Investigation No. 17-04-019
Exhibit No. PAC/100-I
Witness: Etta Lockey

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

PACIFICORP

Chapter 1

Direct Testimony of Etta Lockey

ERRATA

December 2018

CHAPTER 1

INTRODUCTION TO PACIFICORP AND WITNESSES

Testimony of Etta Lockey

A. INTRODUCTION

On April 27, 2017, the Public Utilities Commission of the State of California (Commission) issued an Order Instituting Investigation (OII), Investigation (I.) 17-04-019, to examine generation and transmission resources in PacifiCorp's western and eastern balancing authority areas (BAA). The OII identified three issues to be addressed in this proceeding:

- Issue 1: Does PacifiCorp engage in least-cost planning and dispatch on a system-wide basis or a control area basis?
- Issue 2: Does PacifiCorp's Inter-Jurisdictional Cost Allocation Protocol result in just and reasonable rates in California? Would an alternative Cost Allocation Protocol result in an inter-jurisdictional allocation of costs and revenues that more closely reflects the costs and benefits of PacifiCorp operations for California customers?
- Issue 3: What is PacifiCorp's emissions factor system-wide and for its resources that serve California customers? If PacifiCorp's system-wide or California emissions factor exceeds the 1,100 pounds of CO_2 per MWh emissions limit of the EPS, is it reasonable to continue to allow PacifiCorp to demonstrate alternative compliance with the EPS?

Issue 1 is addressed in direct joint testimony from Joseph P. Hoerner, Vice President - Energy Supply Management, and Shayleah J. LaBray, Manager - Resource Strategy, Valuation & Planning (Chapter 2). Issue 2 is addressed in the direct testimony of Steven R.

McDougal, Director - Revenue Requirement (Chapter 3). Issue three is addressed in the direct testimony of Mary M. Wiencke, Director - Environmental Strategy & Policy (Chapter 4). PacifiCorp Exhibit PAC/500-I includes the PacifiCorp witnesses' qualifications.

PacifiCorp's testimony also responds to the issues identified in the OII and to the specific questions presented in the Scoping Memo and Ruling of Assigned Commissioner and Joint Ruling with Administrative Law Judge, issued on September 14, 2017 (Scoping Memo).

B. OVERVIEW OF PACIFICORP

PacifiCorp is an investor-owned, multi-jurisdictional regulated electric utility company serving approximately 1.9 million retail electric customers in California, Idaho, Oregon, Utah, Washington, and Wyoming. PacifiCorp operates as an integrated system to provide benefits to customers in all six states. Integrated system operation across a six-state service territory has required PacifiCorp to continuously work with stakeholders to develop cost allocation methodologies that fairly allocate the costs associated with PacifiCorp's integrated system to each state. PacifiCorp's integrated system includes generation, transmission, and distribution assets. PacifiCorp owns, or has interests in thermal, hydroelectric, wind-powered, solar, and geothermal generating facilities, with a net-owned capacity of 10,894 MW. PacifiCorp buys and sells electricity on the wholesale market with other utilities, energy marketing companies, financial institutions and other market participants to balance and optimize the economic benefits of electricity generation, retail customer loads and existing wholesale transactions.

PacifiCorp also provides wholesale transmission service under its open access transmission tariff (OATT) approved by the Federal Energy Regulatory Commission (FERC) and owns or has interests in approximately 16,500 miles of transmission lines. PacifiCorp operates two BAAs – PacifiCorp East (PACE) and PacifiCorp West (PACW). In general, PACE includes PacifiCorp's load and generating capacity in the states of Idaho, Utah, and Wyoming. In general, PACW includes PacifiCorp's load and generating capacity in the states of California, Oregon, and Washington. Both of PacifiCorp's BAAs are part of the interconnected, alternating current Western Interconnection, requiring coordinated operation among all 38 balancing authorities.

In California, PacifiCorp provides retail electric service to approximately 45,000 customers in portions of the Northern California counties of Del Norte, Modoc, Shasta, and Siskiyou. PacifiCorp is not a participating transmission owner with the California Independent System Operator (CAISO), but does participate in the Energy Imbalance Market (EIM) operated by the CAISO.

PacifiCorp's integrated operations, diverse resource portfolio and interconnection to a variety of wholesale energy trading hubs across the western states provides direct benefits to PacifiCorp's retail customers in California through decreased net power costs. PacifiCorp's integrated system dispatch provides, among other things, access to high capacity wind generation in Wyoming and hydro generation in the Pacific Northwest.

C. HISTORY OF PACIFICORP

Pacific Power & Light Company (PP&L) was originally formed in 1910, from several small electric companies serving just 7,000 customers in Astoria and Pendleton in Oregon, and Yakima and Walla Walla in Washington. Once established, PP&L acquired other companies and service areas, building new generation and an extensive transmission and distribution system to serve electric customers in Oregon and Washington, and later in Idaho, Wyoming, Montana and Northern California. PP&L became PacifiCorp in 1984, as the electric utility, natural resource development and telecommunications businesses grew into full-fledged enterprises.

In 1989, PacifiCorp merged with Utah Power & Light (UP&L). UP&L was formed in 1912, from several small electric companies in Utah, Idaho and western Colorado. Prior to the 1989 merger, UP&L served retail customers in Utah, Idaho and portions of Wyoming. As noted in the Commission decision approving the merger, the merger produced the opportunity for substantial benefits for customers.

> We approve the proposed merger on the condition that PacifiCorp, the successor to PP&L and UP&L, forego ERAM [footnote omitted] and attrition rate increases for the four-year period 1988 to 1991. While the opportunities for substantial cost savings have been shown by the applicant, we believe this promise of rate stability for the next four years will protect California ratepayers from any unforeseen developments.
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> From the testimony submitted by the applicant, we are persuaded that the merger should yield significant savings for all ratepayers of the merged utilities. The opportunity to dispatch both utility power systems on an integrated basis will allow PacifiCorp to match the utilities' diverse energy resources with their different load needs.[1]

In 1999, PacifiCorp and Scottish Power plc (ScottishPower) merged and PacifiCorp became a subsidiary of ScottishPower. The Commission authorized the merger in D.99-06-049 as modified by D.99-10-059.

In 2006, PacifiCorp was acquired by Berkshire Hathaway Energy, formerly known as MidAmerican Energy Holding Company. PacifiCorp remains a single legal entity but consists of two operational units: Pacific Power, which delivers electricity to customers in

[1] D.88-04-062 at 6-7.

California, Oregon, and Washington, and Rocky Mountain Power, which delivers electricity to customers in Idaho, Utah, and Wyoming.

D. PACIFICORP'S MULTI-STATE PROCESS

Since the 1989 merger between PP&L and Utah Power and Light, PacifiCorp has relied on inter-jurisdictional cost allocation methodologies to allocate its integrated system costs amongst its states. Over the course of nearly 30 years, integrated system costs have been allocated to states under several methodologies. Although methodologies have changed over time, the fundamental principles underlying the methodologies have not. The inter-jurisdictional cost allocation methodologies allow PacifiCorp to maintain the benefits of system-wide economic dispatch, allocate costs based on principles of cost causation, and ensure a reasonable opportunity for PacifiCorp to recover its costs. The Company used the Revised PacifiCorp Inter-Jurisdictional Allocation Protocol (Revised Protocol) in the last general rate case in California, which was the same method used in Idaho, Oregon, Utah, and Wyoming at that time.[2] The Revised Protocol and 2017 Protocol allocate generation and transmission rate base and expenses using a weighted average of each states contribution to PacifiCorp's system monthly coincident peaks and energy usage. Distribution rate base and expenses are situs assigned to each of the states.

The majority of the states in PacifiCorp's service territory currently use the 2017 Protocol to allocate integrated system costs. The 2017 Protocol, however, expires at the end of 2019. Since approval of the 2017 Protocol by Idaho, Oregon, Utah, and Wyoming, PacifiCorp has engaged stakeholders from nearly all of the six states to develop a

[2] Idaho, Oregon, Utah, and Wyoming currently use the 2017 PacifiCorp Inter-Jurisdictional Cost Allocation Protocol (2017 Protocol). Since 2006, Washington has used its own cost allocation methodology, referred to as the West Control Area (WCA) methodology.

replacement inter-jurisdictional cost allocation methodology. This robust stakeholder process is referred to as the Multi-State Process (MSP) [3] and is the forum for efforts to negotiate a long-term, fair, and balanced inter-jurisdictional allocation methodology for PacifiCorp's system assets. The MSP Workgroup is meeting monthly throughout 2017 to discuss a new allocation methodology and the potential for designating generation units, or portions of units, to serve load in specific states or regions. Refer to the testimony of Steven M. McDougal (Chapter 3) for further discussion on the history of MSP.

The MSP Workgroup has made significant progress over the past year, despite the continued challenges associated with PacifiCorp's unique six-state service territory. State energy policies continue to diverge. A number of issues threaten the durability of the company's current allocation methodology, and demand a long-term, sustainable solution. These issues include, but are not limited to, differing state policies; qualifying facilities policies; community solar programs; private generation options; retail choice policies; renewable portfolio standards; and clean energy goals.

To address the changing dynamics faced by PacifiCorp and the six states PacifiCorp serves, PacifiCorp developed a radical new inter-jurisdictional cost allocation proposal that realigns PacifiCorp's existing generation fleet and moves towards a subscription-based model for selection of new resources. Central to this proposal is the realignment of PacifiCorp's existing coal generation resources in such a way that allows states to align their unique policies on coal generation with cost allocation for those resources. States whose energy policies do not mandate a change in resources serving customers in that state would

[3] The MSP Workgroup is the latest organized effort to address PacifiCorp's inter-jurisdictional allocation issues. These issues are not new, and discussions have been ongoing in one form or another since PacifiCorp began operating as an integrated system across California, Montana, Oregon, Washington, and Wyoming in 1973.

then be allocated a greater portion of the company's longer-lived coal resources. System dispatch would maintain the benefits of the system (e.g. greater access to markets to reduce net power costs and increased energy imbalance market benefits). Future resource decisions would be made on a subscription basis, whereby PacifiCorp would seek efficiencies of scale in resource procurement, while allowing state resource decisions to track energy policy without unnecessarily increasing costs to customers in other states.

The MSP Workgroup has been discussing this proposal for the better part of 2017.[4] While there are a number of details that still have to be addressed, realignment is a robust solution to PacifiCorp's cost allocation challenges related to diverging state policies.

In the October 2017 MSP Workgroup meeting, PacifiCorp presented a proposal regarding resource dispatch and calculation of net power costs using nodal pricing to increase the transparency regarding cost-causation on a system where resources are assigned to specific state loads. PacifiCorp's guiding principles in this effort require that any methodology:

- Support a state's ability to choose a resource portfolio mix, while not adversely impacting other states (no harm policy);
- Assign costs to the states that benefit from and/or drive those costs (cost causation);
- Provide appropriate incentives and transparency of cost drivers to better inform state resource decision making;
- Maximize the visibility of cost allocation and dispatch decisions; and
- Reduce reliance on subjective assumptions in net power cost allocations.

[4] See Exhibit PAC/600-I for an MSP broad review workgroup update to the Public Utility Commission of Oregon.

In the November 2017 MSP Workgroup meeting, PacifiCorp will discuss issues related to transmission operations and allocations.

PacifiCorp's system operations and the requirements of Oregon's Senate Bill (SB) 1547 raise the question of how to retain the benefits of least cost system dispatch when costs from certain resources cannot be allocated to Oregon. PacifiCorp is continuing work to answer this question and thus avoid the need to secure costly situs-assigned resources for Oregon, and other states that may adopt policy decisions that dictate specific resource portfolios.

The ongoing work in the larger MSP Workgroup will provide a foundation for negotiations on a durable allocation methodology, which PacifiCorp expects to begin, in earnest, during the first quarter of 2018.

E. CONCLUSION

These issues are complex, and proposed solutions to operational issues resulting from realignment are still under development. PacifiCorp welcomes this investigation to explore California-specific issues, and, consequently, assist in the MSP discussions. PacifiCorp, however, remains concerned with the lack of clarity regarding how this investigation (and the potential subsequent contested case proceeding) fits with the larger MSP Workgroup discussions and negotiations. Whether the Commission views this investigation as an alternative to the MSP, or as a way to inform California's position in the larger MSP Workgroup will be informative to how the discussions in this investigation move forward. PacifiCorp acknowledges the challenges of the larger MSP Workgroup, but is optimistic that a durable cost allocation methodology outcome will result from those discussions and encourages the Commission to fully participate in these discussions.