7 of whether it is in the public interest for utilities to offer VRET.⁹ Any determination
8 regarding VRET or the treatment of VRET loads should be addressed with the
9 context of the proceeding specifically addressing that issue.

10 **Q. What is your response to NAES's recommendations the treatment of loads lost**
11 **to Direct Access under the 2017 Protocol?**

12 A. NAES's request is similar to ICNU's on this issue. Section X of the 2017 Protocol
13 specifically states that to the extent Oregon adopts new laws or regulations regarding
14 direct access, the treatment of loads lost to direct access may be re-determined in a
15 manner consistent with the new laws and regulations.¹⁰

16 **2017 PROTOCOL BACKGROUND**

17 **Q. Do you agree with ICNU's description of the 2017 Protocol?**

18 A. No. ICNU describes the 2017 Protocol as a revision to PacifiCorp's current inter-
19 jurisdictional allocation methodology (2010 Protocol).¹¹ Although the foundation of
20 the 2017 Protocol began with the 2010 Protocol, ICNU's description is incorrect.
21 The 2010 Protocol terminates on December 31, 2016. Per the terms of the 2010

⁹ *In the Matter of Public Utility Commission of Oregon, Voluntary Renewable Energy Tariffs for Non-Residential Customers*, Docket No. UM 1690, Order No. 15-405 (December 15, 2015).

¹⁰ PAC/101, Dalley/10:12-16.

¹¹ ICNU/100, Mullins/1:15-19.

1 Protocol, if no new inter-jurisdictional allocation methodology is approved by the
2 Commission, the Revised Protocol will govern the Company's inter-jurisdictional
3 allocation for Oregon.¹² The 2017 Protocol was negotiated as a new agreement to be
4 used, on an interim basis, while the parties evaluate the impact of recent changes in
5 national environmental policy and regulation.¹³ Absent Commission approval of a
6 new allocation methodology, the Company will revert to the Revised Protocol upon
7 the expiration of the 2010 Protocol. As a result, ICNU's comparisons between the
8 2017 Protocol and 2010 Protocol are not relevant and should be disregarded.

9 **Q. ICNU claims that the Company's Oregon customers have not been held**
10 **harmless as a result of the 1988 merger between Pacific Power & Light and Utah**
11 **Power & Light. Do you agree?**

12 A. No. Each of the Company's rate adjustments (increases or decreases) has been found
13 to be just and reasonable by the Commission, and it is not appropriate for ICNU to
14 attempt to relitigate those findings in this proceeding. In an attempt to support its
15 recommendations, ICNU's testimony oversimplifies the economic and industry
16 factors affecting the Company's rates over the past 28 years.¹⁴ It also fails to account
17 for any rate spread/rate design issues that may have impacted industrial customer
18 rates, or simply the increase of costs generally in the U.S. economy. More
19 specifically, ICNU ignores the impact associated with Oregon legislation, intervenor
20 funding, and Bonneville Power Administration residential credit, all of which have

¹² Staff/100, Kaufman/3:11-14.

¹³ *Id.* at 3:14-17.

¹⁴ ICNU/104, Mullins/30-31/

1 directly impacted the Company's Oregon customers.¹⁵ Furthermore, ICNU fails to
2 acknowledge its own participation in various stipulations settling proceedings
3 referenced in Exhibit ICNU/104.¹⁶

4 Despite the superficial nature of ICNU's analysis, ICNU then claims that the
5 increase in Oregon rates is evidence of cost shifting. This conclusion is not supported
6 in ICNU's testimony. ICNU has presented no evidence that any of the rate
7 adjustments approved by the Commission would have been lower but for the merger.

8 **Q. Has Oregon "lost ground through the many years of compromise and**
9 **negotiation in the [Multi-State Process (MSP)] process" as claimed by ICNU?**

10 A. No. PacifiCorp and the Oregon stakeholders negotiated provisions to address issues
11 specific to Oregon. The detail included in the 2017 Protocol indicates that the
12 Company sought to accommodate the specific interests of Oregon parties in the 2017
13 Protocol. The state-specific sections of the 2017 Protocol for PacifiCorp's other
14 jurisdictions do not include the retention of a dynamic ECD, or financial
15 consequences if the Company does not present the results of an analysis of alternative
16 inter-jurisdictional allocation methods.

¹⁵ See e.g. UE 219 and Advice 13-010 (Klamath Dam Removal Surcharge); Advice 06-015, 07-013, and 11-014 (Bonneville Power Administration Residential Exchange Program); and Advice 07-010, 08-008, 09-004, and 15-016 (Intervenor Funding).

¹⁶ See e.g. ICNU's participation: *In the Matter of the Request of PacifiCorp, dba Pacific Power & Light Co. Request for a General Rate Increase in the Company's Oregon Annual Revenues*, Docket No. UE 179, Order No. 06-530 (September 14, 2006)(full stipulation); *In the Matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 217, Order No. 10-473 (December 14, 2010)(full stipulation); *In the Matter of PacifiCorp, dba Pacific Power 's Request for a General Rate Revision*, Docket No. UE 246, Order No. 12-493 (December 20, 2012)(partial stipulation); and *In the Matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 263, Order No. 13-474 (December 18, 2013)(full stipulation).

1 **Q. In the 1988 merger, did the Company assume the risk of under collection due to**
2 **the differences in allocation methodologies between the states?**

3 A. Yes, 28 years ago. PacifiCorp has been bearing that risk since that time. However,
4 acceptance of that risk does not mean the Company cannot propose allocation
5 methodologies to fairly allocate costs or revenues to its jurisdictions in a manner that
6 allows for recovery of its prudently incurred costs. The Company has worked
7 collaboratively with multiple parties from its jurisdictions for nearly three years to
8 develop the 2017 Protocol, which is designed to balance interests from all parties.

9 **Q. Do you agree with ICNU's claim that the intent of the interim protocol was to**
10 **maintain the status quo?**

11 A. No. The parties negotiated a new protocol. If the parties had simply meant to extend
12 the 2010 protocol, they could have revised the termination date. The 2017 Protocol is
13 an interim inter-jurisdictional allocation methodology, to provide additional time for
14 the parties to reach a more permanent solution based on changing regulatory
15 requirements and market changes.

16 **EMBEDDED COST DIFFERENTIAL**

17 **Q. Why is ICNU opposing the dynamic ECD parameters in the 2017 Protocol?**

18 A. ICNU states three reasons for opposing the dynamic ECD parameters. First, ICNU's
19 calculations using foundational studies provided in 2014, based on data from 2013,
20 indicates that that dynamic ECD has the "potential" to be much higher than the
21 proposed upper parameter over the term of the 2017 Protocol.¹⁷ Second, ICNU
22 claims that imposing an upper parameter is a material change from the 2010

¹⁷ ICNU/100, Mullins/11:18-20.

1 Protocol.¹⁸ Third, ICNU believes that Oregon customers bear a disproportionate
2 share of the costs associated with the Company's hydro facilities.¹⁹

3 **Q. ICNU states that the purpose of the dynamic ECD parameters is to move**
4 **Oregon closer to a fully rolled-in cost allocation.²⁰ Do you agree?**

5 A. No. The treatment of the Oregon dynamic ECD in the 2017 Protocol provides more
6 rate certainty to both the Company and its customers during the term of the 2017
7 Protocol. Absent the parameters agreed to by the Oregon parties, the dynamic ECD
8 could result in values below the lower limit or higher than the upper limit.
9 Establishing the parameters agreed to by the signatories to the 2017 Protocol provides
10 certainty and protection to customers and the Company that the ECD value will
11 remain within the specified range for the short-term duration of the methodology.
12 Importantly, the 2017 Protocol explicitly states that the agreement for the interim
13 methodology does not limit or compromise any party's ability to argue for a different
14 ECD or hydro endowment calculation in any future inter-jurisdictional allocation
15 methodology.

16 **Q. ICNU states that the dynamic ECD might exceed the upper parameter**
17 **proposed.²¹ Please respond.**

18 A. Exhibit ICNU/102 is based on data provided by the Company to negotiating parties in
19 August 2014. The data used by ICNU was a forecast at that time, based on data from
20 2013. The Company has updated the dynamic ECD calculations as new information
21 became available over course of the 2017 Protocol negotiations. As discussed earlier

¹⁸ *Id.* at 11:20-21.

¹⁹ *Id.* at 12:1-3.

²⁰ *Id.* at 13:1-2.

²¹ *Id.* at 13:9-11.

1 in my testimony, more current projections of the Oregon dynamic ECD indicate the
2 ECD parameters are in line with projected dynamic ECD values.²² The rebuttal
3 testimony of Mr. Steven R. McDougal discusses this in more detail. ICNU's use of
4 stale data to support its argument, without any discussion of the Company's more
5 recent forecasts, is inappropriate.

6 **Q. ICNU provides several other arguments for why imposing parameters on a**
7 **dynamic ECD would not be appropriate. Can you summarize those arguments?**

8 A. Yes. ICNU argues that it is not appropriate the set dynamic ECD parameters in an
9 interim agreement. Mr. McDougal will address this issue in his rebuttal testimony.
10 ICNU also claims that Oregon customers bear a disproportionate burden related to
11 PacifiCorp's hydro facilities. ICNU bases its claim of a disproportionate burden on
12 the Klamath Dam Removal Surcharge and alleged indirect costs of hydro facilities.

13 **Q. Do you agree with ICNU's claim that Oregon customers shoulder a**
14 **disproportionate cost burden due to the Klamath Dam Removal Surcharge**
15 **because "PacifiCorp's eastern states have contributed nothing"?²³**

16 A. No. During PacifiCorp's FERC hydro relicensing proceedings, the Company and
17 stakeholders participated in settlement discussions regarding the removal of the
18 Klamath dams. Those discussions resulted in an agreement in principle, leading to
19 the Klamath Hydroelectric Settlement Agreement between PacifiCorp, the states of
20 Oregon and California, and the United States Department of the Interior. On July 14,
21 2009, the Oregon legislature passed SB 76, which, among other things, established
22 procedures to implement the removal of certain Klamath dams. Accordingly, the

²² Staff/100, Kaufman/9:6-12.

²³ ICNU/100, Mullins/17:6-7.

1 Klamath Dam Removal Surcharge was the result of specific Oregon legislation based
2 on an agreement signed by the state of Oregon.

3 **Q. Are ICNU's claims that Oregon customers bear a disproportionate amount of**
4 **indirect costs valid?**

5 A. No. ICNU cites impacts, such as toxic algae, that indirectly impact Oregon customers
6 in a disproportionate manner. This claim is unconvincing because an interested party
7 could potentially claim indirect impacts associated with any generation resource.

8 ICNU's argument could be applied to any of the Company's generation facilities
9 located in other states, be they thermal, wind, or hydro.

10 **Q. ICNU also claims that it is not appropriate to include dynamic ECD parameters**
11 **in an interim protocol because the hydro endowment is a controversial issue.²⁴**

12 **Do you agree?**

13 A. No. The parties have been discussing a new inter-jurisdictional allocation
14 methodology since 2012, and negotiating an interim inter-jurisdictional allocation
15 methodology since 2014. The ECD, as well as other components of the allocation
16 methodology, were debated and discussed at length with parties. The agreement
17 presented to the Commission in this proceeding represents a compromise of positions
18 by parties. The Company needs a new methodology as the 2010 Protocol expires at
19 the end of the year. The interim nature of the 2017 Protocol retains the default to the
20 Revised Protocol if the parties do not agree to a new inter-jurisdictional allocation
21 methodology after the termination of the 2017 Protocol.

²⁴ *Id.* at 14:15-18.

RATE CASE STAY-OUT PROVISION

1
2 **Q. Has the Company included a general rate case stay-out provision in the 2017**
3 **Protocol?**

4 A. Yes. Staff, CUB, and PacifiCorp believe there is value to the stay-out provision, and
5 accordingly, included it as a component of the settlement agreement.

6 **Q. ICNU says that it does not believe that a general rate case stay-out period will**
7 **preclude the Company from seeking large rate increase outside of a general rate**
8 **case.²⁵ How do you respond?**

9 A. I disagree with ICNU's argument. ICNU's basis for its position is that the Company
10 filed for a 2.99 percent rate increase in Washington, citing to Washington regulations
11 imposing additional filing requirements and procedures for rate filings that, among
12 other things, increase rates to any customer class by three percent or more. The
13 Company believes the 2017 Protocol clearly states what is included in the stay-out
14 provision. Specifically, the Company has agreed that the earliest rates from a general
15 rate case would be effective is January 1, 2018. The stay-out provision, as stated in
16 my direct testimony, would not alter the operation or application of existing or new
17 rate adjustment mechanisms authorized by the Commission.

EQUALIZATION ADJUSTMENT

18
19 **Q. What is ICNU's argument that the proposed Equalization Adjustment is not**
20 **appropriate?**

21 A. ICNU argues that as a result of the passage of Oregon SB 1547, the Company's
22 proposal to defer the \$2.6 million annual equalization adjustment is no longer
23 reasonable because of a material increase in the revenue the Company can collect

²⁵ *Id.* at 16:6-9.

1 outside of a general rate case.²⁶

2 **Q. On what does ICNU base its assertion of a material increase in the Company's**
3 **revenue?**

4 A. ICNU's basis is the language in the SB 1547 that allows the Company to include
5 variances in forecasted PTCs in its annual net power cost mechanisms.²⁷

6 **Q. Was SB 1547 considered during the negotiation of the 2017 Protocol?**

7 A. No. The Oregon legislature did not convene until February 2016. Negotiations on
8 the 2017 Protocol were finalized in early December 2015. I signed the 2017 Protocol
9 on behalf of the Company on December 17, 2015.

10 **Q. Had the Company previously requested approval of a mechanism to account for**
11 **variances in PTCs?**

12 A. Yes. As discussed earlier in my testimony, in Docket UM 1662, PacifiCorp, along
13 with PGE, requested approval of the mechanism to account for, among other things,
14 variances in PTCs from the level reflected in rates.

15 **Q. Were the parties aware of the Company's request in UM 1662 during the course**
16 **of negotiations leading to the 2017 Protocol?**

17 A. Yes. Staff, CUB, and ICNU were all parties to UM 1662.

18 **Q. Had the Commission issued its decision in UM 1662 prior to the finalization of**
19 **negotiations between the parties to the 2017 Protocol?**

20 A. No. The Commission did not issue its decision in UM 1662 until December 18, 2015.
21 Negotiations were completed before the issuance of the Commission's order.

²⁶ *Id.* at 19:16-18.

²⁷ ICNU/103, Mullins/1.

1 **Q. Given the pending request in Docket No. UM 1662, do you agree with ICNU's**
2 **assertion that parties could not have expected revenues associated with a**
3 **mechanism to account for changes in PTCs during the negotiation of the 2017**
4 **Protocol?**

5 A. No. ICNU was well aware of the potential for a mechanism to account for variances
6 in PTCs during 2015. ICNU's arguments are undermined entirely by its testimony
7 and participation in UM 1662.

8 **Q. What does ICNU recommend in relation to the Equalization Adjustment?**

9 A. ICNU recommends that the Equalization Adjustment be reduced by the amount of
10 incremental revenues that the Company collects under SB 1547 outside of a general
11 rate case.

12 **Q. Do you agree with ICNU's recommendation?**

13 A. No. ICNU's proposal appears to be an attempt to reverse the provision of SB 1547
14 that allows PTCs to be included in the Company's annual net power cost proceedings.
15 Additionally, the 2017 Protocol does not set rates or make any determination of
16 prudence. The 2017 Protocol addresses the allocation of the Company's system costs
17 among the states in which it serves retail customers. Accordingly, ICNU's
18 recommendation is inappropriate.

19 **Q. Does ICNU support the use of deferred accounting to recover the Equalization**
20 **Adjustment?**

21 A. No. ICNU claims that *if* the Commission does not modify the Equalization
22 Adjustment deferral, the Equalization Adjustment should be rejected as not meeting
23 the standard for deferral.

1 **Q. Has the Commission previously approved deferred accounting treatment of**
2 **amounts related to the inter-jurisdictional allocation methodology?**

3 A. Yes. In the stipulation proposing the 2010 Protocol to the Commission, the
4 Company, Staff, CUB, and ICNU agreed that PacifiCorp would file an application to
5 defer a \$2.3 million credit to Oregon customers. The Commission approved the
6 deferral in Docket No. UM 1539.²⁸ The deferral addressed the forecast difference
7 between Oregon's revenue requirement under the 2010 Protocol and the Revised
8 Protocol. Both the 2010 Protocol and Revised Protocol were negotiated agreements,
9 with parties compromising to reach agreement. This is the same as the negotiation
10 process leading to the 2017 Protocol.

11 **Q. Did the parties to the stipulation resulting in the 2010 Protocol, including ICNU,**
12 **provide specific supporting background for the negotiated amount proposed for**
13 **deferral?**

14 A. No. The testimony supporting the stipulation filed by the Company, Staff, CUB, and
15 ICNU merely stated that the amount to be deferred as the difference between the
16 Company's Oregon revenue requirement under the 2010 Protocol and the Revised
17 Protocol. This is standard for a negotiated stipulation.

18 **Q. Why did the parties to the 2017 Protocol agree to the Equalization Adjustment?**

19 A. This was part of the settlement negotiations so the Company does not know each
20 party's underlying rationale. During the MSP, each party expressed different
21 perspectives. As discussed in my direct testimony, the Equalization Adjustment
22 recognizes the Company's allocation shortfall resulting from the differences among

²⁸ *In the Matter of PacifiCorp, dba Pacific Power Application for a Deferred Accounting Order Approving Deferral of Costs Relating to Investigation of Inter-Jurisdictional Issues in UM 1050, Docket No. UM 1539, Order No. 11-283 (August 1, 2011).*

1 the states' implementation of the 2010 Protocol, respective of the treatment of the
2 ECD. Staff views the Equalization Adjustment as part of a compromise that was part
3 of the negotiation process.²⁹ CUB also agrees that the 2017 Protocol provides an
4 appropriate compromise of different perspectives for an interim allocation
5 methodology.³⁰

6 DIRECT ACCESS PROGRAMS

7 **Q. What is ICNU's general recommendation regarding Direct Access programs?**

8 A. ICNU recommends that "the Commission simply acknowledge that it has full
9 discretion regarding the allocation treatment of loads lost to direct access programs in
10 Oregon, as well as the allocation treatment of loads lost to direct access programs in
11 other states."³¹

12 **Q. Please respond to ICNU's recommendation.**

13 A. ICNU's request that the Commission acknowledge language that is already clear in
14 the 2017 Protocol, despite agreement by all the parties.³² Furthermore, the 2017
15 Protocol includes a process for addressing changes to laws, regulations or policies
16 that may affect inter-jurisdictional allocations.³³ Through this process, the parties
17 have agreed to negotiate issues that may impact the 2017 Protocol inter-jurisdictional
18 allocation methodology in good faith.

19 **Q. Do you disagree with any specific aspect of ICNU's request?**

20 A. Yes. I disagree with ICNU's specific request that the Commission go beyond the

²⁹ Staff/100, Kaufman/12:17-18.

³⁰ CUB/300, Jenks/1:3-8 and 10:3-5.

³¹ ICNU/100, Mullins/23:14-17.

³² See ICNU/104, Mullins/2 (CUB Response to ICNU Data Request 1.7); ICNU/104, Mullins/6 (Staff Response to ICNU Data Request 5.1); ICNU/104, Mullins/34 (PacifiCorp Response to ICNU Data Request 21.7).

³³ See PAC/101, Dalley/8 (Section X) and 11 (Section XIII).

1 terms of the 2017 Protocol and the Interpretation and Governance process.³⁴ ICNU
2 requests that the Commission apply a ten-year treatment of loads lost to direct access
3 to all states.

4 **Q. Why do you disagree with ICNU's request that the Commission apply a ten-year**
5 **treatment of loads lost to direct access to all states?**

6 A. Such a finding would be premature and signal an intent to avoid the Interpretation and
7 Governance process in the 2017 Protocol if other states do not adopt policies similar
8 to Oregon. The parties to the 2017 Protocol anticipated changes in state policies that
9 may affect allocations. Accordingly, the parties negotiated terms to address the
10 potential impacts of such policies through the Commissioner Forum and Broad
11 Review Work Group. If adopted by the Commission, ICNU's proposal could
12 jeopardize the appearance that parties can continue to negotiate in good faith.

13 **MODIFICATION OF THE 2017 PROTOCOL**

14 **Q. Do you agree with ICNU's position that it is appropriate for the Commission to**
15 **modify the terms of the 2017 Protocol?**

16 A. No. The 2017 Protocol was the result of substantial negotiations. All sections were
17 open for discussion, resulting in a negotiated agreement between parties from
18 Oregon, Idaho, Utah, and Wyoming. As a negotiated interim agreement, each party's
19 agreement was based on the entirety of the language. Any material alteration of any
20 terms or conditions contained in the 2017 Protocol would require additional
21 discussions and may affect other party's continued support for the agreement.

22 **Q. Do you agree with ICNU that the Commission modified the 2010 Protocol?**

23 A. Technically, yes, but ICNU's claim lacks context. In 2010, PacifiCorp proposed

³⁴ PAC/101, Dalley/11:15-14:8.

1 changes to the Revised Protocol based on the recommendation of the MSP Standing
2 Committee. After filing those amendments with the Commission, PacifiCorp, Staff,
3 CUB, and ICNU entered into settlement discussions to address Oregon specific
4 issues. The parties negotiated a stipulation that revised the 2010 Protocol proposed in
5 the Company's original filing. The Commission approved the stipulation in its
6 entirety.³⁵

7 **Q. What is the difference in how the Company negotiated the 2010 Protocol and**
8 **how it negotiated the 2017 Protocol?**

9 A. The primary difference is the timing of the negotiation of state-specific issues and
10 transparency among the parties. The state-specific issues in the 2010 Protocol were
11 the result of settlement negotiations after PacifiCorp filed a request to amend the
12 Revised Protocol. Given the termination date identified in the 2010 Protocol,
13 PacifiCorp arranged for an extensive process to negotiate a new inter-jurisdictional
14 allocation methodology. Discussions and negotiations took place over approximately
15 three years. Eventually, the parties recognized there were several issues that could
16 impact allocations where the impact would not be known before the termination date
17 of the 2010 Protocol. As a result, parties agreed to negotiate an *interim* inter-
18 jurisdictional allocation methodology while the Company and other parties further
19 explored alternatives and certain regulatory requirements come into effect.

20 PacifiCorp and parties from all states in which PacifiCorp serves retail
21 customers participated at one point or another in the process. In the end, parties from
22 four states negotiated the 2017 Protocol. Additionally, PacifiCorp met with the

³⁵ *In the Matter of PacifiCorp, dba Pacific Power, Petition for Approval of Amendments to Revised Protocol Allocation Methodology*, Docket No. UM 1050, Order No. 11-244 at 5-6.

1 parties from each state and negotiated state-specific terms.³⁶ After state-specific
2 terms were negotiated, all parties reviewed and discussed the entire draft 2017
3 Protocol, including state-specific terms.

4 **Q. Do you agree that modification of the 2017 Protocol by the Commission would**
5 **not undermine the approval process in other states?**³⁷

6 A. No. The Commission's concerns articulated in Order No. 05-021 still apply. ICNU's
7 claim that a modification to the Oregon-specific terms should not have impact ignores
8 the extensive negotiation process undertaken by all parties to the 2017 Protocol.
9 ICNU's argument is nothing more than an attempt to renegotiate specific provisions.
10 This threatens the transparency of the process and the resulting agreement between
11 the parties to the 2017 Protocol.

12 **TREATMENT OF LOAD SERVED BY VRET RESOURCES**

13 **Q. What is NAES's recommendation regarding VRET resources?**

14 A. NAES recommends that, if the Commission approves the 2017 Protocol, the
15 Commission should make an explicit finding that there will be no reduction to
16 Oregon's Load-Based Dynamic Allocation Factors associated with any VRET load
17 supplied by PacifiCorp-owned resources.

18 **Q. Do you agree with this recommendation?**

19 A. No. It would be inappropriate for the Commission to make such a finding in this
20 proceeding. Issues surrounding VRET are the subject of a specific Commission
21 proceeding. Any request to expand the scope of the 2017 Protocol to address policy
22 matters that have not been decided by the Commission should be rejected. Therefore,

³⁶ PAC/101, Dalley/14 (Section XIV Additional State-Specific Terms).

³⁷ ICNU/100, Mullins/28:6-9.

1 it would be premature for the Commission to adopt NAES's recommendation.

2 **Q. Does this conclude your rebuttal testimony?**

3 A. Yes.

Docket No. UM 1050
Exhibit PAC/400
Witness: Steven R. McDougal

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

PACIFICORP

REDACTED
Rebuttal Testimony of Steven R. McDougal

April 2016

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1 **Q. Are you the same Steven R. McDougal who submitted direct testimony on**
2 **behalf of PacifiCorp d/b/a Pacific Power (PacifiCorp or Company)?**

3 A. Yes.

4 **PURPOSE AND SUMMARY OF TESTIMONY**

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. The purpose of my testimony is to respond to issues raised by the Industrial
7 Customers of Northwest Utilities (ICNU) with respect to the 2017 PacifiCorp
8 Inter-Jurisdictional Allocation Protocol (2017 Protocol).

9 **Q. Please summarize your rebuttal testimony.**

10 A. ICNU filed testimony recommending that the Public Utility Commission of
11 Oregon (Commission) should approve the 2017 Protocol, subject to the following
12 modifications and clarifications: 1) elimination of the parameters from the Oregon
13 dynamic Embedded Cost Differential (ECD) calculation; 2) the Equalization
14 Adjustment deferral is reduced by the amount of revenues received for production
15 tax credits (PTCs); and 3) the Commission acknowledges that the 2017 Protocol
16 leaves the treatment of loads lost to direct access to the discretion of the
17 Commission.¹ Company witness Mr. R. Bryce Dalley responds to the policy
18 arguments regarding ICNU's recommended modifications and clarifications. My
19 rebuttal testimony responds to ICNU's first recommended modification,
20 specifically addressing ICNU's use of stale data when evaluating the dynamic
21 ECD. When the 2017 Protocol is compared to current forecasts, the proposed

¹ ICNU/100, Mullins/2:9-20.

1 dynamic ECD parameters provide benefits by mitigating risk to both the
2 Company and its customers.

3 **THE ECD PARAMETERS**

4 **Q. Please summarize ICNU's arguments supporting its recommendation that**
5 **the 2017 Protocol should be modified to remove the parameters to the**
6 **dynamic ECD.**

7 A. ICNU's position is that the parameters for the dynamic ECD are not just and
8 reasonable for several reasons. First, ICNU claims the dynamic ECD has
9 potential to be much higher than the proposed upper limit parameter.² Second,
10 ICNU states that the upper limit parameter on the dynamic ECD constitutes a
11 material change from the 2010 Protocol that is not suitable for an interim
12 agreement.³ Third, ICNU claims that Oregon customers pay a larger share of the
13 northwest hydro-electric systems and limiting their benefit through the dynamic
14 ECD is not fair.⁴ My rebuttal testimony will respond to portions of ICNU's first
15 two arguments. The response to ICNU's third argument is addressed in the
16 rebuttal testimony of Mr. Dalley.

17 **Q. What is the purpose of the proposed parameters to Oregon's dynamic ECD**
18 **in the 2017 Protocol?**

19 A. The Broad Review Work Group (BRWG), a working group created as part of
20 PacifiCorp's Multi-State Process (MSP), developed the 2017 Protocol through a
21 collaborative effort with all participants. Those participants were tasked with
22 finding a middle ground that reconciled many varied interests. As such, the

² Id. at 11:18-20.

³ Id. at 11:20-12:1.

⁴ Id. at 12:1-3.

1 outcome represents a negotiated settlement. For all states other than Oregon, the
2 Company will apply a fixed baseline ECD under the 2017 Protocol. In light of
3 the range of possible outcomes, the Company agreed, as part of the negotiated
4 settlement, to the continued use of a dynamic ECD in Oregon, along with
5 agreeing to the use of specific parameters to the dynamic ECD. This results in
6 Oregon being the only state with a dynamic ECD.

7 **Q. What reasoning does ICNU give as to why imposing an upper limit to the**
8 **dynamic ECD is not in the interest of Oregon customers?**

9 A. ICNU's argument that the upper limit to the dynamic ECD is not in the best
10 interest of Oregon customers is based on its comparison of the dynamic ECD
11 parameters to the dynamic ECD ranges in the foundational studies provided to the
12 BRWG as part of the MSP in August of 2014, which are not reflective of current
13 conditions.⁵ The foundational studies showed projected values for the Oregon
14 dynamic ECD that would exceed the proposed upper limit under the 2017
15 Protocol. Therefore, according to ICNU, it is likely that the actual dynamic ECD
16 values during 2017 through 2019 would exceed the upper limit in the 2017
17 Protocol.⁶ This conclusion, however, is based on old data that is not consistent
18 with the current markets or Company forecasts.

19 **Q. Is it true that the MSP foundational studies, prepared using 2013 data,**
20 **showed dynamic ECD values that are above the proposed upper limit in the**
21 **2017 Protocol?**

22 A. Yes. The foundational studies, created using 2013 data, showed dynamic ECD

⁵ Id. at 13:11-18.

⁶ Id. at 15:10-12.

1 values of \$ [REDACTED], \$ [REDACTED] and \$ [REDACTED] in 2017, 2018 and 2019,
2 respectively.⁷ ICNU cites these numbers in its testimony and uses them to
3 calculate the purported amount Oregon customers are giving up by agreeing to the
4 cap.

5 **Q. Do you agree with ICNU that the foundational studies indicate a likelihood**
6 **that the actual dynamic ECD values, assuming no parameters, would be**
7 **higher than the proposed upper limit under the 2017 Protocol?**

8 A. No. These studies are not indicative of the future Oregon dynamic ECD levels.
9 The MSP BRWG meetings to discuss the Company's inter-jurisdictional
10 allocation methodology after the termination of the current protocol commenced
11 in 2012. The foundational studies were prepared by the Company and provided to
12 the BRWG and MSP participants in August of 2014. The explicit purpose of the
13 data was to study allocations, not predict revenue requirement at a level
14 commensurate with a proceeding used to actually set rates. Based on the timing
15 of the meetings, and the intended use of the foundational studies, many
16 simplifying assumptions were used to project the data. The results of the
17 foundational studies are, quite simply, not comparable to the data the Company
18 would use in a current rate proceeding. More importantly, the foundational
19 studies used in ICNU's comparison are based on outdated, stale data and
20 assumptions.

21 **Q. Please expand on what you mean by outdated, stale data and assumptions.**

22 A. To prepare the MSP foundational studies, the Company used calendar year 2013

⁷ ICNU/104, Mullins/18.

1 actual data from the Company's accounting system, and then forecasted the data
2 out through the study horizon of 2027 using assumptions from the Company's
3 2013 projections, 2014 IRP Update, 2013 load forecasts, and many other dated
4 assumptions. Together, these outdated assumptions and data produced a result
5 that does not reflect the true cost of providing electricity in today's conditions and
6 are not evidence that Oregon's customers are giving up substantial value because
7 of the proposed cap.⁸

8 **Q. Is ICNU aware of the fact that the data and assumptions in the MSP**
9 **foundational studies are out of date?**

10 A. Yes. All of the data and assumptions used by the Company to prepare the
11 foundational studies were discussed by the BRWG in the August 14-15, 2014
12 meeting. Representatives from ICNU, including Mr. Mullins, attended that
13 meeting.

14 **Q. What are the Company's current projections for the dynamic ECD?**

15 A. As stated in my direct testimony, the Company's current Oregon dynamic ECD
16 projections are shown in Table 1 below:

TABLE 1

Current Oregon Dynamic 2010 Protocol ECD Projections			
Baseline	2017	2018	2019
\$ (8,237,950)	\$ (8,721,878)	\$ (9,969,580)	\$ (9,197,787)

17 The projection for 2016 dynamic ECD amounts is based on the test year data as
18 filed by the Company in the 2015 Wyoming general rate case (Docket 20000-469-

⁸ ICNU/100, Mullins/13:14-18.

1 ER-15) on March 3, 2015.⁹ The current forecasts for 2017 through 2019 are
2 based on the Company's 2015 projections, which is the Company's more recent
3 forecast of cost conditions for that time period. At the time the foundational
4 studies were prepared, the Company utilized the most current data available at
5 that time; however, over the course of the BRWG discussions and negotiations,
6 the data and assumptions became outdated. Accordingly, the parties to the
7 negotiations did not rely on the outdated data on which ICNU basis its argument.

8 **Q. Can you provide specific examples of how using the outdated data and**
9 **assumptions from the foundational studies artificially inflate Oregon's**
10 **dynamic ECD projections?**

11 A. Yes. A side-by-side comparison of Oregon's dynamic ECD in the foundational
12 studies and the Company's fall 2015 projections highlights differences that are
13 not reflective of today's environment. The following includes a list of examples:

- 14 • Natural Gas Prices: The MSP foundational studies used the March
15 2014 official forward price curve, which does not reflect the decrease
16 in natural gas prices that has occurred in recent years. This accounts
17 for approximately \$2 million of the difference.
- 18 • West Hydro Capital Additions: Due to the timing of the MSP
19 foundational studies, approximately \$88 million of west hydro capital
20 addition projects was not included in dated MSP foundational studies
21 used by ICNU. This accounts for approximately \$2 million of the
22 difference.

⁹ PAC/101, Dalley/4.

- 1 • West Hydro Production (MWHs): In the MSP foundational studies,
2 west hydro production was estimated to be higher than current
3 projections that use a 30 year median, consistent with general rate
4 cases. This accounts for approximately \$1 million of the difference.
- 5 • Grant Reasonable Credit: In the dynamic ECD calculation, the Grant
6 Reasonable Credit is included in the Mid-Columbia differential as a
7 direct pass through in the ECD to Oregon's customers, who receive
8 about 40 percent of the credit. In the MSP foundational studies, the
9 estimate used for the credit was forecasted to be between [REDACTED]
10 and [REDACTED] during 2017 through 2019. The Company's current
11 projections are closer to [REDACTED]. This accounts for up to [REDACTED]
12 [REDACTED] of the difference.

13 In addition to these specific items, updating to current load forecast and capital
14 additions affects the value of the dynamic ECD.

15 **Q. ICNU asserts that the upper limit of the dynamic ECD will cost Oregon**
16 **customers between \$6 million to \$9 million based on the foundational studies.**

17 **Is this an accurate representation?**

18 A. No. For reasons provided earlier, the amounts ICNU uses are outdated. Thus,
19 ICNU's claim that Oregon customers are giving up value under the 2017 Protocol
20 is not supported because Mr. Mullins' analysis is not based on the current cost
21 environment and updated Company forecasts.

1 **Q. ICNU states that the “Company has provided no studies or data that would**
2 **indicate a likelihood of the Oregon dynamic ECD being less than the \$8.2**
3 **million floor.”¹⁰ Is this correct?**

4 A. No. ICNU need only look to PacifiCorp’s 2012 general rate case in Oregon,
5 Docket No. UE 246. The dynamic ECD amounts in that filing was approximately
6 \$5.4 million. If the 2017 Protocol had been in place during that case, Oregon
7 customers would have *benefited* from the 2017 Protocol dynamic ECD parameters
8 by \$2.8 million. Table 2 below shows the history of the Company’s annual
9 Results of Operations (ROO) reports and general rate cases under the 2010
10 Protocol.

TABLE 2

Filing	Oregon Dynamic ECD Value (2010 Protocol)
UE 246 (CY 2013 Test Period) ¹¹	\$ (5,419,206)
UE 263 (CY 2014 Test Period) ¹²	\$ (8,792,171)
CY 2011 ROO ¹³	\$ (12,452,658)
CY 2012 ROO ¹⁴	\$ (13,209,779)
CY 2013 ROO ¹⁵	\$ (8,416,830)
CY 2014 ROO ¹⁶	\$ (8,163,789)

11 As demonstrated in Table 2, not only do historical facts contradict ICNU’s
12 assertion, they also demonstrate that the values have never been as high as ICNU

¹⁰ ICNU/100, Mullins/15:9-10.

¹¹ *In the Matter of PacifiCorp, dba Pacific Power's Request for a General Rate Revision*, Docket No. UE 246, Ex. PAC/1102, Dalley/2.9:531 – 534 (ROO)(March 1, 2012).

¹² *In the Matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 263, PAC/1002, Tawwater/2.9:536 (ROO)(March 1, 2013).

¹³ *In the Matter of PacifiCorp Annual Report of Results of Operations in compliance with OAR 860-027-0070(1)*, Docket No. RE 56, CY 2011 ROO at 2.9: 526-529 (April 30, 2012).

¹⁴ *Id.* CY 2012 ROO at 2.9:532 (April 30, 2013).

¹⁵ *Id.* CY 2013 ROO at 2.9:532 (April 29, 2014).

¹⁶ *Id.* CY 2014 ROO at 2.9:532 (April 30, 2015).

1 claims is likely. At this time, the Company is in the final stages of preparing the
2 Oregon 2015 Results of Operations report, which will be filed by April 30, 2015.
3 Preliminary results show the dynamic ECD at close to the \$8.2 million lower limit
4 of the parameters.

5 **Q. Why were the values in 2011 and 2012 under the 2010 Protocol higher than**
6 **in more recent years?**

7 A. Beginning in 2013, two main changes occurred that impacted the dynamic ECD,
8 causing the value to Oregon to drop. First, some hydro-electric capital additions
9 were placed into service, such as the Swift Fish Collector projects. These projects
10 added costs to the West Hydro component of the dynamic ECD, but did not
11 increase hydro production, therefore the \$/MWh embedded cost of west hydro
12 increased. This item impacted the dynamic ECD by approximately \$4 million
13 and \$1 million in 2011 and 2012, respectively. Also, the Company's 2012
14 depreciation study increased the depreciation expense associated with the
15 Company's hydro-electric resources. This increased expense impacted the
16 dynamic ECD by approximately \$2 million in 2011 and 2012.

17 **Q. ICNU expresses concerns regarding applying the parameters to the dynamic**
18 **ECD in an interim protocol agreement and states that this change could**
19 **cause future changes.¹⁷ Please respond.**

20 A. The 2017 Protocol preserves the use of a dynamic ECD for Oregon. The dynamic
21 ECD parameters are changes that will likely have no effect on the Company's
22 Oregon customers and provide greater certainty for both customers and the

¹⁷ ICNU/100, Mullins/19:3-4.

1 Company. It seems logical that if ICNU is uneasy with these parameters, an
2 interim agreement would be a desirable avenue to introduce the change since the
3 change is for a short, defined period of time. This allows ICNU an opportunity to
4 raise the issue again, without the need to reopen a longer-term agreement.

5 **Q. Does this conclude your rebuttal testimony?**

6 **A. Yes.**