

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Investigation of AVISTA CORPORATION d/b/a AVISTA UTILITIES, PUGET SOUND ENERGY, and PACIFIC POWER & LIGHT COMPANY, Regarding the Prudency of Outage and Replacement Power Costs	Docket UE-190882
In the Matter of PACIFIC POWER & LIGHT COMPANY, 2018 Power Cost Adjustment Mechanism	Docket UE-190458

PACIFIC POWER & LIGHT COMPANY

**REDACTED – COMPANY-CONFIDENTIAL REBUTTAL TESTIMONY OF
MICHAEL G. WILDING**

January 2020

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1 **Q. Are you the same Michael G. Wilding who previously provided direct testimony**
2 **on behalf of PacifiCorp dba Pacific Power and Light Company (Pacific Power or**
3 **Company) in this docket?**

4 A. Yes.

5 **I. PURPOSE AND SUMMARY**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. My testimony responds to the regulatory policy issues raised by Mr. David C. Gomez
8 on behalf of Staff of the Washington Utilities and Transportation Commission (Staff)
9 and Mr. Avi Allison on behalf of the Washington State Office of the Attorney General,
10 Public Counsel Unit (Public Counsel). Specifically, I respond to Mr. Gomez's
11 arguments concerning the appropriate scope of the prudence review applied in this
12 case, as well as his characterization of Pacific Power's cooperation with Staff. I also
13 address Mr. Allison's position that, regardless of a finding that Pacific Power was at
14 fault in connection with the forced outage at Colstrip Unit 4, Pacific Power should not
15 be permitted to recover costs associated the outage.

16 **Q. Please summarize your responses to Mr. Gomez's arguments concerning the**
17 **prudence standard and Pacific Power's cooperation in this proceeding, and**
18 **Mr. Allison's position that Pacific Power should be denied cost recovery for this**
19 **outage regardless of Pacific Power's prudence.**

20 A. Based on my understanding of the prudence standard applied by the Washington
21 Utilities and Transportation Commission (Commission), it is Pacific Power's
22 management and general oversight that is subject to analysis for prudence—not the
23 conduct and decision-making of Colstrip's operator, Talen Montana, LLC (Talen).

1 Through the extensive testimony and exhibits of Mr. Charles L. Tack, the expert
2 engineer representing Pacific Power on Colstrip's Ownership and Operating
3 Committee, and the root cause analysis of the outage performed by a third-party,
4 Pacific Power has met its burden of demonstrating that the outage at Colstrip Unit 4
5 occurred despite prudent operation of this generation facility.¹ In addition,
6 Mr. Allison's assertion that an individual finding of imprudence is unnecessary to
7 disallow Pacific Power's cost recovery is contrary to the Commission's prudence
8 standard. Throughout this proceeding, Pacific Power has used its best efforts to
9 support Staff's investigation.

10 II. PRUDENCE STANDARD

11 **Q. Please describe your understanding of the Commission's prudence standard for**
12 **cost recovery.**

13 A. The Commission's prudence standard requires a utility to demonstrate that its actions
14 were reasonable based on the information available to it at the time. The Commission
15 has described the inquiry into a utility's prudence as follows:

16 Regulated public service companies bear the burden of proof that
17 their decisions are prudent The Commission has often cited
18 the prudence legal standard as thus: What would a reasonable
19 board of directors and company management have decided given
20 what they knew or reasonably should have known to be true at the
21 time they made a decision? In other words, we may not use the
22 benefit of hindsight in our evaluation of [a utility's] decision[.]²

¹ Docket UE-190458, Direct Testimony of Mr. Charles L. Tack, Exhibit No. CLT-1CCT.

² Docket UE-152253, Order 12 ¶ 94.

1 **Q. How does that standard apply to analyzing the prudence of Pacific Power’s**
2 **actions in connection with the forced outage at Colstrip Unit 4?**

3 A. The issue is whether Pacific Power, in its role as a 10-percent owner of Colstrip
4 Unit 4, acted reasonably in its management and oversight of Talen in conjunction
5 with the forced outage at Colstrip Unit 4. No party contests the prudence of Pacific
6 Power’s actions responding to the outage. Staff and Public Counsel, however, claim
7 that Pacific Power was imprudent in the events leading up to the forced outage. But
8 their testimony generally fails to distinguish between the actions of Talen as the plant
9 operator and those of Pacific Power as a minority owner within the constraints
10 imposed by the Ownership and Operations Agreement.

11 **Q. Mr. Gomez states that Pacific Power, Puget Sound Energy (PSE), and Avista are**
12 **“responsible for the actions of the Operator of Colstrip Units 3 and 4” in**
13 **demonstrating prudence.³ Do you agree?**

14 A. No. My understanding is that the prudence inquiry is tied to the *utility’s* decision-
15 making, by requiring the utility to demonstrate that its actions were reasonably
16 prudent under the circumstances. In the order opening this investigation, the
17 Commission stated that it intended “to assess the prudence of decisions made and
18 actions taken *by Avista, PSE, and Pacific Power as co-owners* of Colstrip, as well as
19 the additional costs incurred by the companies to acquire replacement power as a
20 result of the outage.”⁴ The Commission further stated:

21 [W]e expect the investigation will afford the Commission a
22 comprehensive understanding of Avista’s, PSE’s, and Pacific

³ Exh. DCG-1CCT at 15:7-14.

⁴ Docket UE-190882, Order 01 ¶ 15 (Oct. 24, 2019) (emphasis added).

1 Power's decision making *as co-owners* of Colstrip leading up to
2 the 2018 outage and the resulting costs of replacement power.⁵

3 I understand the Commission's statements as clarifying that the relevant
4 inquiry is the prudence of the individual owners' actions in their capacities as partial
5 owners—not the imputed actions taken by the third-party operator.

6 **Q. Mr. Gomez relies on two prior Commission decisions for his position that Talen's**
7 **actions are appropriately imputed to Pacific Power for purposes of determining**
8 **prudence.⁶ Please respond.**

9 A. While I am not a lawyer, I do not believe that the cases cited by Mr. Gomez are on
10 point because they do not involve a prudence inquiry, but rather address a utility's
11 responsibility to ensure public safety.⁷ In both cases, the Commission assessed
12 safety-related penalties based on actions of a utility's contractor, but did not impute
13 the third-party's imprudence to the utility.⁸ In the Century-Link case, the
14 Commission explained that a utility is not required to ensure that its system is
15 "foolproof," but must instead demonstrate "adequate management and oversight."⁹

⁵ Docket UE-190882, Order 01 ¶ 23 (emphasis added).

⁶ Exh. DCG-1CCT at 15:11-14.

⁷ *Wash. Utils. and Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket PG-060215, Order 02 ¶ 27 (Apr. 3, 2008). The Commission's adoption of the proposed settlement included a single condition, voiding a commitment that Staff would not prosecute less "serious" violations found in the agreed-upon third-party audit. *Id.* at ¶ 38. *See also Wash. Utils. and Transp. Comm'n v. Qwest Corp. d/b/a CenturyLink QC*, Docket UT-140597, Order 03 (Feb. 22, 2016).

⁸ Docket PG-060215, Order 02 ¶¶ 28-29; Docket UT-140597, Order 03 ¶ 24.

⁹ Docket UT-140597, Order 03 ¶ 25. Public Counsel had urged the Commission to increase the penalty to encourage Century-Link to conduct "an overall risk assessment . . . to detect other potential preventable errors." *Id.* at ¶ 24.

1 **Q. Are you aware of any instance in which the Commission has explicitly imputed**
2 **the conduct of a generation facility’s operator to the utility in assessing the**
3 **utility’s prudence?**

4 A. No.

5 **Q. Is it your position that a minority owner of a plant bears no responsibility for the**
6 **imprudent actions of the plant operator?**

7 A. No. The relevant issue is whether the co-owner acted prudently by exercising
8 “adequate management and oversight” over the plant operator, consistent with
9 industry standards. This standard reflects the reality that a plant cannot achieve
10 efficient operation when multiple, minority co-owners attempt to micro-manage plant
11 operations. As Mr. Tack has testified, Pacific Power exercised its management and
12 oversight function over the Colstrip plant operator to the full extent allowed under the
13 Operating and Ownership Agreement.¹⁰

14 **Q. Mr. Gomez faults Pacific Power for failing to provide contemporaneous**
15 **documentation of its operational decisions.¹¹ Please respond.**

16 A. First, Pacific Power has provided all documentation maintained in the normal course
17 of operating and trouble-shooting general maintenance issues at Colstrip Unit 4.

18 Second, my understanding is that the Commission has applied the “contemporaneous
19 documentation” standard cited by Staff when evaluating a utility’s decision to

¹⁰ CLT-1CCT at 2:10-3:2.

¹¹ DCG-1CCT at 17; *see also id.* at 45 (stating that “Staff was not provided with contemporaneous documentation corroborating Mr. Tack’s recollection of these conversations with the Operator”); *see also id.* at 54 (stating that contemporaneous documentation is important because “[a]fter-the-fact narratives and recollections rely on memory, which is an unreliable source of facts and which can be spun to suit a biased narrative”).

1 proceed with investing in new, major capital additions, not when assessing on-going
2 operational decisions.¹²

3 **Q. Has the Commission previously determined the prudence of a power plant**
4 **outage based on evidence like that presented here (i.e., the testimony of the**
5 **utility’s operational expert along with a root cause analysis)?**

6 A. Yes. In addressing a forced outage at the Chehalis coal plant in Pacific Power’s last
7 Washington general rate case, Pacific Power demonstrated the prudence of its actions
8 through testimony of its operational expert and a root cause analysis.¹³

9 **Q. Please describe Pacific Power’s cost recovery request associated with the 2013**
10 **Chehalis outage.**

11 A. In Pacific Power’s 2014 general rate case, the Company included costs associated
12 with a 2013 outage at the Chehalis coal plant in its net power cost calculations.¹⁴ In
13 November 2013, one of the three generation units at Chehalis experienced an outage
14 after one of the bushings in the unit’s step-up transformer failed catastrophically,
15 destroying the transformer.¹⁵ An intervenor in the case, Boise White Paper, argued
16 that the outage “resulted from imprudent operation,”¹⁶ claiming that two prior outages

¹² See, e.g., *Wash. Utils. and Transp. Comm’n v. Wash. Water Power Co.*, Cause No. U-83-26, Fifth Supplemental Order, 1984 Wash. UTC LEXIS 69 at *21 (Jan. 19, 1984) (requiring ongoing documentation of decision-making during the development of a new wood waste power plant); see also *Wash. Utils. and Transp. Comm’n v. Puget Sound Power & Light Co.*, Cause U-83-54, Fourth Supp. Order, 1984 Wash. UTC LEXIS 12 at *55, 66 (Sept. 28, 1984) (requiring ongoing documentation of the utility’s decision to proceed with developing a nuclear generating facility following the Three Mile Island accident); see also *Wash. Utils. and Transp. Comm’n v. Pac. Power and Light Co.*, Docket UE-152253, Order 12 (Sept. 1, 2016) (requiring contemporaneous documentation of Pacific Power’s decision to proceed with a capital investment in environmental control equipment on two generation facilities).

¹³ *Wash. Utils. and Transp. Comm’n v. Pac. Power and Light Co.*, Docket UE-140762, Rebuttal Testimony of Dana M. Ralston, Exhibit No. DMR-2T.

¹⁴ Docket UE-140762, Order 08 ¶¶ 64-65 (Mar. 25, 2015).

¹⁵ Docket UE-140762, Rebuttal Testimony of Dana M. Ralston, Exhibit No. DMR-2T at 2.

¹⁶ Docket UE-140762, Order 08 ¶ 100 (citing Mullins, Exh. No. BGM-1CTr at 50:13-15).

1 related to bushing failures should have allowed Pacific Power to prevent the 2013
2 outage.¹⁷

3 **Q. How did Pacific Power demonstrate that the 2013 Chehalis outage was not**
4 **caused by imprudent operational decision-making?**

5 A. Pacific Power demonstrated that its operation of the Chehalis plant was prudent by
6 providing responsive testimony from a Company expert with decades of experience
7 in plant operations and maintenance, by summarizing the root cause analyses
8 performed for each of the plant outages, and by explaining the actions taken in
9 response to each of the outages.¹⁸ The Company’s witness explained that the plant
10 was operated consistent with standard industry practices, that the Company’s actions
11 in response to the 2011 outage were reasonable, and that the monitoring equipment
12 installed following the 2011 outage had never indicated that a failure was imminent.¹⁹

13 **Q. How did Pacific Power explain its decision to proceed with monitoring following**
14 **the 2011 outage rather than taking a planned outage and preemptively replacing**
15 **the remaining units’ transformers?**

16 A. Pacific Power explained that the root cause analyses performed after the 2011 outage
17 had been unable to determine whether the two prior bushing failures were “anomalies
18 or indicative of a widespread issue with the transformer or bushings[.]”²⁰ As a result,
19 “there was no reasonable basis to take affirmative action to replace” the

¹⁷ Docket UE-140762, Boise White Paper Reply Brief ¶ 55.

¹⁸ Docket UE-140762, Rebuttal Testimony of Dana M. Ralston, Exhibit No. DMR-2T at 4:20-5:5, 6:5-16, 6:21-7:22, 8:1-10.

¹⁹ Docket UE-140762, Rebuttal Testimony of Dana M. Ralston, Exhibit No. DMR-2T at 5:18-21.

²⁰ Docket UE-140762, Rebuttal Testimony of Dana M. Ralston, Exhibit No. DMR-2T at 5:3.

1 transformers.²¹ Replacing the remaining transformers would have inappropriately
2 relied “on speculation, not facts, and would have resulted in unjustifiable costs.”²²

3 **Q. Did the Commission, Staff, or intervenors seek contemporaneous documentation**
4 **beyond Pacific Power’s testimony and the root cause analyses associated with**
5 **the outage?**

6 A. No.

7 **Q. What was the Commission’s ultimate determination with respect to the**
8 **prudence of the forced outage at the Chehalis plant?**

9 A. The Commission found in Pacific Power’s favor, stating that “[t]he weight of the
10 evidence concerning imprudence on the part of plant operators favors the Company’s
11 argument that it was not such operation on the part of Pacific Power that led to this
12 outage.”²³

13 **Q. As a policy matter, is it reasonable to require contemporaneous documentation**
14 **for all operational decision-making?**

15 A. No. Pacific Power is committed to diligent record-keeping. However, the Company
16 has never been subject to a standard that requires contemporaneously documenting
17 every operational discussion and decision concerning the Company’s power system.
18 Without the benefit of hindsight to filter which decisions will be subject to review
19 potentially years down the road, innumerable daily operational decisions would need
20 to be documented, organized, and stored. The day-to-day operation of the Company’s
21 power system would be overwhelmed by such a documentation requirement.

²¹ Docket UE-140762, Rebuttal Testimony of Dana M. Ralston, Exhibit No. DMR-2T at 4:9-11.

²² Docket UE-140762, Rebuttal Testimony of Dana M. Ralston, Exhibit No. DMR-2T at 4:9-11.

²³ UE-140762, Order 08 ¶ 104.

1 **III. REPLACEMENT POWER COSTS**

2 **Q. How did you calculate the replacement power costs in your direct testimony?**

3 A. As explained in more detail in my direct testimony, the lost megawatt hours from
4 Colstrip is multiplied by the difference between the Mid-Columbia (Mid-C) market
5 price and the average Colstrip generation costs.²⁴ This calculation assumes that all
6 lost Colstrip generation is replaced through wholesale market purchases at the Mid-C
7 market hub.

8 **Q. Is it reasonable to assume that all lost Colstrip generation would be replaced
9 with wholesale market purchases at the Mid-C market hub?**

10 A. Yes, although in reality, the Company has a diverse generation portfolio and
11 geographical footprint, and Pacific Power's interest in Colstrip is relatively small at
12 148 MW.²⁵ When an outage happens, there are a number of ways that Pacific Power
13 can respond, including re-dispatching other plants, making wholesale purchases at
14 multiple market hubs (including ones outside the Pacific Northwest), or any
15 combination of these actions. However, using the Mid-C price to estimate the
16 replacement power cost is an appropriate method to estimate the cost given the
17 complexity of modeling a counter-factual scenario to produce an estimate of
18 replacement power costs.

19 **Q. What was the estimate for replacement power costs included in your direct
20 testimony?**

21 A. I estimated approximately \$457,000 in replacement power costs, which was rounded

²⁴ Exh. MGW-1T at 15.

²⁵ Approximately 17 MW of Unit 4 are included in Washington rates.

1 in my testimony to \$0.5 million.²⁶ When these costs are removed from the net power
2 costs and the PCAM is recalculated, the net result is approximately a \$419,000
3 decrease to the PCAM.

4 **Q. Has any party contested your calculation of the replacement power costs?**

5 A. No.

6 **Q. If the Commission determines that an adjustment to the PCAM is necessary for
7 the replacement power costs, what factors should be considered?**

8 A. [REDACTED]²⁷ and
9 Public Counsel acknowledges that an outage may have been necessary in the spring
10 of 2018.²⁸ As pointed out by Staff and Public Counsel, an outage in the spring of
11 2018 would still have resulted in replacement power costs, even though Mid-C power
12 prices were lower. As explained by Mr. Tack, Pacific Power disagrees that a planned
13 outage in the spring of 2018 would have resolved the issues at Colstrip or necessarily
14 have resulted in lower overall costs. [REDACTED]
15 [REDACTED], both Public Counsel and Staff recommend
16 disallowing all the replacement power costs for the outage without considering the
17 replacement power costs that would have been incurred during a spring outage.²⁹

18 **Q. Are there any other considerations in the calculation of replacement power
19 costs?**

20 A. Yes. Colstrip Units 3 and 4 represent 1,480 MW of generating capacity in the Pacific

²⁶ Exh. MGW-1T at 15.

²⁷ Exh. DCG-1CCT at 51.

²⁸ Exh. AA-1CT at 17.

²⁹ Exh. DCG-1CCT at 51; Exh. AA-1T at 17.

1 Northwest. An outage at Colstrip in the spring would potentially have impacted the
2 market prices at Mid-C and may have raised the replacement power costs. The
3 assumption that an outage in the spring of 2018 would have resulted in lower net
4 power costs does not account for the potential market-price impacts of an outage at
5 Colstrip.

6 IV. COOPERATION WITH STAFF

7 **Q. Please respond to Mr. Gomez's assertion that Pacific Power's initial testimony**
8 **was incomplete.**

9 A. When Pacific Power filed its initial testimony, the Company understood Staff's
10 interest in the Colstrip Outage to be focused on the cause of the outage and the costs
11 of replacement power, based on Staff's email.³⁰ It was only through Company-
12 requested meetings with Staff that it became clear that Staff's review was focused on
13 the foreseeability of the outage and the actions taken by Talen leading up the outage.
14 Pacific Power immediately provided the additional information and explanation
15 during and after these meetings. Pacific Power has diligently worked with Staff since
16 that time to help illustrate the reasonable actions taken after the February compliance
17 test. The discussions with Staff culminated in the supplemental testimony that was
18 filed by Mr. Tack to include that information in the record of this proceeding.

19 **Q. Is PacifiCorp committed to working with Staff and stakeholders to provide a**
20 **better understanding on these complex technical and operational issues?**

21 A. Yes. Pacific Power remains committed to working with Staff and stakeholders to
22 provide helpful information that will hopefully increase understanding on these

³⁰ Exh. DCG-2.

1 issues. Discovery and data requests in a contested case are not always the best way to
2 gain an understanding of events or discuss complex technical issues. Pacific Power
3 has often found that in-person discussions and workshops can facilitate a productive
4 discussion and greater understanding of these complex technical issues. Pacific
5 Power appreciated the opportunity to have these discussions with Staff throughout
6 this case and will continue to work to foster a cooperative and productive relationship
7 with Staff and stakeholders.

8 **Q. Do you have any comments on the additional Colstrip issues raised by Staff?**³¹

9 A. Pacific Power believes those issues are outside the scope of this proceeding, and any
10 determination on consolidated investigations for these issues is premature. However,
11 Pacific Power remains committed to working with Staff to provide necessary
12 information and to facilitate review of these issues.

13 V. CONCLUSION

14 **Q. Please summarize your testimony.**

15 A. Based on the Commission's prudence standard that reviews the actions of the utility
16 based on the information available at that time, I recommend that the Commission
17 determine that the actions taken by PacifiCorp before and during the outage at the
18 Colstrip generating station be determined to be prudent.

19 **Q. Does this conclude your rebuttal testimony?**

20 A. Yes.

³¹ Exh. DCG-1T at 58-61.