

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
Complainant,)
v.)
PACIFICORP D/B/A PACIFIC)
POWER & LIGHT COMPANY,)
Respondent.)
_____)

Docket Nos. UE-130043

EXHIBIT NO.____(MCD-6)

EXCERPT FROM UE 245 ORDER NO. 12-409

June 21, 2013

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company first raised the argument in briefing.³³ ICNU agrees that removing the market caps will increase modeled sales at the smaller hubs, but claims that Pacific Power does not show that the modeled sales levels at the individual hubs (including the smaller hubs), without market caps, will be outside of a reasonable range.

ICNU claims that Pacific Power's argument that market caps are necessary to address market illiquidity distorts ICNU's testimony and briefing in this and other cases, and is not based on evidence presented by the company in this case. ICNU also points out that Pacific Power's assertion that other utilities use dynamic pricing to account for liquidity supports moving away from GRID entirely. ICNU states, "[a]t a minimum, not making the model worse, with one-sided restrictions that harm customers and reduce the accuracy of its forecast of market sales, would be an improvement."³⁴

b. Resolution

The parties raise two fundamental questions: (1) Does Pacific Power's GRID model need market caps to produce realistic estimates of sales; and, if so (2) What is the nature of the market caps that should be adopted?

Pacific Power's request to further revise market caps shows that the company has continuing problems with GRID accurately forecasting sales and the dispatch of generation. Pacific Power argues that, without the caps, GRID makes incorrect assumptions about market depth for STF transactions, and fails to take into account critical inputs such as load requirements, transmission constraints, and market illiquidity. Even with market caps, Pacific Power argues that GRID overestimates market sales. We note, however, that even though Staff and ICNU recommend that market caps be removed, neither assert that GRID will function perfectly without them.

Because GRID is a forecasting model that is only as good as its constructs and inputs, the real question presented is not whether market caps should be used as a patch to address certain limitations of the GRID model, but whether the GRID model itself should be fixed. As we have already indicated, that question is not one that we can fully address in this proceeding. Pacific Power should understand, however, that as the company and others continue to raise questions about the accuracy and reasonableness of GRID forecasts, we will expect Pacific Power to refine its modeling to produce the best possible estimates of all components of net power costs.

As Pacific Power observes, market caps have always been part of GRID and neither Staff nor ICNU persuasively argue that GRID, as it is currently exists, no longer needs market caps. Based upon the evidence presented in this proceeding, we conclude that some form of market caps continue to be needed in GRID as it is now constructed. For this reason, we reject the recommendations of Staff and ICNU to eliminate market caps. Staff and ICNU effectively argue, however, that an alternative market cap methodology is superior to Pacific Power's revised market cap methodology. We adopt the alternative

³³ ICNU-CUB's Joint Closing Brief, p. 9.

³⁴ *Id.* at 11.

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approach suggested by Staff and direct Pacific Power to revise GRID to base market caps on the highest of the four most recently available relevant averages for each trading hub, each month, and differentiated by on- and off-peak hours.

2. Arbitrage and Trading Revenue Credit

a. Parties' Positions

In Pacific Power's 2008 TAM, the Commission directed the company to adjust the NPC calculation to impute an incremental revenue credit into its NPC to reflect a profit margin on certain STF transactions that were not being modeled in GRID.³⁵ The decision was based on two findings: (1) GRID systematically understates wholesale sales volumes as compared to historical actual volumes; and (2) there was no evidence that the company's arbitrage transactions were accounted for in GRID.

For the 2013 TAM, Pacific Power proposes to eliminate the arbitrage and trading and revenue credit on the basis that the conditions justifying an arbitrage adjustment no longer exist. Since the 2008 TAM, the company indicates it has added both STF transmission and non-firm transmission to GRID's topology. Pacific Power asserts that GRID no longer underestimates wholesale sales volumes, and in fact overestimates these sales volumes. The company observes that the transactions covered by this adjustment have been steadily declining, along with the associated revenue credit, suggesting that this revenue credit will soon become *de minimus*. Pacific Power argues that continuing to include the arbitrage and trading revenue credit would result in the over-forecasting of sales activity, largely based on transactions dating back to 2007, and the lowering of system NPC by approximately \$2.5 million.³⁶

ICNU and CUB oppose this proposal. ICNU argues that the company's rationale for removing the adjustment is undermined by evidence showing that GRID is not over-forecasting sales activity relative to the company's historical levels.³⁷ ICNU further argues that the trading and arbitrage adjustment does not double count revenues associated with such transactions, but instead imputes revenues that GRID does not count. Pacific Power's power cost model only accounts for a small portion of hourly system balancing sales, ICNU argues, and the trading and arbitrage adjustment ensures that the company's modeling more realistically accounts for all the company's sales. Pacific Power responds that ICNU's opposition is based on an erroneous calculation of actual sales volumes.³⁸ The company points out that when ICNU argues that GRID does not model arbitrage sales, ICNU fails to account for system balancing sales and purchases modeled in GRID, transactions that serve as proxies for STFs.³⁹

³⁵ Order No. 07-446 at 10-11.

³⁶ PAC/300, Duvall/22, ll 16-17.

³⁷ ICNU/100, Deen/4-5.

³⁸ Pacific Power's Prehearing Brief, p. 19, citing ICNU/100, Deen/5.

³⁹ *Id.* at 20.