BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY, Respondent.	))))))))))))	Docket No. UE-100749

POST-HEARING REPLY BRIEF

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

February 18, 2011

TABLE OF CONTENTS

Page

TABLE OF CONTENTS i

TABLE OF AUTHORITIES ii

I. INTRODUCTION 1

II. ARGUMENT 4

A. Cost of Capital 4

1. Mr. Gorman's Analysis Does Not Support an Over 10% Return on Equity 4

2. Mr. Gorman's 49.1% Common Equity Ratio Is Well Supported and Based on the Equity that PacifiCorp Actually Uses to Support its Regulated Operations 7

B. Net Power Costs 8

1. ICNU and Staff's Wind Integration Adjustments Do Not Violate the Supremacy Clause and Are Consistent with Oregon's Treatment of These Costs 8

2. ICNU's and Staff's Colstrip Outage Adjustments Are Conservative and the Company Should Not Be Permitted to File a Colstrip Outage Deferral 13

3. ICNU's Hermiston Planned Outage Schedule Is Reasonable 15

C. ICNU's and Staff's West Control Area and Power Cost Adjustments Are Fair and Balanced 16

D. The Commission Should Adopt an Equal Percentage Rate Increase for All Major Customer Classes......................... 17

III. CONCLUSION 18

TABLE OF AUTHORITIES

Cases **Page**

Arkansas Louisiana Gas Co. v. Hall,
453 U.S. 571 (1981)..11

Mississippi Power & Light Co. v. Mississippi,
487 U.S. 354 (1988)..9

Montana-Dakota Utils. Co. v. Northwestern Pub. Serv. Co,
341 U.S. 246 (1951)..10

Nantahala Power & Light Co. v. Thornberg,
476 U.S. 953 (1986)..9, 10, 11

Re Commission Investigation into Forecasting Forced Outage
Rates for Electric Generating Units, Oregon Docket No. UM 1355,
Order No. 10-414 (Oct. 22, 2010) 16

Re PacifiCorp's 2011 Transition Adjustment Mechanism, Oregon
Commission Docket No. UE 216, Order 10-363 (Sept. 16, 2010) 12, 13

Statutes and Rules **Page**

WAC § 480-07-390……………………………………………………...1

I. INTRODUCTION

1 Pursuant to WAC § 480-07-390 and the Second Prehearing Conference Order, the Industrial Customers of Northwest Utilities ("ICNU") submits this post-hearing reply brief requesting that the Washington Utilities and Transportation Commission ("WUTC" or the "Commission") significantly reduce PacifiCorp's proposed rate increase. This reply brief is limited to addressing only those few issues raised in PacifiCorp's and Staff's initial briefs that were not addressed in either ICNU's or Public Counsel's initial briefs.[1/]

2 PacifiCorp's Brief paints a radically different version of itself than is presented in the briefs of the other parties, or that is actually experienced by its customers. PacifiCorp at best only tells the Commission half the story, and is apparently unaware of the devastating impact its annual rate increases are having on its customers. For example, PacifiCorp argues that its average rates are among the lowest in the country but fails to point out that its Washington industrial rates are higher than the Company's industrial rates in Utah, Oregon, Idaho and Wyoming.[2/] PacifiCorp claims that it has worked hard to keep its costs low, but it cannot identify any specific cost reductions that it has actually implemented because of the economy or to mitigate this rate filing.[3/]

1/ ICNU is not responding to Staff and PacifiCorp's technical arguments regarding ICNU and Public Counsel's administrative and general adjustments, but instead supports the arguments raised in Public Counsel's Reply Brief.

2/ PacifiCorp Brief ¶ 3; Exh. No. WRG-18 at 10 (Edison Electric Institute Ranking of Average Rates).

3/ See PacifiCorp Brief ¶ 4.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

3 PacifiCorp also distorts and inflates the significance of other changes. For example, PacifiCorp repeatedly states in its brief that it limited its 2009 wage increase "to below-market levels,"[4/] but fails to recognize that the 3.5% wage increase is about the same as its estimated 3.75% "market level" or that PacifiCorp arbitrarily self selected the comparable companies resulting in a highly inflated estimated "market."[5/] Similarly, PacifiCorp claims that it limited its 2010 pro forma increases in this proceeding, and included only the known and measurable 2010 wage increases,[6/] but fails to acknowledge that the Company did not include other pro forma reductions, including the cost savings associated with the Company's 2010 work force reductions.[7/] Essentially, the Company is requesting that ratepayers pay for higher wages and salaries on an inflated and inaccurate workforce level.

4 PacifiCorp's Brief also fails to note the two most significant areas in which the Company is requesting a rate increase are areas it could have limited to reduce the impact of this huge proposed rate increase. First, the Company is requesting a large increase in its cost of capital, or profits that its shareholder is authorized to earn, at the same time its actual capital costs have declined and its customers are struggling to survive in the current economy. The Company's return on equity ("ROE") request and equity ratio exceeds the equity ratios granted by this Commission to other investor owned utilities, the cost of capital granted to the Company in its other jurisdictions, and do not

4/ PacifiCorp Brief ¶¶ 3, 125.
5/ Wilson, Exh. No. 3T at 13:22—14:2; Wilson, TR. 388:2—389:23.
6/ PacifiCorp Brief ¶ 2.
7/ Meyer, Exh. No. GRM-1CT at 20:3—23:19.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

reflect the lower capital cost markets that exist in today's economy. Next, PacifiCorp has proposed significant increases in its net power costs; however, many of these increases are not based on actual cost increases, but upon how it calculates its power costs in the GRID model. The Company has decided to propose higher power costs in its case based on numerous power cost modeling methodologies which have been rejected by the Oregon and Utah regulatory commissions. PacifiCorp should have limited its rate increase and not proposed to re-litigate these flaws in its power cost model in Washington.

5 Staff's Brief, for its part, spends a considerable number of pages attacking the revenue requirement and other proposals of ICNU and Public Counsel, despite the admission by Staff that the Company's 20% rate increase is "shocking," and Staff itself proposes few revenue requirement reductions.[8/] For example, Staff's Brief stated it was "not thrilled to support the Company's wage and salary adjustments in the tough economic climate facing the ratepayers in Washington," but that Staff could not "find a defensible basis for rejecting PacifiCorp's adjustments, or accepting the adjustment of ICNU/Public Counsel."[9/] The testimony of ICNU's and Public Counsel's witnesses provide this Commission with a more than defensible basis to significantly reduce the Company's rate increase. Mr. Meyer's adjustments are conservative because most employees in PacifiCorp's service territory have received no pay increases. The Washington Staff's approach is directly contrary to that of other state commissions,

---

8/ Schooley, Exh. No. TES-1T at 35:19; Foisy, Exh. No. MDF-1CT at 4:8—7:21.
9/ Staff Brief ¶ 42.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

which have adopted aggressive revenue requirement adjustments because of the current economic conditions and PacifiCorp's aggressive proposed rate increases.[10] Finally, the Commission should reject Staff's punitive rate spread proposal, adopt an equal percentage increase for the all major customer classes that are close to parity, and reject a mechanical application of deriving cost-based increases on the Company's single cost of service study.

II. ARGUMENT

A. Cost of Capital

1. Mr. Gorman's Analysis Does Not Support an Over 10% Return on Equity

6 PacifiCorp cherry picks through Mr. Gorman's testimony to make the strained arguments that Mr. Gorman's analysis supports a ROE in the range of 10.23% to 10.50%.[11] PacifiCorp emphasizes Mr. Gorman's constant-growth discounted cash flow ("DCF") analysis, which provided an ROE range of 10.45% to 10.50%.[12] Next, the Company argues Mr. Gorman's risk premium analysis should be recalculated to produce a 10.23% ROE.[13] Finally, the Company urges the Commission to reject its previous decisions and not rely upon the Capital Asset Pricing Model at all.[14] PacifiCorp's arguments are based on an arbitrary self-selection of only Mr. Gorman's high range ROE analysis and inappropriately reject all evidence that supports much lower ROE estimates.

---

[10] E.g., Exh. No. RPR-11 at 2-3 (Idaho Commission Interlocutory Order No. 32151) (reducing PacifiCorp's pension expense and eliminating its scheduled wage increases because of "the economic conditions and service requirements in the Company's southeast Idaho service territory.")

[11] PacifiCorp Brief ¶¶ 15-18.

[12] Id.

[13] Id.

[14] Id. ¶¶ 31-32.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

7 ICNU's cost of capital analysis presented the Commission with a complete range of all reasonable ROE estimates and did not discard those inputs or results that did not pass an arbitrary "smell test." Unlike the Company's decisions to reject cost of capital results it disagreed with,[15/] Mr. Gorman consistently included data and model results that he believed produced too high of an ROE estimate.[16/] For example, instead of rejecting the constant-growth DCF results that were abnormally high, Mr. Gorman included those results in his average of DCF results.[17/] Similarly, Mr. Gorman believes market analysts typically overestimate and inflate the market risk premium, but he relied upon their data in order to show the overall reasonableness of his final analysis.[18/]

8 A key difference between Mr. Gorman's and Dr. Hadaway's analysis is their expectations regarding future growth rates.[19/] PacifiCorp supports its position by raising a number of technical arguments about the witnesses' judgment-based growth rate assumptions and by parsing the Commission's last order rejecting Dr. Hadaway's assumptions.[20/] The crux of the dispute, however, is very simple: a utility's growth rate cannot be expected to exceed the long-term growth rate in the market.[21/] Dr. Hadaway's estimates for growth exceed the consensus economists' estimates of growth in the U.S. economy, which results in inflated ROE estimates.[22/] The Commission should rely upon Mr. Gorman's more realistic growth rate assumptions.

15/ Hadaway, TR. 251:13-16.
16/ Gorman, Exh. No. MPG-1T at 21:1—23:18, 27:16-18.
17/ Id. at 19:20—23:18.
18/ Id. at 35:10—36:3.
19/ Gorman, TR. 470:12-18.
20/ PacifiCorp Brief ¶¶ 27-30.
21/ Gorman, Exh. No. MPG-1T at 21:1—23:13.
22/ Id. at 44:6—45:15.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

9 PacifiCorp recalculates Mr. Gorman's risk premium estimate increasing it from 9.46% to 10.23% based on the argument that Mr. Gorman "ignored" evidence of the "inverse relationship" between interest rates and equity premiums.[23] Mr. Gorman did not ignore Dr. Hadaway's use of a simple inverse relationship in his risk premium model, but rejected it because it "is not supported by the academic research."[24] Mr. Gorman explained that equity risk premiums were inversely related to interest rates in 1980s, but that was due to the interest rate volatility that occurred at that time and interest rates are not as volatile today.[25] In addition, Dr. Hadaway's inverse relationship analysis is flawed because it relies upon simple changes in nominal interest rates, which are highly influenced by inflation outlooks.[26] Dr. Hadaway's analysis should be rejected because it does not account for the fact that the relevant changes in equity risk premiums are "the relative changes to the risk of equity versus debt securities investments, not simply changes to interest rates."[27]

10 In sum, Mr. Gorman is a very experienced, well-respected expert on cost of capital issues. The Commission should ignore PacifiCorp's offensive manipulation of Mr. Gorman's data. Mr. Gorman's analysis and results are also very conservative. However, given the economy, it is also reasonable to adopt the approach on cost of capital by Staff's witness Mr. Elgin.

---

[23] PacifiCorp Brief ¶ 18.
[24] Gorman, Exh. No. MPG-1T at 49:15—50:2.
[25] Id. at 50:3-10.
[26] Id. at 50:10-21.
[27] Id.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

2. Mr. Gorman's 49.1% Common Equity Ratio Is Well Supported and Based on the Equity that PacifiCorp Actually Uses to Support its Regulated Operations

11 PacifiCorp argues that the Commission should use its actual capital structure to set rates because there is "no compelling reason to adopt a hypothetical capital structure."[28] Mid-American Energy Holdings Company ("MEHC") controls the PacifiCorp's actual equity ratio, and MEHC has been increasing the equity ratio to unnecessarily increase its profits in a manner that does not minimize PacifiCorp's capital costs.[29] This provides sufficient justification for the Commission to adopt a different equity ratio. The Commission should either set the Company's equity ratio based on that used by other comparable utilities, including Puget Sound Energy and Avista, or use only the equity which is used to support Washington operations.[30]

12 The Commission should also reject PacifiCorp's specific criticisms of ICNU's equity adjustments because Mr. Gorman appropriately designed them "to try to measure how much common equity has actually been invested in utility plant and equipment that is [in] rate base here in Washington."[31] For example, Mr. Gorman removed the difference between affiliated notes receivable because PacifiCorp has never had any payables (only receivables), which means that the Company has a large cash position that it is using to write loans to affiliates.[32] Mr. Gorman also removed an excessive balance of short term cash investments, "which is largely attributable to

---

[28] PacifiCorp Brief ¶¶ 35-37.
[29] See Gorman, Exh. No. 22T at 1:13—4:18.
[30] ICNU Brief ¶¶ 30-32.
[31] Gorman, TR. 476:7-11.
[32] Id. at 477:22—478:3.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

retaining more cash flow in the utility than necessary to support utility operations."[33/] PacifiCorp's "acquisition adjustment," which represents the difference between what MEHC paid for the Company and the book value of the asset, should also be removed because it is an accounting asset that is not included in Washington rate base and should not be "included in the cost of service in this jurisdiction."[34/] Mr. Gorman's reasonable adjustments are the minimum changes to the Company's equity ratio that should be made to protect Washington ratepayers.

B. Net Power Costs

1. ICNU and Staff's Wind Integration Adjustments Do Not Violate the Supremacy Clause and Are Consistent with Oregon's Treatment of These Costs

13 PacifiCorp asserts that the Supremacy Clause of the United States Constitution and the filed rate doctrine would be violated, should the Commission accept the proposal of ICNU and Staff to remove costs associated with providing wind integration services to wind projects which are not owned by the Company.[35/] In other words, PacifiCorp argues that the Supremacy Clause and the filed rate doctrine mandate that Washington retail customers must subsidize the Company's wholesale transmission customers to the tune of $506,607.[36/] This argument is a complete misapplication of both Supremacy Clause and filed rate doctrine jurisprudence, has not been accepted by the

---

33/ Gorman, Exh. No. MPG-1T at 14:13-26; Gorman, TR. 476:11—477:21.
34/ Id.
35/ PacifiCorp Brief ¶ 82.
36/ ICNU Brief ¶ 70.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Washington or Oregon Commissions, and flies in the face of FERC's own proposed guidelines.

14 As authoritative precedent on the Supremacy Clause, PacifiCorp cites to a quotation in Nantahala Power & Light Co. v. Thornberg, 476 U.S. 953 (1986).[37/] In that case, the Court held that "FERC clearly has exclusive jurisdiction over the rates to be charged Nantahala's interstate wholesale customers,"[38/] and that "[o]nce FERC sets such a rate, a State may not conclude in setting retail rates that the FERC-approved wholesale rates are unreasonable."[39/] The obvious problem with applying this holding to this rate case is that, as PacifiCorp admits, FERC has not set a wholesale wind integration rate under the Company's OATT.[40/] In short, the WUTC cannot find that "the FERC-approved wholesale rates are unreasonable" in this rate case or that they violate the Supremacy Clause, because no such FERC-set wind integration rates actually exist due to the Company's own failure to file with FERC.

15 Moreover, if the Commission adopts the ICNU and Staff adjustment to remove interstate wholesale wind integration costs from Washington retail rates, FERC's exclusive jurisdiction over interstate transmission rates will not be affected. FERC is and will still be free to approve whatever wind integration service rates it deems appropriate as soon as PacifiCorp seeks a modification of its OATT, as it apparently plans to do.[41/]

37/ PacifiCorp Brief at n. 230. PacifiCorp cites to Nantahala, but the volume and page citation is actually to Mississippi Power & Light Co. v. Mississippi, 487 U.S. 354 (1988). Also, the quote in Mississippi Power & Light Co. is on page 373, not 372.

38/ Nantahala, 476 U.S. at 966.

39/ Id. (emphasis added).

40/ PacifiCorp Brief at n. 232.

41/ Duvall, Exh. No. GND-5T at 46:1-11.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Conversely, if the WUTC requires retail customers to subsidize wholesale interstate transmission service costs by levying such expenses upon Washington retail customers, a used and useful problem would be created as retail customers would be charged costs not used to serve retail load.

16 The same deficiency in the Company's Supremacy Clause argument also proves fatal in its application of the filed rate doctrine. PacifiCorp supports its argument with two statements: 1) "The filed rate doctrine also prevents a state from modifying FERC-approved wholesale rates; and 2) "The filed rate doctrine requires that FERC-approved rates be given binding effect by states."[42/] Plainly, even as stated by the Company, the filed doctrine is dependent upon the existence of "FERC-approved" rates in order to be applicable. As the WUTC cannot set a "different" wind integration services rate at the state level; in the absence of a federal rate fixed by FERC, the filed rate doctrine does not and cannot apply.[43/]

17 A thorough reading of Nantahala demonstrates that the filed rate doctrine actually requires that the Commission abstain from including wholesale interstate wind integration charges in retail rates. As explained in that case, the U.S. Supreme Court overturned a state court decision that "assumed" that FERC's predecessor, the Federal Power Commission ("FPC"), "would have approved certain rates as reasonable and thus allowed the utility to charge that rate, although the rates were never in fact filed with the

---

[42/] PacifiCorp Brief at ¶ 82 (emphasis added).

[43/] Nantahala, 476 U.S. at 963 (*quoting* Montana-Dakota Utils. Co. v. Northwestern Pub. Serv. Co., 341 U.S. 246, 251-252 (1951)).

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

FPC."[44/] This is a close parallel to the circumstances of the present rate case, in which PacifiCorp now asks the Commission to assume what FERC would adjudge as a reasonable wind integration rate—a rate which has "never in fact [been] filed with" FERC.[45/]

18 Under the filed rate doctrine, FERC alone is empowered to make that judgment of reasonableness of the wind integration rate, and until it has done so, no rate other than the one on file may be charged. A state court or commission doing otherwise "has consequently usurped a function that Congress has assigned to a federal regulatory body. This the Supremacy Clause will not permit."[46/] Thus, the WUTC would violate the Supremacy Clause and the filed rate doctrine by proactively (i.e., without any directive from FERC) levying a charge on Washington retail customers for costs associated with interstate transmission generally and wind integration specifically.

19 FERC itself has more recently weighed in on this issue, signaling that the appropriate party to pay for wholesale wind integration costs is the wholesale transmission customer—i.e., PacifiCorp acknowledges FERC's proposal "to begin charging all wind generators, including non-owned facilities, for the costs incurred to integrate them into the Company's balancing areas."[47/] In this light, it would be nonsense for the WUTC to conclude that refusing to charge retail customers non-owned wind integration costs would somehow preempt FERC's plenary authority over transmission

---

[44/] Nantahala, 476 U.S. at 964 (*citing* Arkansas Louisiana Gas Co. v. Hall, 453 U.S. 571 (1981)) (emphasis added).
[45/] Id.
[46/] Id. at 964 (*quoting* Hall, 453 U.S. at 581-582).
[47/] PacifiCorp Brief ¶ 84 (emphasis added).

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

rates. Ultimately, PacifiCorp's arguments on these points are self-refuting and do not present any basis to justify the Commission rejecting the ICNU and Staff adjustment removing the Company's wind integration costs that do not service or benefit Washington retail customers.

20 PacifiCorp also incorrectly argues that its proposal to require Washington ratepayers to pay for the wind integration costs of its wholesale transmission customers is consistent with how the Oregon Commission has addressed this issue.[48/] PacifiCorp misrepresents the Oregon Commission's decision on this issue, which did not allow the Company to recover its non-owned wind generation costs pending a FERC decision. In Oregon, PacifiCorp similarly requested that Oregon ratepayers pay for the costs of wind integration costs that did not provide energy to its Oregon customers and that should be charged to its wholesale customers.[49/] ICNU and the Oregon Staff objected to PacifiCorp's proposal, and the parties entered into a "black box" settlement that reduced the Company's power costs reflecting Staff's and ICNU's issues (including the non-owned wind integration costs), but did "not imply agreement on the merits of any adjustment, nor" that the Company's original proposals were accepted.[50/] The parties, however, were concerned that PacifiCorp had delayed filing a wind integration charge with FERC, and the settlement includes a specific provision requiring the Company to

---

48/ PacifiCorp Brief ¶ 85.

49/ Re PacifiCorp, Oregon Docket No. UE 216, Order No. 10-363, Appendix A at 2-3 (Sept. 16, 2010).

50/ Id. In addition to the Oregon settlement's specifically stating that the settlement did not mean that PacifiCorp's proposals were accepted, the settlement included language that "no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation." Id. at Appendix A at 9.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

file such a charge with FERC.[51] The Oregon Commission approved the all party settlement.[52] Therefore, the Oregon decision stands for the opposite position: that Oregon has not allowed PacifiCorp to recover these costs from ratepayers and PacifiCorp must first seek FERC approval of a wind integration charge in its OATT.

2. ICNU's and Staff's Colstrip Outage Adjustments Are Conservative and the Company Should Not Be Permitted to File a Colstrip Outage Deferral

21 PacifiCorp argues that ICNU's and Staff's Colstrip outage adjustments would result in "an abnormally low outage rate in the test year," and that if these outage rate adjustments are accepted by the Commission, then the Company should be allowed to file a deferral. The outage rate adjustments proposed by ICNU and Staff are very conservative, more accurately estimate the expected outages that will occur during the test period, and PacifiCorp has not presented sufficient information to warrant a deferral of any Colstrip 4 outage costs.

22 ICNU has proposed that all of PacifiCorp's forced outages be capped at 28 days, consistent with how the Oregon Commission treats this issue, while Staff proposed that the outage rate for Colstrip 4 be set at 8%.[53] PacifiCorp argues that Mr. Falkenberg's and Mr. Buckley's testimony that the Colstrip 4 outage was "extraordinary" is contradicted by the alleged fact that the outage rate at Colstrip exceeds 10% for one year out every four, which is "clearly ordinary."[54] PacifiCorp has simply confused the

---

[51] Id. at Appendix A at 4.
[52] Id. at 1.
[53] PacifiCorp Brief ¶¶ 86-89.
[54] Id. ¶¶ 87-89.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

facts. The 174 day Colstrip 4 outage is not "ordinary" nor does it reflect the expected outages that should occur during ordinary conditions. As explained by Mr. Buckley at the hearing, PacifiCorp's claim that the Colstrip 4 outage rate exceeds 10% one of every four years is wrong because the 10% rate is based on the combined outages of both Colstrip 3 and 4.[55] The actual Colstrip 4 outage rates are much lower than 10%.[56]

23 PacifiCorp should not be allowed to file a deferral of the costs of the Colstrip 4 outage if the Commission normalizes the unit's outage rate. PacifiCorp misconstrues ICNU and Staff's arguments as prudence disallowances. ICNU and Staff are instead forecasting the most accurately predictive outage rate for Colstrip during the time rates will be in effect. PacifiCorp has not bothered to provide any information that would even allow this Commission to ascertain whether the outage would meet the Commission's well established deferred accounting standards.[57]

3. ICNU's Hermiston Planned Outage Schedule Is Reasonable

24 PacifiCorp supports its unreasonable planned outage schedule for Hermiston based on inaccurate mischaracterizations of ICNU's position and the evidence in this case. PacifiCorp argues that ICNU's proposal is that the Hermiston plant would go without a planned maintenance outage in 2011, and that it is inappropriate to move the Hermiston outage to February or March, instead of April or May, as assumed in the Company's filing.[58] PacifiCorp further states that ICNU's proposal is only based on

55/ Buckley, TR. 579:15—580:3.
56/ Id.
57/ PacifiCorp Brief ¶¶ 87-89.
58/ Id. at ¶ 92.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

proposing that this outage be timed when the economics of running the plant are least attractive and ICNU "ignores other variables."[59/]

25 ICNU's Hermiston outage schedule was based in part on the assumption that the Company will manage its outage schedule to lower costs to customers, but ICNU's recommendation is also based on the Company's actual outage schedule rather than its error prone methodology used in its power cost model.[60/] ICNU's proposal perfectly corresponds to PacifiCorp's actual planned schedules for the exact time period in this case.[61/] ICNU's position does not mean that Hermiston will go without a planned outage during 2011, but that Hermiston could have its planned outage earlier in 2011 and according to its own schedule.[62/] ICNU's recommendation is both based on the Company scheduling the Hermiston outage during the time period that lowers costs to customers and is consistent with the Company's actual planned outage schedules.

C. ICNU's and Staff's West Control Area and Power Cost Adjustments Are Fair and Balanced

26 PacifiCorp argues against ICNU's and Staff's west control area ("WCA"), transmission, forced outage rate and heat rate, and Sacramento Municipal Utility District ("SMUD") adjustments on the grounds that they are inconsistent with the Commission's approval of the WCA, have technical flaws, or are somehow arbitrary or one-sided. ICNU's initial brief and Mr. Falkenberg's testimony fully responds to these arguments,

---

59/ Id.
60/ Falkenberg, Exh. No. RJF-1CT at 13:5—14:11.
61/ Exh. No. GND-52C (PacifiCorp Response to ICNU Data Request 27.2) (showing the month of the planned actual outages for Hermiston).
62/ Id.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

but the Commission should note that each of ICNU's adjustments addresses a problem that the Company has created and could have resolved prior to filing this case. For example, PacifiCorp elected to model the SMUD contract in the most expensive manner, which is unrealistic and inconsistent with how the Utah Commission has treated this issue, and the Company decided not to make any modeling changes to model the contract more accurately.[63] Similarly, as the Oregon Commission recognized, PacifiCorp has elected to use a power cost model that "derates" forced outages, and this then requires corresponding adjustments to the heat rate and unit capacities.[64] In addition, the Company's modeling of the WCA includes arbitrary assumptions that are inconsistent with the reasoning behind the Commission's adoption of the WCA, fails to pass on the benefits of system integration to Washington, and inappropriately charges Washington the costs associated with resources that the Commission previously concluded should not be included in rates.[65] PacifiCorp now complains about ICNU and Staff's remedies to these known problems, but the Company has not proposed its own solutions that could have been made well before filing this case.

D. The Commission Should Adopt an Equal Percentage Rate Increase for All Major Customer Classes

27 PacifiCorp supports Staff's rate spread proposal in its brief with one paragraph, which is only slightly shorter than the Company's two and half paragraphs of

---

[63] ICNU Brief ¶¶ 62-66.

[64] Re Commission Investigation into Forecasting Forced Outage Rates for Electric Generating Units, Oregon Docket No. UM 1355, Order No. 10-414 at 7-8 (Oct. 22, 2010).

[65] ICNU Brief ¶¶ 38-52.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

testimony supporting its reversal of its original equal percentage approach.[66] The only apparent reason for this dramatic change is to penalize ICNU for proposing more revenue requirement adjustments in this case than other parties, including Staff.

28 PacifiCorp's Brief does not even attempt to explain how its position is consistent with Commission precedent and also ignores that its switched position harms ICNU and Public Counsel, both of whom support an equal percentage approach.[67] ICNU would have recommended additional adjustments to the Company's cost of service study if it had known that the Company and other parties were going to argue that the Commission move to a new policy of using a single cost study to derive cost based class increases for classes that are just a few percentages away from parity.[68] If the Commission intends to adopt a new rate spread approach, then ICNU requests that the Commission provide all the parties with notice and adopt an equal percentage rate spread for all classes except street lighting in this case.[69]

29 The Commission should also reject Walmart's argument that costs should be shifted from commercial customers to residential, industrial and agricultural customers.[70] Walmart does not support PacifiCorp's cost of service study nor did it propose an alternative study, but nevertheless relies upon the Company's results to argue that commercial customers should receive a lower than average rate increase.[71]

66/ PacifiCorp Brief ¶ 134; Griffith, Exh. No. WRG-7T at 2:4—3:5.
67/ Public Counsel Brief ¶¶ 72-84 (Public Counsel supports an equal percentage approach).
68/ Schoenbeck, Exh. No. DWS-3T at 3:16-21.
69/ Id.
70/ Walmart Brief ¶¶ 2-17.
71/ Chriss, Exh. No. SWC-1T at 3:14—4:5; Schoenbeck, Exh. No. DWS-3T at 4:5-8.

DAVISON VAN CLEVE, P.C.
333 S.W. Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Walmart's proposal is "disingenuous" because Walmart accepts the revenue requirement reductions proposed by ICNU and Public Counsel and "disavows support for the Company's cost study but yet on the other hand, points to it to justify the Walmart rate spread proposal."[72]

III. CONCLUSION

30 The Commission should significantly reduce PacifiCorp's rate increase based on the strong evidentiary record establishing that the Company has inflated its costs and has not made any appropriate cost reductions. The Company has not carried its burden of proof demonstrating that its 20% proposed rate increase is fair, just or reasonable, particularly in light of the economy.

Dated this 18th day of February, 2011.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.

/s/ Irion Sanger
Melinda J. Davison
Irion Sanger
333 S.W. Taylor, Suite 400
Portland, Oregon 97204
(503) 241-7242 phone
(503) 241-8160 facsimile
mjd@dvclaw.com
Of Attorneys for the Industrial Customers of Northwest Utilities

---

[72] Schoenbeck, Exh. No. DWS-3T at 4:5-8.