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SUBMITTED VIA ELECTRONIC FILING

May 26, 2011

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

RE: *PacifiCorp*, Docket No. ER11-___-000

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act ("FPA"),[1] Part 35 of the Federal Energy Regulatory Commission's ("FERC" or the "Commission") regulations,[2] and Order No. 714,[3] PacifiCorp hereby submits proposed revisions to its Open Access Transmission Tariff ("OATT").[4] This filing implements cost-based formula rates for Network Integration Transmission Service ("NIT Service"), Point-to-Point Transmission Service ("PTP Service") and Schedule 1 (Scheduling, System Control and Dispatch Service) taken under PacifiCorp's OATT. PacifiCorp is also proposing to amend its OATT to: (1) update PacifiCorp's stated rates for Ancillary Services Schedules 2, 3, 5, and 6; (2) include a new Schedule 3A to provide for Generation Regulation and Frequency Response Service; and (3) update PacifiCorp's transmission service real power loss factors under Schedule 10.

PacifiCorp's current transmission rates were established pursuant to a June 6, 1996 "black box" settlement resolving most contested issues in PacifiCorp's last full rate case submitted in October 1995 in Docket No. ER96-8-000, *et al.*, as supplemented in June 2002, when PacifiCorp modified its Annual Transmission Revenue Requirement ("ATRR").[5] In the last fifteen years, PacifiCorp's net transmission plant has increased from $2.042 billion to $4.3 billion. Among other transmission infrastructure initiatives, as announced in 2007 and as described below, PacifiCorp is currently planning and building its Energy Gateway Project (or "Project") which involves the construction of approximately 2,000 miles of new transmission infrastructure in six states, numerous communities and federally administered land. PacifiCorp's

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1 16 U.S.C. § 824d (2006).

2 18 C.F.R. Part 35 (2010).

3 *Electronic Tariff Filings*, Order No. 714, 124 FERC ¶ 61,270 (2008).

4 PacifiCorp's OATT is designated as PacifiCorp FERC Electric Tariff, Volume No. 11. On October 29, 2010, the Commission accepted by letter order PacifiCorp's Baseline OATT. *PacifiCorp*, Letter Order, Docket No. ER10-2562-000 (Oct. 29, 2010).

5 Testimony of Kenneth T. Houston, Exhibit No. PAC-1, at 6:14 – 7:12 ("Houston Testimony"). PacifiCorp's June 2002 filing did not change the settled rates in Docket No. ER96-8-000, *et al.*

existing transmission rate structure is not sufficient for PacifiCorp to recover its full costs in a timely or efficient manner and, as a result, proposes to change from stated rates to a formula rate. In addition, PacifiCorp is making this filing pursuant to a commitment included in a November 21, 2007 Offer of Settlement and Stipulation ("Offer of Settlement") filed in Docket No. EL07-64-000, *et al*.[6]

The Commission has explained "the use of formula rates encourages the construction and timely placement into service of needed transmission infrastructure" and will "allow [a] utility to recover its costs in a more timely manner while also protecting customers from inflated rates through the true-up process."[7] Consistent with this precedent, to fully recover and to better track its costs, PacifiCorp proposes to convert its current stated transmission rates to a formula rate with a "true-up" mechanism. PacifiCorp's use of formula rates will eliminate the need for frequent rate case filings and ensure that rates reflect PacifiCorp's actual costs (and authorized incentives) needed for transmission investment.[8] PacifiCorp's proposed formula rate is designed to protect PacifiCorp and its customers by capturing differences between the forecasted and actual cost-of-service in the form of a true-up mechanism with interest. Thus, while PacifiCorp's transmission rates have been increased (as explained below), PacifiCorp's true-up mechanism ensures that any deviation from PacifiCorp's actual costs during the prior calendar year will be reflected as an adjustment (with interest) to the projected ATRR for the upcoming rate period. PacifiCorp's proposed formula rate is consistent with other formula rate mechanisms in effect and should be accepted for filing without suspension.[9]

Moreover, PacifiCorp's proposed amendments to its Ancillary Services should be accepted for filing. PacifiCorp currently does not charge transmission customers for Scheduling, System Control and Dispatch Service under Schedule 1 or Reactive Supply and Voltage Control Service under Schedule 2 of PacifiCorp's OATT. As explained in supporting testimony,

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6 Houston Testimony at 13:1 – 15:2. The Offer of Settlement was between PacifiCorp, Pacific Gas and Electric Company, the California Independent System Operator Corporation (as well as other parties) providing for, among other things, the shared usage and coordinated operation, maintenance, and planning of certain assets making up a portion of the California-Oregon Intertie. The Commission accepted the Offer of Settlement by order dated December 20, 2007. The Offer of Settlement provided that, upon its acceptance, the Commission's investigation of PacifiCorp's transmission rates established in Docket No. EL07-84-000, *et al.* shall be terminated. Section 8.2 of the Offer of Settlement provided that PacifiCorp would file a general rate case for its system-wide transmission rates no later than June 1, 2011. *PacifiCorp, et al.*, 121 FERC ¶ 61,278 (2007).

7 *Virginia Elec. & Power Co*., 123 FERC ¶ 61,098 at PP 15-16 (2008).

8 *See Niagara Mohawk Power Corp.,* 124 FERC ¶ 61,106 at P 33 (2008).

9 *See PPL Elec. Utils. Corp.*, 125 FERC ¶ 61,121 at P 28; (2008) ("*PPL*") (accepting subject to a nominal suspension a proposed formula OATT rate that replaced stated rates); *Duquesne Light Co*., 118 FERC ¶ 61,087 at P 69 (2007) (accepting formula rate subject to nominal suspension); *Int'l Transmission Co*., 116 FERC ¶ 61,036 at P 1 (2006) (accepting formula rate without suspension); *Idaho Power Co*., 115 FERC ¶ 61,281 at P 30 (2006) (nominally suspending a proposed formula rate); *Allegheny Power Sys. Operating Cos.*, 111 FERC ¶ 61,308 at P 51 (2005); (finding that circumstances warranting shorter suspension period exist where the Commission has encouraged utilities to move from stated to formula rates and where customers would also benefit); *Southwest Power Pool, Inc*., 111 FERC ¶ 61,118 at P 32 (2005) (encouraging utilities to consider adopting formula rates to facilitate timely recovery of transmission-related investment); *New York Indep. Sys. Operator, Inc*., 109 FERC ¶ 61,372 at P 29 (2004) (encouraging NYISO transmission owners to explore adopting formula rates).

PacifiCorp's proposed rates for Schedules 1 and 2, as well as Schedules 3, 5 and 6, are cost-justified and are calculated in a manner consistent with FERC precedent.[10]

PacifiCorp's proposed new Schedule 3A should also be accepted for filing. PacifiCorp's proposed Schedule 3A is consistent with FERC precedent allowing transmission providers to recover the capacity costs associated with balancing moment-to-moment variations in generation output.[11] Schedule 3A will apply to all transmission customers delivering energy from generators (both thermal and renewable) in PacifiCorp's Balancing Authority Areas ("BAAs") to other BAAs. PacifiCorp will not charge transmission customers for service under both Schedule 3 and Schedule 3A for the same transaction.[12]

Finally, PacifiCorp's current real power loss factors were established in the same proceedings as PacifiCorp's current transmission rates and now, over fifteen years later, must be updated to reflect current system conditions. PacifiCorp's revised transmission real power loss factor is fully supported and should be accepted.[13]

For these reasons and the reasons stated below, PacifiCorp's proposed tariff revisions are just and reasonable. Therefore, PacifiCorp respectfully requests that the Commission accept the proposed tariff revisions included herein to become effective 60 days after the date of filing, which is July 25, 2011 (without any suspension), with billing at the new rates to be made effective on the first day of the month following such acceptance for filing (*i.e.*, August 1, 2011).

II. BACKGROUND

A. <u>Description of PacifiCorp</u>

PacifiCorp is an indirect, wholly-owned subsidiary of MidAmerican Energy Holdings Company. PacifiCorp provides delivery of electric power and energy to approximately 1.7 million retail electric customers in six western states. PacifiCorp consists of three core business units: (1) PacifiCorp Energy manages the electric generation, commercial and trading, and coal mining operations of the Company; (2) Pacific Power delivers electricity to retail customers in Oregon, Washington and California; and (3) Rocky Mountain Power delivers electricity to retail

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10 *See generally* Testimony of Alan. C. Heintz, Exhibit No. PAC-4 ("Heintz Testimony").

11 *See, e.g., Sierra Pac. Res. Operating Cos.*, 125 FERC ¶ 61,026 (2008) (accepting revisions to OATTs proposing a new schedule for Regulation and Frequency Charges for Generators Selling Out of Control Area)*; Entergy Servs., Inc.*, 120 FERC ¶ 61,042 (2007) (accepting proposal to retain a *pro forma* Generator Imbalance Agreement containing graduated Generator Regulation Service charges); *Florida Power Corp.*, 89 FERC ¶ 61,263 (1999) (approving a proposal for a Generator Regulation Service charge assessed against transmission customers); *Westar Energy, Inc.*, 130 FERC ¶ 61,215 (2010) (accepting proposal for a new schedule for Generator Regulation and Frequency Response Service, allowing utility to provide and charge for this service to generators located within its balancing authority area whose output is delivered outside of the balancing authority area or to the Southwest Power Pool energy imbalance market).

12 Houston Testimony at 26:1 – 29:2.

13 *See generally* Testimony of Paul M. Normand, Exhibit No. PAC-21 ("Normand Testimony").

customers in Utah, Wyoming and Idaho. PacifiCorp's transmission operations and management personnel are headquartered in Portland, Oregon.

PacifiCorp's bulk transmission network is highly integrated with other transmission providers in the western United States. PacifiCorp owns and operates approximately 16,785 miles of transmission lines in 10 states.[14] Exhibit No. PAC-2 provides a high-level map of PacifiCorp's transmission system and service territory.

As of December 31, 2010, PacifiCorp's current total transmission plant in service is approximately $4.3 billion.[15] PacifiCorp is interconnected with approximately 80 generation plants and 13 adjacent BAAs at approximately 152 points of interconnection. PacifiCorp owns, or has an interest in, generation resources directly interconnected to its transmission system with an average system peak capacity of approximately 16,343 MW.[16] This generation capacity includes a diverse mix of coal, hydroelectric, wind power, natural gas-fired combined cycles and combustion turbines, and geothermal capacity.

Under its OATT, PacifiCorp provides Long-Term Firm PTP Service to 10 transmission customers, Short-Term Firm and Non-Firm PTP Service to approximately 140 transmission customers under umbrella agreements, and NIT Service to 8 transmission customers, including PacifiCorp Energy. PacifiCorp also provides transmission service to certain "legacy" transmission customers under agreements pre-dating the OATT.

B. PacifiCorp's Current Transmission Rates

PacifiCorp's last full transmission rate case proceeding was filed on October 2, 1995, as amended and supplemented on December 18, 1995, in Docket No. ER96-8-000, *et al.*, when the Company sought to update its transmission service rates and firm "requirements" electric service rates for several municipal customers.[17] PacifiCorp was not proposing to increase its rates at that time. Instead, the proposed rates were designed to collect PacifiCorp's new revenue requirements as a result of billing demands, and were based on 1994 FERC Form No. 1 costs.

A "black box" partial settlement agreement among PacifiCorp and various intervening parties was filed with the Commission on June 10, 1996. On April 21, 1998, the Commission approved the partial settlement as in the public interest and rates were accepted for filing, subject to refund and revision.[18] Under the settlement, the ATRR for purposes of NIT Service was

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[14] PacifiCorp 2010 FERC Form No. 1 at 422 (Apr. 25, 2011).

[15] PacifiCorp 2010 FERC Form No. 1 at 206-207 (Apr. 25, 2011).

[16] PacifiCorp 2010 FERC Form No. 1 at 400 (Apr. 25, 2011).

[17] *PacifiCorp*, Rate Filing, Docket No. ER96-8-000 (Oct. 2, 1995); *PacifiCorp*, Amendment to Rate Filing, Docket No. ER96-8-000 (Dec. 18, 1995).

[18] *PacifiCorp*, 83 FERC ¶ 61,059 (1998); *see also PacifiCorp*, 84 FERC ¶ 61,303 (1998), *aff'g*, 79 FERC ¶ 63,003 (1997) (accepting the transmission rates included in PacifiCorp's black box settlement subject to the outcome of the three litigated issues in Docket No. ER96-8-000 *et al.*, concerning the rate treatment of several of PacifiCorp's legacy contracts).

approximately $167.6 million. The settlement charge for Firm PTP Transmission Service was based on an annual rate of $24.30/kW-year and a monthly rate of $2.025/kW-month. The effective date for the settlement rates was January 1, 1996.

On June 3, 2002, in Docket No. ER02-653-000, the Commission approved PacifiCorp's request to modify its then-current ATRR from approximately $167.6 million to $242.3 million. This figure was based on the cost of service study performed for the PacifiCorp's filing in ER96-8-000, *et al.*, but modified to reflect then-current revenues associated with transmission usage.[19] The $24.30/kW-year rate established in Docket No. ER96-8-000, *et al.*, however, was not modified. PacifiCorp's transmission rates have not changed since the Commission's acceptance of the adjustment to PacifiCorp's ATRR in Docket No. ER02-653-000.

C. <u>Increase in PacifiCorp's Costs Over the Last Fifteen Years</u>

PacifiCorp has increased its investment in net transmission plant from approximately $2.042 billion[20] (for 1995) to $4.3 billion (for 2010).[21] This represents over a 110% increase in net transmission plant over the last 15 years. During this time, PacifiCorp has added approximately 652 miles of new transmission lines, including approximately 354 miles of 230/345 kV transmission. In addition, since 1995, PacifiCorp has constructed 12 new transmission substations.[22]

As explained in the Houston Testimony, PacifiCorp has avoided the need to request a change in its transmission rates by aggressively managing its costs and matching new investment to load growth over the past 15 years. In the last several years, however, PacifiCorp has made (and has plans to make) significant capital expenditures in transmission infrastructure, including the Energy Gateway Project (as described below). PacifiCorp's transmission rates must be adjusted to reflect these increased costs.[23]

D. <u>Energy Gateway Project</u>

The Energy Gateway Project is a significant transmission expansion effort, which PacifiCorp anticipates will constitute an approximate $6 billion investment.[24] When complete, the Energy Gateway Project is currently expected to be an eight-segment (Segments A through H), system-wide transmission expansion project, which will traverse six states, numerous communities, and areas of federally-administered lands. The Project is currently expected to add approximately 2,000 miles of new transmission lines and related improvements to PacifiCorp's transmission system. The Project will enhance reliability, reduce transmission congestion, and improve the flow of electricity throughout the region. The Project's 500 kV transmission lines

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19 *PacifiCorp*, 99 FERC ¶ 61,259 (2002).

20 PacifiCorp 1995 FERC Form No. 1 at 206-207 (Apr. 29, 1996).

21 PacifiCorp 2010 FERC Form No. 1 at 206-207 (Apr. 25, 2011).

22 Houston Testimony at 13:1 – 13:19.

23 Houston Testimony at 8:11 – 8:16.

24 Houston Testimony at 13:12 – 13:19; 14:1 – 141:1.

will be the first such lines to be installed in the Project footprint (primarily Wyoming, Idaho, and Utah), and the infrastructure will provide an essential reliability backbone that will contribute to the existing transmission network in the region.[25] xhibit No. PAC-3 provides a map of the Energy Gateway Project.

The first segment of the Project – the Populus to Terminal transmission line – was placed in service in November 2010 and represents an approximately $830 million investment. PacifiCorp began construction on the second segment of the Project – the Mona to Oquirrh line (at approximately $440 million) – in May 2011. Remaining segments will follow as permitting and construction efforts are completed.[26]

On October 21, 2008, in Docket No. EL08-75-000, the Commission granted in part and denied in part PacifiCorp's July 3, 2008 Petition for Declaratory order seeking Order No. 679 "incentive" rate treatment for the Energy Gateway Project (the "Petition").[27] In the Petition, the Company explained that the Project qualified for rate incentives because of the Project's scope and magnitude, as well as the significant risks and challenges associated with the Project (*e.g.*, siting, construction, regulatory, financing, and technology). The Commission granted: (1) a 200 basis point adder to PacifiCorp's base return on equity ("ROE"); and (2) recovery of prudently-incurred abandonment costs for Segments B through H of the Project. Segment A did not receive incentive rate treatment.[28]

III. DESCRIPTION OF THE FILING

This filing implements formula rates for NIT Service, PTP Service, and Scheduling, System Control and Dispatch Service (taken under Schedule 1) under PacifiCorp's OATT. PacifiCorp also proposes to: 1) update certain Ancillary Service rates; (2) include a new Schedule 3A to provide for Generation Regulation and Frequency Response Service; and (3) update PacifiCorp's real power loss factors under Schedule 10.

A. PacifiCorp's Proposed Formula Rate

1. Formula Rate for NIT Service and PTP Service

a. The Formula

PacifiCorp is proposing to replace its currently-effective stated transmission rates with a formula rate that is incorporated into Attachment H of PacifiCorp's OATT. Under PacifiCorp's proposed formula rate, NIT Service and PTP Service transmission rates will be adjusted annually using the Company's ATRR for each year, based on actual cost inputs from PacifiCorp's FERC Form No. 1 data and attached formula worksheets, as well as projected transmission plant

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25 Houston Testimony at 14:12 – 15:2.

26 Houston Testimony at 13:12-13:19.

27 *PacifiCorp*, 125 FERC ¶ 61,076 (2008).

28 *See id.* at PP 51-59.

additions. The rates will be updated based on formula rate implementation protocols, discussed further below. The formula is described in the Heintz Testimony and is consistent with other formula rates accepted by the Commission.[29]

As explained in the Heintz Testimony, the formula rate has two core components. The first component is Attachment H-1, which is the formula used to establish the rates for NIT Service and PTP Service.[30] The second component is Attachment H-2, which is a set of Formula Rate Implementation Protocols ("Protocols") describing, among other things, the following: i) the annual true-up update process; (ii) annual customer review (and protest) procedures; and (iii) resolution procedures for customer or other stakeholder challenges.[31]

Attachments 6 and 7 of the formula contained in Attachment H-1 of the OATT implement the 200 basis point ROE adder granted by the Commission for the Energy Gateway Project. The formula also includes a placeholder for abandoned plant costs. The Heintz Testimony describes how the formula mechanism applies the ROE adder for the Energy Gateway Project and how abandoned plant costs would be incorporated into the formula to the extent that they are sought and approved for recovery pursuant to a future FPA Section 205 filing. PacifiCorp is not seeking any abandoned plant costs associated with the Project at this time.[32]

b. Billing for PTP Service

PacifiCorp's proposed revisions to Schedule 7 (Firm Point-to-Point Transmission Service) and Schedule 8 (Non-Firm Point-to-Point Transmission Service) reflect the implementation of PacifiCorp's formula. Revised Schedule 7 and Schedule 8 state that charges for PTP Service will be determined in conjunction with updates to PacifiCorp's net ATRR established in Attachment H-1. For Firm PTP Service, charges for yearly, monthly, weekly, daily, and hourly service will be derived from the $/MW-year charge calculated under the formula and posted on PacifiCorp's OASIS. Similarly, charges for Non-Firm PTP Service for monthly, weekly, daily, and hourly service will be derived from the formula rate's $/MW-year charge and posted on PacifiCorp's OASIS.[33]

c. Billing for NIT Service

As other transmission providers have done, in order to implement the conversion to formula rates,[34] PacifiCorp has modified Sections 34.1 and 34.2 of its OATT to reflect that a NIT

29 *See supra* note 9.

30 Heintz Testimony at 4:11 – 4:16; 7:8 – 20:21.

31 Heintz Testimony at 4:16 – 4:19; 21:1 – 22:6.

32 Heintz Testimony at 16:18 – 19:18; 11:5 – 11:8: 13:8 – 13:9.

33 Heintz Testimony at 9:17-10:2; 4:4 – 4:16; Proposed Schedule 7, Schedule 8, and Attachment H-1.

34 *See e.g.*, *Carolina Power & Light Co. and Florida Power Corp.*, unpublished letter order, Docket Nos. ER10-288-000, *et al.*, (Feb. 4, 2010) (accepting revisions to section 34 of the OATT to reflect revisions to implement

Service customer's Monthly Demand Charge will be calculated by applying its Monthly Network Load to the monthly transmission rate, as established in Attachment H-1. While a NIT Service customer's Monthly Network Load is still measured by its coincident peak with PacifiCorp's transmission system load, PacifiCorp's NIT Service customers will no longer be billed based on their Load Ratio Share of PacifiCorp's revenue requirement. Network customers participating in PacifiCorp's Oregon Retail Access Program under Attachment M to the PacifiCorp OATT are also subject to the new billing methodology and revisions have been made accordingly.[35]

The change in billing methodologies for NIT Service customers resulted in the removal of the defined term "Load Ratio Share" from PacifiCorp's OATT Section 1.17. PacifiCorp has also proposed striking the contents of Attachment R to its OATT because it included links to PacifiCorp's posting of NIT Service customers' load ratio calculations for billing purposes and therefore is no longer necessary. PacifiCorp has, however, retained load ratio share for Sections 33.3 and 33.5 of its OATT concerning cost responsibility for redispatch costs and curtailment priority, respectively, which currently are based on use of the defined term "Load Ratio Share" and which refer to Attachment R. PacifiCorp's revisions to Section 33.3 and 33.5 include wording describing how load ratio share will be used for these activities consistent with the *pro forma* OATT.[36]

2. Return on Equity

PacifiCorp proposes a 10.9 percent base ROE for use in its formula rate based on the capital market analyses and the current economic requirements described in the testimony of Dr. William Avera ("Avera Testimony").[37] The Avera Testimony explains that PacifiCorp's proposed ROE falls well within the 7.7 percent to 16.2 percent zone of reasonableness produced by applying the Commission-approved Discounted Cash Flow ("DCF") approach to a "national" Electric Utility Proxy Group of fourteen risk comparable electric utilities.[38] The Avera Testimony explains that a 10.9 percent ROE falls between the midpoint and median produced using the Commission's DCF approach. The reasonableness of a base ROE of 10.9 percent for the Company is also supported by reference to alternative ROE benchmarks (including, among other methodologies, the Capital Asset Pricing Model).[39] Finally, the Avera Testimony explains that combining a base ROE of 10.9 percent with the 200 basis point adder approved for the Energy Gateway Project results in an incentive ROE of 12.9 percent. Consistent with

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formula rate); *Kansas City Power & Light Co.*, *et al*., 130 FERC ¶ 61,009 (2010) (conditionally accepting revisions to section 34 of the OATT to reflect revisions to implement formula rate).

35 Proposed Section 34.1, 34.2, Attachment M.

36 Proposed Section 33.3, 33.5.

37 Avera Testimony at 5:6 – 6:10.

38 Avera Testimony at 22:8-49:21, 67:1-74:23; *see also Potomac-Appalachian Transmission Highline*, L.L.C., 133 FERC ¶ 61,152 at PP 60-61 (2010), *reh'g pending; Atlantic Path 15, LLC*, 133 FERC ¶ 61,153 at PP 13-14 (2010); *Nevada Hydro Co., Inc.*, 133 FERC ¶ 61,155 at PP 7-8 (2010); *Southern California Edison Co*., 131 FERC ¶ 61,020 at P 29 (2010), *reh'g pending.*

Commission policy, this falls well within the upper end of the DCF zone for the Electric Utility Proxy Group.[40]

3. Impact on PacifiCorp's Customers

PacifiCorp proposes to increase its ATRR from approximately $242.3 million to $367.1 million, which represents an approximate 52% increase. PacifiCorp's base Long-Term Firm PTP Service rates will increase from a yearly demand charge of $24.30/kW-year to $24.77/kW-year, which represents an approximate 2% increase. PacifiCorp has also proposed to revise the definition of Reserved Capacity in Section 1.45 of the OATT to clarify that the maximum amount of PTP Service reserved includes losses. When losses are grossed-up and the new rate design is applied, the rate impact on the Customer is approximately 7%. When PacifiCorp's new ancillary services are applied, the rate impact on PTP Service customers is a 15% to 41% increase in rates.[41]

Rates for PacifiCorp's NIT Service customers will increase an average of 52%.[42] This increase reflects two changes to the way that PacifiCorp bills NIT Service. First, PacifiCorp has revised Section 34.2 of the OATT to clarify that maximum amount of reserved NIT Service includes losses. Second, the percentage increase between present and changed rates for some NIT Service customers is higher because the present revenue is based on use of load ratio share and the fact that some NIT Service customers had load changes in 2010. As discussed above, PacifiCorp is proposing to eliminate load ratio share and to charge NIT Service customers using PacifiCorp's proposed monthly rate as established in Attachment H-1 times the NIT Service customer's Monthly Network Load. Application of the proposed rate using this approach results in a higher percentage increase for NIT Service customers that had load changes over the course of the year. When PacifiCorp's new ancillary services rates are applied, the rate impact on NIT Service customers is an average rate increase of 63%.[43]

PacifiCorp's Statements BG and BH include a detailed analysis of this filing's rate impact on PacifiCorp's transmission customers.

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[39] Avera Testimony at 50:1 – 66:18.

[40] Avera Testimony at 75:1-75:18. PacifiCorp notes that the use of the midpoint or median in a proposed ROE proxy analysis is currently pending on rehearing in Docket No. ER08-375-000, *et al.*, *Southern California Edison Co.*, 131 FERC ¶ 61,020 (2010), *reh'g pending.* PacifiCorp has included a midpoint value in its ROE analysis in order to preserve its rights in the event that Commission's original analysis in Docket No. ER08-375-000, *et al.*, is revised on rehearing, and because PacifiCorp believes both midpoint and median values should be factored into the determination of an appropriate ROE.

[41] Houston Testimony at 111:2 – 11:10; Exhibit No. PAC-8.

[42] Houston Testimony at 10:20-11:2; Exhibit No. PAC-8.

[43] Houston Testimony at 11:2; Exhibit No. PAC-8.

B. Updates to Ancillary Services Charges

PacifiCorp is also proposing to update its rates for Schedule 1, 2, 3, 5 and 6 of its OATT. PacifiCorp's proposed Ancillary Services rates are cost-justified and calculated consistent with FERC precedent and should be accepted for filing.

1. Schedule 1

PacifiCorp currently does not charge for Scheduling, System Control and Dispatch Service under Schedule 1 of its OATT. PacifiCorp is proposing to implement a formula rate mechanism for Schedule 1. As explained in the Heintz Testimony, the revenue requirement underlying PacifiCorp's Schedule 1 rate is determined by summing Account Nos. 561 through 561.5 and applying an average 12-month demand divisor.[44] This charge will be updated annually using the same Protocols included in Attachment H-2 applicable to PacifiCorp's NIT Service and PTP Service rates. PacifiCorp's proposed Schedule 1 rate is $0.052 kW-month.[45]

2. Schedule 2

PacifiCorp currently does not charge its customers for Reactive Power and Voltage Support provided under Schedule 2. PacifiCorp is proposing a stated rate for Schedule 2 of $0.095 kW-month.[46] As explained in the Heintz Testimony, PacifiCorp's proposed Schedule 2 rate was developed based on all equipment associated with PacifiCorp's reactive power production and the installed cost of the identified equipment.[47] The equipment is divided into four categories: generators and exciters, step-up transformers, accessory electrical equipment, and the balance of plant. The identified cost of the equipment associated with reactive power production is then allocated to reactive power service. A fixed carrying charge is applied to the cost of the equipment associated with reactive power to calculate the reactive revenue requirement. The unit rates for reactive power are developed by dividing the revenue requirement by a 12-month system coincident peak.[48]

3. Schedule 3

PacifiCorp's transmission customers currently pay a Regulation and Frequency Response Service charge under PacifiCorp's Schedule 3 of $0.16 MW/h multiplied by the sum of (1) the total amount of energy delivered to the Points of Delivery by PacifiCorp plus applicable real

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[44] These accounts are as follows: Account 561 (Load Dispatching); Account 561.1 (Load Dispatch-Reliability); Account 561.2 (Load Dispatch-Monitor and Operate Transmission System); Account 561.3 (Load Dispatch-Transmission Service and Scheduling); Account 561.4 (Scheduling, System Control and Dispatch Services); 561.5 (Reliability, Planning and Standards Development). Heintz Testimony at 23:11 – 23:17.

[45] Exhibit No. PAC-7 at 1.

[46] Heintz Testimony at 34:11 – 34:13; Exhibit No. PAC-7 at 1.

[47] Heintz Testimony at 27:15 – 27:19.

[48] Heintz Testimony at 27:18 – 28:1.

power losses, and (2) any of the NIT Service customer's Network Load served from generation internal to the NIT Service customer's system.

Proposed Schedule 3 provides for stated rates for yearly, monthly, weekly, daily, and hourly service and is generally based on the weighted fixed costs of the units that provide regulation service. PacifiCorp's cost study supports a rate of $0.335/kW-month.[49] PacifiCorp's proposed percentage obligation for Schedule 3 is 4.24%.[50]

4. Schedules 5 and 6

PaciCorp's transmission customers currently pay an Operating Reserve – Spinning Reserve ("Spinning Reserves") charge under PacifiCorp's Schedule 5 of $0.266 MW/h multiplied by the amount of hydro-electric generated energy delivered to PacifiCorp at the generation interconnection and an amount equal to $0.373 MW/h multiplied by the amount of non-hydro generated energy delivered to PacifiCorp at the generation interconnection. PacifiCorp's transmission customers currently pay an Operating Reserve – Supplemental Reserve ("Supplemental Reserves") charge under PacifiCorp's Schedule 6 of $0.266 MW/h multiplied by the amount of hydro-electric generated energy delivered to PacifiCorp at the generation interconnection and an amount of $0.373 MW/h multiplied by the amount of non-hydro generated energy delivered to PacifiCorp at the generation interconnection.

PacifiCorp proposes to eliminate the two-tiered Schedule 5 and 6 charges and substitute them with stated rates for yearly, monthly, weekly, daily, and hourly service. PacifiCorp's proposed rates for Schedules 5 and 6 are based on the weighted fixed cost of the units providing Spinning Reserves and Supplemental Reserves. PacifiCorp's cost study supports a rate of $0.154/kW-month for Spinning Reserves and a rate of $0.131/kW-month for Supplemental Reserves.[51] PacifiCorp proposes a 1.75% percentage obligation for Spinning Reserves and Supplemental Reserves.[52]

C. <u>Schedule 3A</u>

PacifiCorp proposes to incorporate a new Schedule 3A to its OATT, Generator Regulation and Frequency Response Service. Schedule 3A will recover the transmission provider's costs of providing generation capacity to manage variability in generator output and will apply to energy scheduled out of PacifiCorp's BAAs to other BAAs. Transmission Customers are only subject to Schedule 3A if they use transmission service to deliver energy from generator(s) in PacifiCorp's BAAs and are not already covered by Schedule 3.

Schedule 3A provides that a transmission customer must either: (1) take Generator Regulation and Frequency Response Service from PacifiCorp; or (2) demonstrate that it has

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49 Heintz Testimony at 25:21; Exhibit No. PAC-7 at 1.

50 Heintz Testimony at 25:21.

51 Heintz Testimony at 26:15; 27:7; Exhibit No. PAC-7 at 1.

52 Heintz Testimony at 26:16; 27:7.

satisfied its regulation service obligation. Because *pro forma* Schedule 3 and the proposed Schedule 3A are functionally equivalent in that they both are designed to recover the costs of holding regulation reserves capacity to meet system variability, PacifiCorp's Schedule 3A rate will be the same as PacifiCorp's Schedule 3 rate as proposed in this filing. In particular, Schedules 3 and 3A are derived from the same revenue requirement and apply the same demand for purposes of calculating the resulting rate. In addition, PacifiCorp will not charge transmission customers for service under both Schedules 3 and 3A for the same transaction, thus ensuring that there will be not double-recovery from any transmission customer.[53]

Schedule 3A is just and reasonable and consistent with cost causation principles. It is intended to address a shortfall in the recovery of capacity costs for generator regulation and frequency response that previously has been identified by the Commission. As the Commission has explained, while the *pro forma* Generation Imbalance Service under the OATT enables transmission providers to recover the cost of providing the energy needed to manage hourly generator imbalances, it does not provide a mechanism for transmission providers to recover the costs of holding reserve capacity associated with balancing variations in generation output. The Commission has acknowledged that transmission providers may incur such capacity costs and, furthermore, the Commission has clarified that public utility transmission providers may propose to assess regulation charges to recover these capacity costs from both generators selling in the BAA and those selling outside their BAA.[54]

Schedule 3A is consistent with Commission precedent. In several prior cases, the Commission has approved other transmission provider proposals to recover the costs of capacity associated with the provision of generator balancing service through a schedule for providing generator regulation and frequency response service.[55] Schedule 3A does not "single out" intermittent or renewable resources; the Schedule 3A charge will apply to all transmission customers delivering energy from generators (both thermal and renewable) in PacifiCorp's BAAs to the extent that such customers are not already subject to Regulation and Frequency Response Service charges under Schedule 3.[56]

D. Revised Real Power Loss Factor

PacifiCorp's filing in Docket No. ER96-8-000, *et al.* included a loss study calculating the Company's losses on both a single-system basis and a divisional basis. Because PacifiCorp used single-system costs to develop rates in this 1995 filing, the Company relied on single-system losses. As a result, the loss study arrived at a transmission loss factor of 4.48% for single system energy losses, which was set forth in PacifiCorp's Schedule 10 of PacifiCorp's OATT. In addition, the existing Schedule 10 of PacifiCorp's OATT provides loss factors for use of

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53 Houston Testimony at 28:4.

54 *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241 (2007), *order on reh'g*, Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 at P 313 (2007), *order on reh'g*, Order No. 890-B, 123 FERC ¶ 61,299 (2008), *order on reh'g*, Order No. 890-C, 126 FERC ¶ 61,228 (2009), *order on clarification*, Order No. 890-D, 129 FERC ¶ 61,126 (2009).

55 *See supra* note 11.

56 Houston Testimony at 26:1 – 26:14.

PacifiCorp's distribution system at a voltage of 34.5 kV (or less) at 3.56% and use of a combination of the transmission system and distribution system at 8.04%.

As explained in the Normand Testimony, PacifiCorp is updating its existing transmission loss factor of 4.48% to 5.00%.[57] This annual average loss factor is based on and applied to output quantities or metered sales quantities. The Normand Testimony does not address the loss factor applicable to use of PacifiCorp's distribution system because it is not proposed to be changed in this filing. Therefore the existing loss factor in Schedule 10 for the distribution system at a voltage of 34.5 kV (or less) at 3.56% remains unchanged.[58] The proposed loss factor for a combination of the transmission and distribution systems as the sum of the proposed transmission loss factor and the existing distribution loss factor is 8.56%.[59]

IV. CONTENTS OF FILING

This filing consists of the following documents:

- This transmittal letter;
- **ATTACHMENT A:** Attestation of PacifiCorp's Chief Financial Officer, Douglas K. Stuver, pursuant to 18 C.F.R. § 35.13(d)(6);
- **ATTACHMENT B:** Revised sheets to PacifiCorp's OATT (clean version);
- **ATTACHMENT C:** Revised sheets to PacifiCorp's OATT (black-lined version);[60]
- **ATTACHMENT D:** Testimony and Accompanying Exhibits of Kenneth T. Houston, PacifiCorp's Vice President, Transmission Services (Exhibit Nos. PAC-1 – PAC-3);
- **ATTACHMENT E:** Testimony and Accompanying Exhibits of Alan C. Heintz, Vice President of Brown, Williams, Moorhead and Quinn, Inc., including PacifiCorp's Statement BG and Statement BH pursuant to 18 C.F.R. § 35.13(c), (Exhibit Nos. PAC-4 – PAC-8);
- **ATTACHMENT F:** Testimony of Gregory H. Duvall, PacifiCorp's Director of Net Power Costs (Exhibit No. PAC-9);

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57 Normand Testimony at 2:20 – 3:5.

58 Normand Testimony at 8:9-17:22.

59 Normand Testimony at 3:3-3:5; 9:1-9:8.

60 PacifiCorp notes that clean and redlined versions of its proposed revised tariff sheets have been submitted using the Commission's e-tariff filing system and, therefore, have been filed electronically with the Commission on a "section-by-section" basis. The version of this filing posted on PacifiCorp's OASIS, however, includes an Attachment B and Attachment C containing clean and redlined tariff sheets. PacifiCorp notes that its proposed Attachment H-1 is based on an Excel Spreadsheet and therefore PacifiCorp cannot produce a useful blackline comparison document. In light of the fact that PacifiCorp's proposed Attachment H-1 includes entirely new tariff sheets and PacifiCorp cannot create a useful blackline for such attachment, PacifiCorp respectfully requests waiver of the obligation to file a blackline comparison for Attachment H-1.

- **ATTACHMENT G:** Testimony and Accompanying Exhibits of William E. Avera, President of FINCAP, Inc. (Exhibit Nos. PAC-10 – PAC-20); and
- **ATTACHMENT H:** Testimony and Accompanying Exhibits of Paul M. Normand, Principal at Management Applications Consulting, Inc. (Exhibit Nos. PAC-21 – PAC-24).

V. EFFECTIVE DATE AND APPROVAL

PacifiCorp respectfully requests that the Commission accept the revisions for filing to become effective 60 days after the date of filing, July 25, 2011, with billing at the new rates to be made effective on the first day of the month following such acceptance for filing (*i.e.*, August 1, 2011). PacifiCorp's proposed formula rate methodology is substantially similar to those which FERC has approved for use by other transmission providers and therefore is consistent with Commission precedent.[61]

In the event the Commission determines that this filing requires further investigation and should be set for hearing, PacifiCorp respectfully requests that FERC direct any suspension of rates for only a nominal period. The Commission has required only a nominal suspension in similar formula rate filings.[62]

PacifiCorp submits that its proposed rates are fully cost-justified and are not substantially excessive under the standard set forth in *West Texas Utilities Company*.[63] The purpose of the *West Texas* policy is to encourage utilities to submit reasonable rate proposals and design their rates in accordance with Commission precedent. Here, as explained above, PacifiCorp has filed a formula rate that largely mirrors formula rates that the Commission has previously accepted or approved. It would be inappropriate to impose a five-month suspension in these circumstances.

A five-month suspension in this case would also be inconsistent with the Commission's and Congress' goal of promoting new transmission investment. As explained in the Houston Testimony, PacifiCorp is engaged in a substantial transmission investment program. Delaying the effectiveness of PacifiCorp's proposed rate change for five additional months may preclude PacifiCorp from collecting its costs in a timely manner, and would serve as a disincentive to all transmission providers to engage in new construction by suggesting there may be delays in cost recovery for such new investment.

Finally, the Commission has recognized that shorter suspensions may be warranted in circumstances where suspension for the maximum period may lead to harsh and inequitable results.[64] In cases involving a conversion from stated rates to formula rates and incentives for

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[61] *See supra* note 9.

[62] *See id.*

[63] 18 FERC ¶ 61,189 (1982) ("*West Texas*").

[64] *See California Independent System Operator Corp*., 105 FERC ¶ 61,406 (2003), *order on reh'g*, 107 FERC ¶ 61,048 (2004).

new transmission construction, the Commission has found that such circumstances exist because it has, in fact, urged transmission owners to move from stated rates to formula rates, and customers would also benefit from incentives provided by the rate changes to commence construction of the upgrades.[65] Consistent with this precedent, the Commission should require no more than a nominal suspension of PacifiCorp's proposed rates to the extent that PacifiCorp's proposed rates are suspended at all.

PacifiCorp respectfully requests waiver of any requirements of the Commission's rules and regulations, as well as any authorizations as may be necessary or required, to permit the revised rates to be accepted by FERC and made effective in the manner proposed herein.

VI. COMMUNICATIONS

All communications and correspondence regarding this filing should be forwarded to the following persons:

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[65] *See Commonwealth Edison Co.*, 119 FERC ¶ 61,238 at P 75 (2007); *Trans-Allegheny Interstate Line Co.*, 119 FERC ¶ 61,219 at P 38 (2007); *Allegheny Power System Operating Cos., et al.*, 111 FERC ¶ 61,308 at P 51 (2005); *see also Duquesne Light Co.*, 118 FERC ¶ 61,087 at P 69 (2007) (accepting transmission formula rate with nominal suspension); *Idaho Power Co.*, 115 FERC ¶ 61,281 at PP 21, 30 (2006) (same); *Westar Energy, Inc.*, 122 FERC ¶ 61,268 at P 1 (2008) (accepting proposed revisions to the formula rate with only a nominal suspension).

VII. SERVICE

PacifiCorp has posted a copy of this filing to the "2011 Transmission Rate Case" portal of the public portion of PacifiCorp's OASIS.[66] PacifiCorp has emailed a copy of this transmittal letter, along with a link to this filing, to all OATT customers that have provided PacifiCorp an email contact address. To the extent that customers have not provided PacifiCorp a contact email, PacifiCorp has served such customers with a hard copy of this transmittal letter with instructions on how to access this filing on PacifiCorp's OASIS.

PacifiCorp has also served a copy of this filing on each of the following state public utility commissions regulating PacifiCorp's retail service operations: California Public Utilities Commission; Idaho Public Utilities Commission; Oregon Public Utility Commission; Public Service Commission of Utah; Washington Utilities and Transportation Commission; and Wyoming Public Service Commission.

VIII. INFORMATION REQUIRED BY SECTION 35.13

The following information is required for filings of changes in rate schedules or tariffs, pursuant to Section 35.13(a)(1) of the Commission's regulations:[67]

A. General Information (18 C.F.R. § 35.13(b))

1. 18 C.F.R. § 35.13(b)(1): See Section IV for a list of documents PacifiCorp included with this filing.

2. 18 C.F.R. § 35.13(b)(2): See Section V for the proposed effective date for the rate changes proposed herein.

3. 18 C.F.R. § 35.13(b)(3): See Section VII for the process used by PacifiCorp to serve this filing on its customers and applicable state regulatory commissions.

4. 18 C.F.R. § 35.13(b)(4): See Section III, the Houston Testimony and the Heintz Testimony for a description of the rate changes proposed herein.

5. 18 C.F.R. § 35.13(b)(5): See Section III and the Houston Testimony for a statement of the reasons for the rate changes proposed herein.

6. 18 C.F.R. § 35.13(b)(6): No agreement from any other entities, including any agreement required by contract, must be obtained in order for PacifiCorp to file or implement the rate changes proposed herein.

7. 18 C.F.R. § 35.13(b)(7): No costs or expenses included herein have been alleged or judged in any administrative or judicial proceeding to be illegal,

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[66] PacifiCorp's 2011 Transmission Rate Case Portal can be found at: http://www.oasis.pacificorp.com/oasis/ppw/main.htmlx.

[67] 18 C.F.R. § 35.13(a)(1).

duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

B. Information Relating to the Effect of the Rate Change (18 C.F.R. § 35.13(c))

Exhibit No. PAC-8 includes PacifiCorp's Statement BG and Statement BH. There are no specifically assignable facilities required to implement the rate changes proposed herein. *See also* request for waiver described below in section VIII.F.

C. Cost of Service Information (18 C.F.R. § 35.13(d))

See request for waiver described below in section VIII.F.

The Attestation of PacifiCorp's Chief Financial Officer, Douglas K. Stuver, required by 18 C.F.R. § 35.13(d)(6), is included with this filing.

D. Testimony and Exhibits (18 C.F.R. § 35.13(e))

See Section IV for a list of the testimony and exhibits that fully explain and support this transmission rate change.

E. Cost of Service Statements (18 C.F.R. § 35.13(h))

As stated above, Statements BG and BH serve as exhibits to the Heintz Testimony. *See also* request for waiver described below in section VIII.F.

F. Request for Waivers of Part 35

To the extent this filing may require waivers of Section 35.13 of the regulations,[68] PacifiCorp respectfully requests such waivers, including waiver of the full Period I-Period II data requirements, waiver of the attestation concerning Period II submissions required by Section 35.13(c)(6), and waiver of the requirement in Section 35.13(a)(2)(iv) to determine if, and the extent to which, a proposed change constitutes a rate increase based on Period I-Period II rates and billing determinants. The cost support and supporting worksheets with testimony accompanying this filing, together with PacifiCorp's publicly-available FERC Form No. 1, provide ample support for the reasonableness of the proposed formula rate.

The Commission has previously granted waivers of the requirements of Part 35 to provide such data for transmission formula rates.[69] In particular, the Commission has recognized that it has granted waiver of cost support in formula rate cases because the subject rates used FERC Form No. 1 data and, therefore, full Period I and Period II data were not needed to evaluate those proposals.[70] PacifiCorp respectfully requests that this reasoning be applied in this

68 18 C.F.R. § 35.3 (2010).

69 *See, e.g.*, *Midwest Indep. Transmission Sys. Operator, Inc.*, 134 FERC ¶ 61,016 at P 32 (2011); *Fla. Power & Light Co.*, 131 FERC ¶ 61,279 at P 28 (2010); *PPL Elec. Utils. Corp.*, 125 FERC ¶ 61,121 at PP 40-41 (2008).

70 *See Tampa Elec. Co.*, 133 FERC ¶ 61,023 at P 53 (2010).

proceeding because, as described above, the proposed formula is heavily reliant on FERC Form No. 1 cost inputs.

In the event that any other waivers are required in connection with this filing, the Commission should grant such waivers given the benefits of updating costs and rates under the proposed formula approach.

X. CONCLUSION

PacifiCorp respectfully requests that the Commission: (1) accept these proposed tariff sheet revisions for filing; (2) allow such revisions to become effective 60 days after filing, July 25, 2011, with billing at the new rates effective on the first day of the month following such acceptance for filing (*i.e.*, August 1, 2011), without suspension, condition, or modification; and (3) grant any other waivers or authorizations necessary to make the revised tariff sheets effective upon the date requested.

Respectfully Submitted,

/s/ Natalie L. Hocken

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Enclosures