

1 BEFORE THE PUBLIC UTILITY COMMISSION
2 OF OREGON
3 UE 245
4

5 In the Matter of:)
6)
7 PACIFICORP, dba, PACIFIC)
8 POWER & LIGHT COMPANY,)
9 2013 Transition Adjustment)
Mechanism)

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TRANSCRIPT OF PROCEEDINGS:
CROSS-EXAMINATION HEARING

August 16, 2012
9:30 a.m.

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PAGES 1 - 144

BEFORE ADMINISTRATIVE LAW JUDGE SHANI PINES

PUBLIC UTILITY COMMISSION OF OREGON
550 CAPITOL STREET, NE
MAIN HEARING ROOM
SALEM, OREGON 97301

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Colloquy

1 (A recess was taken.)

2 ALJ PINES: We are back on the
3 record.
4 Commissioner Bloom is no longer attending the
5 hearing.

6 And according to the cross-examination
7 schedule we have one remaining witness. That is
8 ICNU's Michael Dean.

9 Mr. Deen, I will ask you to take the
10 stand. Raise your right hand, please.

11 MICHAEL C. DEEN

12 the witness, called on behalf of ICNU,
13 being duly sworn, was examined and testified as
14 follows:

15 THE WITNESS: I do.

16 ALJ PINES: Could you please state and
17 spell your name for the record.

18 THE WITNESS: My name is Michael Deen,
19 last name is spelled D-e-e-n.

20 ALJ PINES: Thank you.

21 ALJ PINES: Mr. Sanger, go head.

22 MR. SANGER: Thank you.

23 DIRECT EXAMINATION

24 BY MR. SANGER:

25 Q. Mr. Deen, can you inform us how you are

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1 admit ICNU 101 through 106 is granted.

2 (ICNU Exhibit Nos. 100 through
3 106 were admitted into the
4 record.)

5 ALJ PINES: And PacifiCorp,
6 Ms. McDowell, you can begin your cross-examination.

7 MS. McDOWELL: Thank you, Judge Pines.

8 CROSS-EXAMINATION

9 BY MS. McDOWELL:

10 Q. Good morning.

11 A. Good Morning.

12 Q. Can you turn to page 10 of your prefiled
13 testimony, ICNU 100. And that page is a
14 confidential page, but I am not going to be asking
15 you about the confidential information on that
16 page.

17 A. Okay. I'm there.

18 Q. Can you take a look at the testimony
19 beginning on line 4 that talks about "While the
20 GRID model theoretically may allow unlimited sales
21 without the cap this is not the case from a
22 practical perspective." Do you see that?

23 A. I do see that.

24 Q. And then you indicate that there are two
25 factors that constrained sales. Basically, the

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1 first being the amount of energy that the Company's
2 resources are able economically to produce and then
3 the second being wheeling limitations. Is that a
4 fair summary of your testimony there?

5 A. Yes.

6 Q. So you agree that without market caps
7 there is no constraint in GRID that specifically
8 relates to market liquidity, correct?

9 A. Not that specifically relates to market
10 liquidity.

11 Q. Now the GRID model has six market hubs,
12 correct?

13 A. Yes, that is correct.

14 Q. And your adjustment proposes to lift the
15 market caps on all of those hubs, correct?

16 A. That is ICNU's recommendation in this
17 proceeding.

18 Q. And your recommendation to lift the caps
19 on all of the hubs is irrespective of the relative
20 liquidity of that hub, correct?

21 A. It is irrespective of the relative
22 liquidity. It is ICNU's position that the Company
23 has not made a showing that any of the six hubs are
24 illiquid in this proceeding.

25 Q. And I want to ask you about the exhibit

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1 A. In UE 207.

2 Q. And that's not consistent with this
3 testimony, is it?

4 A. I was basing that off the -- I believe
5 it's stated even in the summary of the testimony.

6 Q. And if you go back to the summary of the
7 testimony on page 5 of the exhibit --

8 A. I'm sorry. I am mistaken. I was thinking
9 of a different -- different docket.

10 Q. So it is true that in UE 207 that ICNU
11 proposed to eliminate market caps only in the four
12 largest hubs, Mid-C, Palo Verde, COB and Four
13 Corners, correct?

14 A. That is the testimony.

15 Q. When ICNU referred to the hubs as being
16 the largest hubs is that also suggesting that those
17 are the most liquid hubs?

18 A. I guess I don't want to speak to what
19 Mr. Falkenberg meant in his testimony.

20 Q. So based on ICNU's prior testimony
21 wouldn't you agree that there are varying degrees
22 of liquidity in PacifiCorp's market hubs?

23 A. I would agree that there are varying
24 degrees of liquidity, but I would not agree that
25 the hubs are illiquid for purposes of the market

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1 caps in GRID.

2 Q. And wouldn't you agree that the more
3 liquid hubs are Mid-C and Palo Verde?

4 A. I would agree that those hubs tend to have
5 a higher transactional volume and more parites, so
6 they would tend to be he more liquid.

7 Q. And the less liquid hubs are COB, Four
8 Corners Mead and Mona?

9 A. In a relative sense, yes.

10 Q. I would like to ask you some questions
11 about your Confidential Exhibit 103.

12 MS. McDOWELL: And I do believe at
13 this point we will be going back into confidential
14 questioning.

15 ALJ PINES: I will ask anyone who is
16 not a signatory to the confidential order to leave
17 at this time.

18 (Mr. Tingey departed the room.)

19 BY MS. McDOWELL:

20 Q. Now, Mr. Deen, do you have that exhibit in
21 front of you?

22 A. I do. And you did say 103?

23 Q. Yes.

24 A. I have it.

25 Q. Wouldn't you agree that ICNU 103

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1 variability in the liquidity of every market.

2 Q. And wouldn't you agree that Mid-C is a
3 more liquid hub than Four Corners or COB?

4 MR. SANGER: Objection, Your Honor.
5 Which market is she asking about?

6 Are you asking about the short-term
7 real time market that we're talking about in this
8 case? The forward market? I would like her to
9 clarify which markets she's referring to.

10 MS. McDOWELL: Mr. Deen is able to
11 answer these questions on his own without his
12 counsel coaching him. I am asking him a direct
13 question, and Mr. Deen can qualify it however he
14 wants.

15 BY MS. McDOWELL:

16 Q. But I'm asking him whether he would agree
17 that Mid-C is a substantially more liquid hub than
18 either Four Corners and COB?

19 A. I believe I already answered this question
20 earlier. Yes, I agree that Mid-Columbia is a
21 larger market, typically more participants and more
22 volume traded.

23 Q. And it's true, isn't it, that the removal
24 of the market caps is tied almost exclusively to an
25 increase in sales at the less liquid hubs and a

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1 decrease in sales a the more liquid hubs?

2 A. Based on that relative characterization of
3 liquidity that's true in this case. All of that
4 could vary substantially in another proceedings
5 with different market conditions.

6 Q. And it's true, isn't it, if the Commission
7 simply decided to remove market caps only on
8 PacifiCorp's more liquid hubs at Mid-C and Palo
9 Verde that the adjustment in this case would be
10 very small, correct?

11 A. I don't necessarily agree with that.
12 Removing all of the market caps verses removing
13 just some of the market caps would change a number
14 of the factors in the model. And I can't predict
15 what that would be, what the outcome of that would
16 be.

17 Q. Doesn't this exhibit do precisely that by
18 showing, basically, what happens when you remove it
19 from all six markets, and then what happens when
20 you remove it from each individual market?

21 A. Unless I misunderstood your question, I
22 don't believe it does. I believe this exhibit is
23 showing the level of sales modeled in the GRID for
24 the test year with caps at all the markets, and
25 then showing the results of the model run where

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1 there are caps on none of the markets.

2 Q. Right. And then you go down to the next
3 section of the exhibit where it says, "One off
4 studies." Do you see that?

5 A. Yes. I was referring to -- I thought we
6 were still discussing the three lines on top.

7 Q. I'm sorry. I wasn't clear on that.

8 If you go over to the far right-hand
9 column where it says, "NPC dollars." Do you see
10 that?

11 A. Yes.

12 Q. And then you go to the far left and it
13 says, "No Mid-C cap." Do you see that?

14 A. Yes, I do.

15 Q. And the delta there would be 29,000. Do
16 you see that?

17 A. Yes, I do.

18 Q. So removing the market cap at Mid-C is
19 fairly inconsequential, isn't it?

20 A. In this proceeding.

21 Q. Whereas, removing the market cap at COB,
22 which is the next line down, actually has a \$9.4
23 million impact. Do you see that?

24 A. I do.

25 Q. And COB is one of those markets that we

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1 were referring to as the less liquid market. Do
2 you see that?

3 A. I would agree.

4 Q. So as a general matter you would agree
5 that market liquidity is an important consideration
6 for the Commission in reviewing net power costs?

7 A. That's a very general question.

8 Q. Well, let me be more specific. Are you
9 aware that ICNU has previously claimed that
10 transactions were imprudent based upon the fact
11 that they were executed in the illiquid markets?

12 A. It would be helpful if you could point to
13 the specific exhibit that you are thinking of.

14 Q. Can you take a look at Exhibit 410,
15 please, PAC 410. And I want to direct your
16 attention to page 9 of that exhibit.

17 A. All right.

18 Q. And let me just back up by saying this. I
19 am going to introduce the exhibit as a exhibit, a
20 brief in docket UE 228, which was the 2012 PGE
21 annual power cost update filing.

22 You were involved in that case, weren't
23 you?

24 A. Not directly, but I am familiar with
25 issues.

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1 Q. You signed a protective order in that
2 case, didn't you.

3 A. I did sign a protective order.

4 Q. I wanted to direct your attention to the
5 last line of that paragraph. It's the first
6 paragraph on page 9 where it states that "Purchases
7 made out of demonstrably liquid markets are assumed
8 to be unreasonable and imprudent." Do you see
9 that?

10 A. I do see that sentence.

11 Q. So you would agree that ICNU has
12 previously taken the position that demonstrating
13 liquidity was part of a demonstration of the
14 prudence of a transaction?

15 A. I would agree. Although, I do think that
16 it's important to note this was, again, a very
17 different context of a case.

18 This was regarding natural gas hedging.
19 It is a completely different commodity and also a
20 completely different time frame. So I don't
21 particularly see the relevance, actually, of the
22 issue that ICNU briefed to PacifiCorp's net power
23 cost in this proceeding.

24 Q. Except that both issues involve market
25 liquidity, correct?

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1 A. In a very general sense, yes.

2 Q. Now can you turn to page 8 of your
3 testimony in this case. So that would be ICNU 100,
4 page 8.

5 A. I am there.

6 Q. And there you've testified on lines 14
7 through 15 that "A market cap is not employed by
8 other northwest utilities." Do you see that?

9 A. I'm sorry. Can you just point to the
10 line?

11 Q. It's lines 14 through 15.

12 A. Yes.

13 Q. Now I take it the other northwest
14 utilities to which you are referring are PGE,
15 Avista and Puget?

16 A. Yes, PGE, Avista, Puget and also
17 Bonneville Power.

18 Q. Now you've testified that PGE conducts
19 most of its wholesale sales at Mid-C, correct?

20 A. That is generally true.

21 Q. And we've just established that Mid-C is a
22 more liquid market hub, correct?

23 A. In relative terms and in most times.

24 Q. So I take it, less need for any kind of
25 market cap because of any kind of liquidity

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1 concern, true?

2 A. Given that it's a more liquid hub there
3 would be less concerns about illiquidity than at a
4 less liquid hub.

5 Q. And Avista and Puget both use the AURORA
6 dispatch model; is that correct?

7 A. That is correct.

8 Q. And isn't it correct that AURORA addresses
9 liquidity through use of dynamic prices?

10 A. AURORA does employ dynamic market clearing
11 prices in each hour.

12 Q. And that's in contrast to GRID which uses
13 a static market price for each hour, correct?

14 A. That is correct.

15 Q. I wanted to ask you about your testimony
16 in a prior Puget Sound case. And that's PAC 405.

17 A. Is there a particular page that you would
18 like me to go to?

19 Q. Yes. Can you turn to pages 8 and 9.

20 A. Eight and 9 of the exhibit or the
21 testimony?

22 Q. I'm sorry. I think it's of the exhibit.

23 A. Okay. In general I find it helpful if we
24 can use the exhibit numbers because they're right
25 at the top and easiest to see.

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1 Q. Okay. That's what I'm trying to do.

2 A. Thank you.

3 Q. Anyway, I wanted to ask you about your
4 testimony in that case. It's true, isn't it, as a
5 general matter that AURORA models far fewer
6 wholesale sales than GRID even without market caps?

7 A. I don't think I would be comfortable
8 making that comparison in this case. Because this
9 is, again, relative to Puget's actual operations.
10 So I honestly don't know what AURORA would do if
11 you set it up for a PacifiCorp system relative to
12 GRID.

13 Q. At the bottom of page 8, line 27 you
14 indicate that the "Company's actual 2010 operations
15 included 201 million in sales to other utilities
16 while the AURORA's simulation predicted only 10
17 million." Do you see that?

18 A. Yes.

19 Q. So that would be an understatement of \$190
20 million in sales?

21 A. Yes, that would be an understatement, as
22 you said, in sales. Although, that's not the only
23 change in the model. In other words, I want to be
24 clear that that does not mean that the overall
25 forecasts of their power costs was off by

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1 190 million.

2 Q. In contrast here your market cap
3 adjustment is 15 million on a system basis or
4 approximately 25 percent of that on an Oregon
5 basis?

6 A. That's correct.

7 Q. Much smaller than the 190 million
8 differential that we were just talking about in the
9 Puget case, correct?

10 A. I agree that 15 is smaller than 190.

11 Q. Now in reviewing a net power cost
12 adjustment such as ICNU's market caps adjustment
13 wouldn't you agree that it's relevant to review
14 whether the Company is underrecovering or
15 overrecovering its projected net power costs?

16 A. I would agree that that would be an
17 appropriate area for investigation.

18 Q. And do you recall Mr. Schue's testimony
19 this morning that the Company has significantly
20 underrecovered net power costs in each TAM since
21 2007?

22 A. I do recall that testimony.

23 Q. Can you turn to PAC 406. And there I
24 direct your attention to page 10 of that exhibit.

25 And just to provide some context. This is

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1 your testimony in PGE's current annual update
2 tariff filing in UE 250. Do you recognize this
3 testimony?

4 A. I do.

5 Q. And you're a witness in that case; is that
6 correct?

7 A. That is correct.

8 Q. Now on page 10, beginning on line 13 you
9 talk about power cost modeling, and then -- the
10 sentence that I especially wanted to ask you about
11 where you object to one of PGE's adjustments is
12 where you say, beginning on line 16, "This is
13 especially true in a case like this where PGE is
14 actually overrecovering its projected power costs.
15 Clearly, on balance the Company's power supply
16 modeling is adequate to allow cost recovery without
17 adding additional hypothetical cost." Do you see
18 that?

19 A. I do see that sentence.

20 Q. So wouldn't you agree that the converse
21 should also be true? That when a company is
22 underrecovering its projected net power costs that
23 it is appropriate to look at whether on balance the
24 Company's power supply model adequately allows cost
25 recovery if you subtract certain costs?

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1 A. So this is a topic that I provided
2 extensive testimony on in the UE 246 docket. And I
3 think there's an important distinction here to be
4 drawn between comparison of actuals in retrospect
5 and the comparison of projected rate making on a
6 normalized basis.

7 So although PacifiCorp has underrecovered
8 its actual power costs relative to the projections
9 in a rate case in its TAM proceedings over the last
10 several years ICNU does not view that as a sort of
11 a systematic fault in the modeling. There's a
12 number of other factors that play in, in terms of
13 change of weather, changing load, changing market
14 conditions.

15 So does that answer your question?

16 Q. So you didn't consider PacifiCorp's
17 underrecovery of net power costs in determining
18 whether to propose a market cap adjustment in this
19 case?

20 A. I was looking --

21 MR. SANGER: Objection, Your Honor.
22 She's asking about a fact which she has not yet
23 established that Mr. Deen agrees with. She can ask
24 Mr. Deen about that fact, but she needs to lay that
25 foundation before asking.

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1 ALJ PINES: As to the underrecovery?

2 MR. SANGER: It's the underrecovery,
3 yes.

4 BY MS. McDOWELL:

5 Q. I asked Mr. Deen whether he was here this
6 morning when Mr. Schue testified as to the
7 underrecovery, PacifiCorp's underrecovery. He said
8 that he was familiar with that testimony.

9 And I'm just asking you did you consider
10 the fact of that underrecovery in proposing your
11 market cap adjustment?

12 A. I did consider the actual underrecovery
13 that PacifiCorp has experienced over the past --
14 did you say it was over the past four or five
15 TAM's?

16 Q. Yes. Since 2007.

17 A. I did consider that. And I also
18 considered the sort of issues on a normalized
19 basis. And ICNU does not believe that PacifiCorp
20 is going to be underrecovering their NPC on a
21 normalized basis for the 2013 test year.

22 Q. For the first time since 2007?

23 A. I think based upon the best information
24 available at the time ICNU did not believe that
25 PacifiCorp would be underrecovering on a normalized

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1 projected basis. Although, it happened in reality
2 that they did underrecover.

3 Q. Can you turn to pages 17 of your
4 testimony, please, ICNU 100, Deen 17.

5 A. Just a moment.

6 Q. And on page 17 I wanted to direct your
7 attention to your testimony at lines 10 through 12
8 where you indicate that the GRID model has been
9 controversial in many jurisdictions.

10 A. I'm sorry. Just one moment.

11 All right. Page 17?

12 Q. That's true. Page 17, lines 10 through
13 12.

14 A. Yes.

15 Q. In there you indicate that the GRID model
16 has been controversial. Do you see that?

17 A. I do.

18 Q. Now I wanted to take you back to the
19 testimony we were discussing a few minutes ago.
20 It's PAC 405, your testimony in the Puget docket.
21 Do you still have that in front of you?

22 A. I can get back to it here. Where would
23 you look me to look?

24 Q. Can you look at page 3, please.

25 A. I'm sorry. What was the exhibit number