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Public Utility Commission of Oregon
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Attn: Filing Center

RE: UE 264—PacifiCorp's Reply Brief

PacifiCorp d/b/a Pacific Power encloses for filing its reply brief in the above-referenced proceeding. As indicated on the attached certificate of service, a copy of this filing is being served on all parties on the service list.

If you have questions about this filing, please contact Bryce Dalley, Director of Regulatory Affairs & Revenue Requirement, at (503) 813-6389.

Sincerely,

William R. Griffith
Vice President, Regulation

Enclosures

cc: Service List—UE 264

CERTIFICATE OF SERVICE

I certify that I served a true and correct copy of Pacific Power's Reply Brief on the parties listed below via electronic mail and/or US mail in compliance with OAR 860-001-0180.

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Dated this 25th of September, 2013.



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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

In the Matter of
PACIFICORP d/b/a PACIFIC POWER
2014 Transition Adjustment Mechanism.

UE 264

PACIFICORP'S REPLY BRIEF

September 25, 2013

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UE 264

In the Matter of
PACIFICORP d/b/a PACIFIC POWER
2014 Transition Adjustment Mechanism.

PACIFICORP’S REPLY BRIEF

1 **I. INTRODUCTION**

2 PacifiCorp d/b/a Pacific Power (PacifiCorp or Company) respectfully submits this
3 Reply Brief to the Public Utility Commission of Oregon (Commission) in PacifiCorp’s 2014
4 Transition Adjustment Mechanism (TAM). PacifiCorp’s Reply Brief addresses arguments
5 raised in the response briefs of Staff of the Public Utility Commission of Oregon (Staff), the
6 Citizens’ Utility Board of Oregon (CUB), the Industrial Customers of Northwest Utilities
7 (ICNU), Noble Americas Energy Solutions LLC (Noble), and Wal-Mart Stores, Inc.
8 (Walmart).

9 **II. BURDEN OF PROOF/BURDEN OF PRODUCTION**

10 The parties incorrectly allege that PacifiCorp has not met its burden of establishing its
11 proposed TAM rate reduction for 2014. PacifiCorp has introduced significant evidence on
12 all of the major disputed issues in this case, satisfying “the burden of showing that the rate or
13 schedule of rates proposed to be established or increased or changed is fair, just and
14 reasonable.”¹ Staff and intervenors “have the burden of producing evidence to support their
15 argument in opposition to the utility’s position.”² Staff and intervenors produced virtually no

¹ ORS 757.210(1)(a).

² *In the Matter of Portland General Electric Company’s Application to Amortize the Boardman Deferral*,
Docket No. UE 196, Order No. 09-046 at 8 (Feb. 5, 2009).

1 evidence in support of their adjustments in this case, failing to meet their burden of
2 production.

3 ICNU attempts to minimize the evidence PacifiCorp produced in its reply testimony,
4 claiming it was “ambushed” because ICNU was unable to file additional, responsive
5 testimony. PacifiCorp presented its evidence consistent with the procedural schedule in this
6 case, with PacifiCorp filing the final round of testimony because it has the burden of proof.
7 The schedule also gave ICNU several months to conduct discovery to understand
8 PacifiCorp’s position on ICNU’s potential adjustments in advance of ICNU’s opening
9 testimony. After conducting limited discovery before its opening testimony (a total of 22
10 data requests, including only one data request related to Jim Bridger coal costs), ICNU has
11 no basis to claim that it was unfairly surprised by PacifiCorp’s reply testimony.

12 In a previous PacifiCorp case, the Commission rejected a similar argument from
13 ICNU challenging the validity of evidence presented in the Company’s rebuttal testimony.³

14 ICNU's position seems to be that PacifiCorp has put most of its case
15 on in rebuttal and that this is somehow invalid. ICNU is wrong. To
16 reach a determination on whether proposed rates are just and
17 reasonable, we look at the evidence in the record as a whole and make
18 our determination based on the preponderance of the evidence.

19 Finally, ICNU waived cross-examination of PacifiCorp’s witnesses in this case,
20 thereby forgoing its opportunity to develop evidence to meet its burden of production and
21 argue its case in briefing. This undermines ICNU’s complaints about a lack of opportunity to
22 respond to PacifiCorp’s evidence.⁴

³ *In the Matter of PacifiCorp*, Docket Nos. UM 995, UE 121, Order No. 02-469 at 7 (July 18, 2002).

⁴ *See, e.g., In the Matter of the Investigation of Forecasting Forced Outage Rates for Electric Generating Units*, Docket No. UM 1355, Order No. 10-157 at 4 (Apr. 26, 2010) (rejecting PacifiCorp’s concerns about a new proposal ICNU raised late in reply testimony, noting that PacifiCorp had the opportunity to conduct cross-examination on ICNU’s sponsoring witness and declined to do so).

1 **III. CONTESTED ADJUSTMENTS AND ISSUES**

2 **A. PacifiCorp Presented Substantial Evidence Supporting its New Approach to**
3 **Modeling Wind Shape.**

4 Staff, CUB, and ICNU misunderstand PacifiCorp’s proposal and incorrectly assert
5 that PacifiCorp has failed to carry its burden of proof regarding the reasonableness of
6 PacifiCorp’s new approach to wind shaping.⁵ In this case, PacifiCorp demonstrated that its
7 new approach is more accurate than its previous method, which used flat, four-hour blocks,
8 and did not model the variability of wind. Indeed, Staff acknowledged in its response brief
9 that PacifiCorp’s previous method does not accurately reflect intra-day variability that is
10 inherent in wind generation.⁶ Staff recommends convening a workshop regarding wind
11 shape modeling.⁷ PacifiCorp supports such a process to review the implementation of its
12 proposal in this case, but not to delay it.

13 The Company used its most recent, annual historical data to develop its new wind
14 shape profiles to reflect the actual operations of the Company’s wind resources while
15 maintaining correlations between the various projects in the Company’s fleet.⁸ The
16 Company analyzed wind shape using 2012 data and found the results to be consistent with
17 the 2011 data, validating the Company’s approach.

18 PacifiCorp’s approach is supported by the findings contained in the National
19 Renewable Energy Laboratory report on Long-Term Wind Power Variability (“NREL
20 Report”).⁹ The NREL Report provides a testable methodology for evaluating wind shape
21 variability. PacifiCorp applied the methodology used in the NREL Report to four wind

⁵ CUB’s Post-Hearing Response Brief at 4; Staff’s Response Brief at 2; Confidential ICNU Post-Hearing Response Brief at 27.

⁶ Staff’s Response Brief at 2.

⁷ *Id.*

⁸ PAC/500, Duvall/15. The Company also explained that 2011 was the first year reflecting a full year of operation for PacifiCorp’s wind fleet and 2011 data is the basis for the Company’s wind integration charges.

⁹ Exhibit PAC/700.

1 plants included in the TAM and confirmed the lack of year-to-year variability for short-term
2 wind fluctuations.¹⁰

3 The NREL Report uses the coefficient of variation (COV) to gauge the short-term
4 wind variability of wind generation.¹¹ PacifiCorp's analysis of COV demonstrates that
5 Company's new approach to modeling wind shape is very close to historical variability levels
6 and much more accurately captures wind variability than the Company's previous flat-block
7 approach.¹²

8 PacifiCorp computed the COV over multiple years, contrary to CUB's claim that
9 PacifiCorp is asking the Commission to base its rate recovery on results from one year of
10 data. In fact, the dataset used in the COV is as large as 12 years and confirms that
11 PacifiCorp's new approach is more accurate than its previous approach (flat, four-hour
12 blocks).¹³

13 CUB and ICNU question the applicability of the findings in the NREL Report, even
14 though ICNU relied upon the NREL Report in its testimony, because it is based on data for
15 wind facilities in Minnesota, Iowa, Oklahoma, and Texas.¹⁴ As just noted, however,
16 PacifiCorp applied the NREL analysis to its own wind resources in the West and validated
17 the findings of that report.

18 **1. PacifiCorp's Approach to Modeling Production (P50) Has Not Changed.**

19 ICNU mischaracterizes the Company's improvements to modeling wind shape,
20 stating that PacifiCorp abandoned the use of the P50 approach and now relies on a single

¹⁰ PAC/500, Duvall/16-17.

¹¹ The COV is defined as the ratio of the standard deviation value to the mean value at various facilities. *Id.* at 16.

¹² *Id.* at 17, Table 1.

¹³ *Id.*

¹⁴ CUB Post-Hearing Response Brief at 5; Confidential ICNU Post-Hearing Response Brief at 26.

1 year of data for all wind forecasting.¹⁵ To the contrary, PacifiCorp continues to use the P50
2 approach (which generally relies on long-term meteorological data) to forecast output, and
3 has only changed the hourly shape for wind. Similarly, CUB makes numerous references to
4 the NREL Report to support its conclusion that more than one year of data should be
5 required. Its references to the NREL Report, however, address year-to-year variability for
6 production (output, which PacifiCorp still uses the P50 approach to model), not variability in
7 wind shape.¹⁶

8 ICNU also incorrectly claims that PacifiCorp recently withdrew the exact same
9 hourly wind shaping proposal in its current Washington general rate case.¹⁷ But in that case,
10 the Company did not propose changes to modeling wind shape; instead it proposed to base
11 average overall wind output on the most recent four years of historical operation.¹⁸ In
12 rebuttal, the Company withdrew this proposal, reverted to the P50 approach, and indicated
13 that it will file its wind shape proposal in Washington in the future.

14 **2. Hourly Wind Shaping Is Not Reflected in the Company’s Current Wind**
15 **Integration Costs.**

16 ICNU claims that PacifiCorp has not submitted evidence that demonstrates that its
17 “total wind integration costs are inadequately accounted for” and states that the “wind
18 integration costs already included in rates may provide sufficient cost recovery for

¹⁵ Confidential ICNU Post-Hearing Brief at 23. ICNU’s statement that there were short-term differences in variability of 70 percent to 120 percent in the NREL report is likewise incorrect because the numbers cited by ICNU are not percentages. *Id.* at 26; PAC/700, 17-18.

¹⁶ CUB Post-Hearing Response Brief at 5-7.

¹⁷ Confidential ICNU Post-Hearing Brief at 24.

¹⁸ *Wash. Util. and Transp. Comm’n v. PacifiCorp*, Docket No. UE-130043, Rebuttal Testimony of Gregory N. Duvall at 11 (Aug. 2, 2013). PacifiCorp’s original proposal in Washington was similar to PGE’s new approach to modeling wind output, proposed earlier this year in docket UE 266, using a five-year rolling average. Based upon a stipulation supported by Staff, CUB and ICNU, the Commission adopted this approach for that case. *See In the Matter of Portland General Electric Company Net Variable Power Cost and Annual Power Cost Update*, Docket No. UE 266, Order No. 13-280 (Aug. 5, 2013).

1 PacifiCorp.”¹⁹ Hourly wind shape is distinct from PacifiCorp’s wind integration costs now in
2 rates, which are primarily intra-hour costs incurred to balance wind generation within the
3 hour. These integration costs are incurred because actual output is different from scheduled
4 output. The additional reserves and inter-hour charges are required even if an hourly
5 generation shape is used.²⁰ There is no overlap between costs of wind integration and the
6 costs of wind shaping.

7 **3. Wind Shaping is Not Relevant to Integrated Resource Plan and**
8 **Renewable Portfolio Standard Compliance Filings.**

9 ICNU asserts that PacifiCorp’s proposal to modify its wind shaping “will have
10 impacts beyond this TAM proceeding” and the “higher costs will need to be accounted for in
11 the Company’s integrated resource plans (IRP) and renewable portfolio compliance
12 filings.”²¹ The hourly shape, which is necessary for accurate representation in the hourly
13 dispatch model supporting the TAM filing, is irrelevant in the IRP, which does not utilize an
14 hourly dispatch model and is not impacted by the hourly wind shape.²² In addition, Staff has
15 recommended exclusion of wind shaping costs from the renewable portfolio compliance
16 filings, despite ICNU’s argument in that context that such filings should include shaping
17 costs.²³

¹⁹ Confidential ICNU Post-Hearing Brief at 27.

²⁰ ICNU claims that the Company overestimated its wind integration costs based on the reduction in wind integration costs between the 2010 and 2012 wind integration studies. Confidential ICNU Post-Hearing Brief at 24. This reduction was driven by falling market prices and is not an indication that the Company inaccurately estimated its wind integration costs. In fact, in docket UE 246, Staff witness Stephen Schue testified that “PacifiCorp has done a solid job of analyzing and forecasting its wind integration costs.” *In the Matter of PacifiCorp d/b/a Pacific Power Request for a General Rate Revision*, Docket No. UE 246, Staff’s Opening Testimony, Staff/500, Schue/6 (June 18, 2002).

²¹ ICNU Confidential Post-Hearing Response Brief at 24.

²² With regard to wind generation, the IRP is mainly concerned with capacity contribution at the time of system peak, average monthly on and off peak energy balancing, flexible ramping requirements and wind integration. These issues are not impacted by the projections of hourly wind generation as used in the TAM filings.

²³ *In re PacifiCorp d/b/a Pacific Power Renewable Portfolio Implementation Plan 2013-2017*, Docket No. UM 1570, Order No. 12-272 (July 2, 2012).

1 **B. Staff’s O&M Adjustment to Affiliate Coal Costs Is Unwarranted Because the**
2 **Challenged Costs are Reasonable and Necessary.**

3 Staff proposes to disallow costs for management overtime²⁴ and to disallow
4 50 percent of the costs associated with PacifiCorp’s Annual Incentive Plan (AIP), for a total
5 adjustment of approximately \$460,000 on an Oregon-allocated basis.²⁵

6 Regarding overtime, Staff states that PacifiCorp’s argument is not “persuasive”
7 because the activities described are not atypical, concluding “[t]here is no reason to depart
8 from Commission precedent for their disallowance.”²⁶ The Commission precedent to which
9 Staff refers is not on point and does not address treatment of O&M expenses for affiliated
10 mines.²⁷ The overtime expenses for PacifiCorp’s affiliate mines are required for mine safety
11 (a fact that Staff does not contest) and are substantially less than the levels of overtime that
12 were disallowed in Order No. 07-527.²⁸

13 On Staff’s partial disallowance for annual incentive payments, Staff explains “[t]o the
14 extent the AIP results in employees receiving more than base salary based upon good
15 performance, Staff views them as ‘bonuses’ and stands by its proposed adjustment.”²⁹ Staff
16 fundamentally misunderstands the nature of the AIP. The AIP puts a portion of the
17 employee’s total market-based salary “at risk” and is designed to encourage superior
18 performance and achievement of Company, business unit, and individual employee goals.³⁰
19 The Company evaluates market salary for a position, which would be a normal base salary,

²⁴ Staff initially also included fines in the O&M expenses proposed for disallowance. There are no fines included in the coal costs in the 2014 TAM. PAC/600, Crane/14. Staff did not include fines in its response brief. Staff Response Brief at 3-4.

²⁵ Staff’s Response Brief at 3-4.

²⁶ *Id.* at 4.

²⁷ PAC/600, Crane/14-15.

²⁸ *Id.* Prior Commission precedent cited by Staff disallowed a water utility’s request for “very substantial amounts of overtime” where the utility included overtime expenses of 16.75 hours per week for every full time employee. *In the Matter of Crooked River Ranch Water Co.*, Docket No. UW 120, Order No. 07-527 at 13 (Nov. 29, 2007).

²⁹ Staff’s Response Brief at 4.

³⁰ PAC/600, Crane/15.

1 and then a portion of the *base salary* is placed at risk in the AIP; an employee does not earn
2 the full base salary (market) without earning the AIP. The AIP is not a bonus, but rather is
3 an essential component of the employee’s base compensation package. Moreover, the total
4 compensation package is reasonable because compensation (including AIP) is comparable to
5 other coal mining companies of similar sizes in the Company’s geographical area.³¹ Staff did
6 not contest any of these facts, which clearly distinguish AIP from the “bonuses” disallowed
7 in the cases cited by Staff.

8 **C. BCC Coal Costs are Reasonable and ICNU’s Proposal to Re-Price BCC Coal is**
9 **Inappropriate and Contrary to Commission Precedent.**

10 ICNU requests that the Commission re-price BCC coal by imputing the contract price
11 for coal from the Black Butte mine. This proposal is flawed and should be rejected by the
12 Commission because:

- 13 • The Commission has never before applied the lower of cost or market standard to an
14 affiliate mine and instead has reviewed the overall reasonableness of costs.
- 15 • The lower of cost or market standard is an accounting rule and is not applicable to
16 ratemaking.
- 17 • Even if the lower of cost or market standard were applicable, it would apply only to
18 the extent that lower cost market supplies were *available*, and market supplies are not
19 available.
- 20 • Assuming further that market supplies *were* available, ICNU relies on a Black Butte
21 coal price based on a contract that is several years old and does not cover purchases
22 of additional coal. ICNU also fails to account for price/volume correlations.

23 Staff, CUB, and PacifiCorp all support future review of the reasonableness of BCC coal costs
24 through periodic fuel supply plans.³² The Commission should adopt this approach and reject
25 ICNU’s adjustment.

³¹ *Id.*

³² CUB Post-Hearing Response Brief at 9; Exhibit PAC/704 at 3; PacifiCorp’s Confidential Opening Brief at 13.

1 **1. The Commission Has Never Before Applied the Lower of Cost or Market**
2 **Standard to Re-Price Coal from an Affiliate Mine.**

3 ICNU argues that the lower of cost or market standard “has the power of a legislative
4 enactment” and that “the Commission would need to disregard Oregon law and treat its rules
5 as mere discretionary guideposts that can be set aside at will” if it does not accept ICNU’s
6 adjustment.³³ ICNU’s argument completely ignores the unique regulatory treatment
7 accorded affiliate mines for decades.³⁴ The Commission has *never* re-priced coal from an
8 affiliate mine based on the lower of cost or market standard. After almost four decades of the
9 Commission applying a cost-based approach to affiliate mines, ICNU cannot credibly claim
10 that this approach is unlawful.

11 **2. The Lower of Cost or Market Standard Is an Accounting Rule and Is Not**
12 **Applicable to Ratemaking.**

13 The lower of cost or market standard is an accounting rule rather than a ratemaking
14 rule. ICNU claims that because it is only reviewing the “financial aspects” of the coal costs,
15 the Commission should apply the accounting rule to ratemaking.³⁵ Yet, the order ICNU cites
16 for this proposition clearly explains that any “subsequent ratemaking review is whether the
17 payments set forth in the contract are reasonable.”³⁶ ICNU also cites to the most recent order
18 on the coal supply agreement between BCC and PacifiCorp.³⁷ The underlying Staff report
19 states that the appropriate standard for reviewing the transaction is the “affiliate interest

³³ Confidential ICNU Post-Hearing Response Brief at 8-9.

³⁴ *In the Matter of Pacific Power & Light Company, dba PacifiCorp*, Docket No. UI 105, Order No. 91-513 at 2 (Apr. 12, 1991) (regarding approval of contract between PacifiCorp and Energy West Mining Company (EWMC), the “cost-based approach and the limitation of EWMC’s activities to those arising under the contract minimize the likelihood of cross-subsidization”); *In the Matter of Idaho Power Company*, Docket No. UI 107, Order No. 91-567 at 3 (Apr. 29, 1991) (“Since all of IERCO’s results of operation are merged with and made a part of Idaho’s for ratemaking, there is no possibility of cross-subsidization.”).

³⁵ Confidential ICNU Post-Hearing Response Brief at 5.

³⁶ *In the Matter of PacifiCorp Application for Approval of New Tariffs*, Docket Nos. UE 134, UM 1047, Order No. 02-820 at 7 (Nov. 20, 2002).

³⁷ *In the Matter of PacifiCorp*, Docket No. UI 189, Order No. 01-472 at 2 (June 12, 2001).

1 transfer-pricing requirements.” For ratemaking purposes, however, Staff recommended
2 application of a reasonableness standard.³⁸

3 **3. Lower of Cost or Market Applicable Only to Available Market Supplies.**

4 Under the Commission’s accounting rules, market rate means “the lowest price that is
5 *available* from nonaffiliated suppliers for comparable services or supplies.”³⁹ The lower of
6 cost or market standard is rendered inapplicable here because lower-cost, comparable market
7 supplies are not available for the 2014 rate period.⁴⁰ ICNU’s own witness from PacifiCorp’s
8 2011 Washington rate case testified that “[t]here is no readily *available* source for coal costs
9 near and around the Bridger facility.”⁴¹

10 ICNU claims that PacifiCorp revealed that it will replace some BCC deliveries with
11 Black Butte Coal in 2015-2017, which “casts extreme doubt on the veracity of PacifiCorp’s
12 claim that ‘evidence in this case makes clear that Black Butte mine does not have sufficient
13 excess capacity to supply the Bridger plant.’”⁴² This statement is just one of ICNU’s many
14 misleading citations to Cindy Crane’s testimony in unrelated cases. The testimony was filed
15 in Utah and Wyoming certificate of public convenience and necessity (CPCN) cases
16 involving environmental investments at the Jim Bridger plant. The Company developed
17 several alternative long-term fueling plans for the Jim Bridger plant for different scenarios
18 reviewed in the CPCN process. On this issue and others,⁴³ ICNU selectively cites “facts”

³⁸ *Id.*, Staff Report at 4. Staff recommended that the Commission reserve “the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding,” recognizing the limitations of the OAR 860-027-0048.

³⁹ OAR 860-027-0048(1)(i) (emphasis added).

⁴⁰ The record in this case demonstrates that the Black Butte mine does not have sufficient capacity to replace BCC’s coal supply to the Jim Bridger plant. PAC/600, Crane/11.

⁴¹ Exhibit PAC/701 at 3 (emphasis added).

⁴² Confidential ICNU Post-Hearing Response Brief at 11.

⁴³ For example, ICNU claims that Ms. Crane testified in Utah this year that BCC coal is inferior to all other regional supply, including other southwest Wyoming sources, thereby demonstrating that Company itself does not view any other coal as “comparable” except Black Butte coal. Confidential ICNU Post-Hearing Response Brief at 10. Ms. Crane’s testimony addressed the coal quality of the Bridger surface mine on a stand-alone

1 from Ms. Crane’s testimony, even though it is clear from her testimony that she is referring
2 to planning assumptions or hypotheticals.

3 The record in this case shows unequivocally that PacifiCorp has not committed to a
4 coal supply plan for 2015 and is still exploring options to address the expiration of the Black
5 Butte contract.⁴⁴

6 **4. ICNU’s Inventory-Based Adjustment Is Unsupported by Evidence in the**
7 **Record.**

8 In its briefs, ICNU developed a new alternative adjustment based upon the coal
9 inventory held at the Jim Bridger plant. ICNU argues that the Commission should impute the
10 Black Butte contract price for the available excess capacity at Black Butte in 2014, plus the
11 full storage capacity at the Jim Bridger plant.

12 In response to PacifiCorp’s critique, ICNU attempts to bolster this new adjustment
13 with confusing references to PacifiCorp’s Coal Inventory Policies and Procedures,⁴⁵ which
14 make the exact nature of the adjustment and its rationale even less clear. ICNU has not
15 provided a calculation of the adjustment, demonstrated that the costs of the coal inventory are
16 higher than Black Butte’s contract price in 2014, explained how the Commission could
17 revisit that rate base item in this TAM proceeding, or provided a convincing argument
18 responding to PacifiCorp’s concerns about retroactive ratemaking and the inclusions of non-
19 PacifiCorp cost elements. On this record, the Commission should conclude that ICNU has
20 failed to meet its burden of production and reject the adjustment.

basis (an issue relevant to one of the planning scenarios), not BCC’s current integrated, blended supply of the Bridger surface and underground mines. Similarly, the costs ICNU cited with respect to a change in supply mix related to Black Butte coal address coal supply from the surface mine only. These facts are clear from the face of Ms. Crane’s testimony and should have been noted by ICNU.

⁴⁴ PAC/600, Crane/12.

⁴⁵ ICNU Post-Hearing Response Brief at 14-16.

1 **5. The Rate Base Component of ICNU’s Adjustment is Inappropriate.**

2 ICNU maintains that its rate base adjustment is appropriate, even though it failed to
3 raise the prudence of the investment in the Bridger mine in this case or in the Company’s
4 2013 general rate case, which is now settled.⁴⁶ ICNU asserts that “TAMs filed when the
5 Company files a general rate case are intended to be broader and to allow the parties to
6 address more issues.”⁴⁷ While this may be true, the venue for raising a broader scope of
7 issues is the general rate case, not the TAM.⁴⁸ There is nothing in the TAM Guidelines that
8 allows a party to settle a general rate case and then use the TAM as a vehicle to re-open
9 settled issues.

10 **D. ICNU’s Heat Rate Adjustment Should Be Rejected Because it is Contrary to the**
11 **Stipulation in Docket UE 216 and Is Poor Regulatory Policy.**

12 ICNU proposes an adjustment to reduce the heat rate for Jim Bridger Units 1 and 2 to
13 reflect increased efficiency resulting from recent turbine upgrades, which would replace the
14 actual heat rates derived using 48-month averages with the heat rate derived using a 24-
15 month average from Jim Bridger Unit 1.⁴⁹

16 The Company’s approach in this case is consistent with the methodology described in
17 the stipulation in docket UE 216 and with the Company’s long-standing approach to
18 modeling heat rates. ICNU’s proposal to impute speculative heat rates to capture additional
19 efficiency gains⁵⁰ on a one-off basis is poor regulatory policy and should be rejected.

⁴⁶ *Id at 16.*

⁴⁷ ICNU Post-Hearing Response Brief at 16, citing *In re PacifiCorp*, Docket No. UE 199, Order No. 09-274, Appendix A at 9-13 (July 16, 2009).

⁴⁸ *In the Matter of PacifiCorp d/b/a Pacific Power 2012 Transition Adjustment Mechanism*, Docket No. UE 227, Order No. 11-435 at 6 (Nov. 4, 2011) (“[T]he TAM filing focuses on the NPC side of the equation. Nothing in our prior orders or approved guidelines suggests that an adjustment to the revenue side is within the scope of a TAM.”).

⁴⁹ ICNU/100, Deen/4-6.

⁵⁰ To be clear, NPC in this case already reflects the additional generation output associated with the turbine upgrades at Jim Bridger Units 1 and 2.

1 ICNU “agrees that a normalized 48-month period is appropriate in most
2 circumstances.”⁵¹ It argues for an exception for Jim Bridger Unit 2 because “the unit’s
3 operations will change and the improvement is measurable.”⁵² But ICNU has no evidence
4 supporting an exception on this basis. Instead, ICNU relies upon data from Jim Bridger
5 Unit 1 to show change in operation and measurable heat rate improvements at Jim Bridger
6 Unit 2. Jim Bridger Unit 1 underwent a different type of turbine upgrade and its results are
7 not comparable to Jim Bridger Unit 2.⁵³

8 ICNU has also proposed to change the heat rate for Jim Bridger Unit 1, using two
9 years of historical data, not four. ICNU’s justification for an exception to the normal
10 approach for calculating Jim Bridger Unit 1’s heat rate is unclear since ICNU does not
11 mention its proposed change to Unit 1’s heat rate even once in its prehearing or response
12 briefs. Given ICNU’s apparent abandonment of its heat rate adjustment for Jim Bridger
13 Unit 1, its overall adjustment should be reduced accordingly.

14 The stipulation in docket UE 216 proposed a number of methodological changes to
15 the TAM, including forecasted increases or decreases in heat rates associated with capital
16 additions to plant, to reduce controversy in the future TAM filings.⁵⁴ This case demonstrates
17 the wisdom of that stipulation and the problematic nature of allowing exceptions to the
18 normal 48-month approach for calculating heat rates.

19 **E. There is No Basis for Changing the Calculation of the Transition Adjustment in**
20 **this Case.**

21 Noble proposes two changes to the transition adjustment calculation: (1) using a
22 blend of market prices instead of GRID to value freed-up energy for the transition

⁵¹ Confidential ICNU Post-Hearing Response Brief at 21.

⁵² *Id.*

⁵³ ICNU/102, Deen/2.

⁵⁴ *In the Matter of PacifiCorp, d/b/a Pacific Power 2011 Transition Adjustment Mechanism*, Docket No. UE 216, Joint Testimony in Support of Stipulation at 8-10 (July 26, 2010).

1 adjustment; and (2) providing an adder for BPA transmission.⁵⁵ The Commission has
2 previously considered both of these issues in multiple dockets (including the Company’s
3 2013 TAM) and consistently rejected these arguments.⁵⁶

4 Noble argues that the Commission’s approval of GRID is contrary to the
5 Commission’s own administrative rules, OAR 860-038-0005(42) and OAR 860-038-0140.⁵⁷
6 This argument is meritless. Operating under these rules, PacifiCorp has used GRID to
7 calculate the transition adjustment since the beginning of its implementation of direct access
8 in docket UM 1081.⁵⁸ The Commission affirmed the use of GRID to calculate the transition
9 adjustment, concluding that it “most closely meets the requirements established in” docket
10 UM 1081.⁵⁹ The Company has used GRID to calculate its transition adjustment in every
11 single TAM filing since 2005.

12 Noble’s complaints about a GRID-based approach are also factually inaccurate.
13 PacifiCorp’s reply testimony in this case demonstrates that the modified GRID run used to
14 calculate the transition adjustment is based almost entirely on market prices (99 percent for
15 heavy load hours and 92 percent for light load hours).⁶⁰

16 Walmart also raised concerns regarding PacifiCorp’s GRID-based approach and
17 recommends a workshop be convened, concurrent with docket UE 267, to specifically

⁵⁵ Noble Solutions/100, Higgins/5.

⁵⁶ See *In re Public Utility Commission Staff Investigation into Direct Access Issues for Industrial and Commercial Customers Under SB 1149*, Docket No. UM 1081, Order No. 04-516 at 10 (Sept. 14, 2004); *In the Matter of PacifiCorp d/b/a Pacific Power and Light Co.*, Docket No. UE 170, Order No. 05-1050 at 21 (Sept. 28, 2005); *In the Matter of PacifiCorp d/b/a Pacific Power 2013 TAM*, Docket No. UE 245, Order No. 12-409 at 17 (Oct. 29, 2012).

⁵⁷ Noble Solutions’ Response Brief at 3.

⁵⁸ Staff recommended the use of GRID and testified that a GRID-based transition adjustment “offers the most precise and accurate accounting of the impact that direct access is likely to have on PacifiCorp’s operations, costs and revenues[.]” See Order 04-516 at 5 (Sept. 14, 2004).

⁵⁹ Order No. 05-1050 at 21.

⁶⁰ PAC/500, Duvall/29-30.

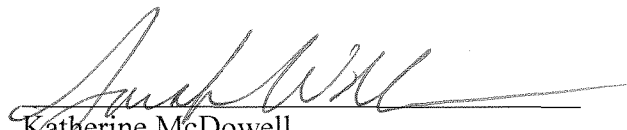
1 address the calculation of the transition adjustment.⁶¹ The Company recommends review of
2 this proposal after docket UE 267 is concluded to avoid unnecessary or duplicative
3 proceedings.

4 Noble also argues that the transition adjustment should include an adder for freed-up
5 transmission costs as result of the direct access customers.⁶² The Commission considered
6 and rejected this proposal for BPA transmission credit last year in Order No. 12-409 in the
7 2013 TAM.⁶³ Noble has pointed to no new facts or circumstances that have developed in the
8 last 10 months that warrant reconsideration of that decision.

9 IV. CONCLUSION

10 For the reasons set forth above, PacifiCorp respectfully requests that the Commission
11 approve the rate decrease requested in PacifiCorp's 2014 TAM, subject to the TAM Final
12 Update on November 15, 2013.

Respectfully submitted this 25th day of September, 2013.



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⁶¹ Wal-Mart Stores Inc.'s Response Brief at 1. Docket UE 267 is the Company's application for approval of a tariff providing a five-year opt-out program that allows a qualified customer to go to direct access and pay fixed transition charges for the next five years, and then to be no longer subject to transition adjustment.

⁶² Noble Solutions/100, Higgins/27-28.

⁶³ Order No. 12-409 at 17 (Oct. 29, 2012) *reconsideration denied*, Order No. 13-008 at 4 (Jan. 15, 2013).