

Agenda Date: November 22, 2023
Item Number: A2

Docket: UE-230482
Company: PacifiCorp d/b/a Pacific Power & Light Company

Staff: Crystal Oliver, Regulatory Analyst
Keith Quinata, Section Manager of Energy Rates and Services

Recommendation

Issue an order approving PacifiCorp’s d/b/a Pacific Power & Light Company (PacifiCorp or Company) Power Cost Adjustment Mechanism (PCAM) 2022 report along with the accumulated customer deferral balance as of December 31, 2022, of \$71.5 million and approve the Company’s petition to extend the amortization period for surcharges on Schedule 97, PCAM, from 12 months to 24 months.

Summary of Filings

Petition for Approval of the 2022 PCAM Report along with the accumulated customer deferral balance of \$71.5 million and requests to extend the amortization period for surcharges on Schedule 97, PCAM, from 12 months to 24 months. The Company is requesting a revenue increase of \$37.2 million or 9.5 percent, effective January 1, 2024. A typical residential customer using 1,200 kWh would see a \$11.09 increase in their bill each month.

Background

On May 26, 2015, the Washington Utilities and Transportation Commission (Commission) issued Order 09 in Docket UE-140762 (Order 09). Order 09 approved and adopted a full Settlement Agreement that, among other things, authorized the Company¹ to implement a PCAM allowing for positive or negative adjustments to its rates to account for fluctuations in power costs outside of an authorized band for power-cost recovery in base rates. Under the Settlement Stipulation, PacifiCorp is required to file a request for the Commission to confirm and approve the deferred PCAM balance for the previous calendar year by June 1 of each year.²

Although not provided in the Settlement Stipulation, “the Commission will consider any petitions to alter the surcharge or credit amortization and payout in any given year.”³ For instance, in Docket UE-180494, PacifiCorp petitioned the Commission to amortize the credit

¹ In 2019, PacifiCorp changed its business name with the Commission from “Pacific Power & Light Company” to “PacifiCorp d/b/a Pacific Power & Light Company.” See Pacific Power & Light Company’s Request to Change Name to PacifiCorp, Docket UE-191004 (December 5, 2019).

² Settlement Stipulation in Docket UE-140762 at ¶ 19 (May 8, 2015) (Settlement Stipulation).

³ *Wash. Util. & Transp. Comm’n v. Pac. Power & Light Co.*, Docket UE-140762, Order 09 at ¶ 34 (May 26, 2015) (2015 PCAM Order) (“Although the Settlement Stipulation does not expressly provide for any variation from this approach to recovering surcharges or refunding credits, the Commission will consider

amount over a two-year period—rather than the 12-month period provided in the Settlement Stipulation.⁴

PacifiCorp is required to file a request to confirm the power costs of the prior calendar year and authority to defer any costs that exceed established thresholds under the PCAM by June 1 of each year.⁵

On June 15, 2023, the Company filed testimony, exhibits, and supporting documentation related to power costs deferred under the PCAM for the year ended December 31, 2022.

On June 27, 2023, The Alliance of Western Energy Consumers (AWEC) filed a Petition to Intervene.

In late July 2023, Commission staff (Staff) Management contacted Consultant John Wilson (Consultant) of Grid Strategies LLC to determine if he could serve as an Expert Consultant on this PacifiCorp docket. The contract had to be revised, reviewed, and approved several times and the final contract was signed on August 31, 2023.

On September 7, 2023, Staff identified that because the filing contained confidential information, the Consultant would need to sign a non-disclosure agreement (NDA), which was then drafted by Staff Attorneys and provided to John and signed on September 21, 2023. A password-protected box folder was then created to provide secure access to the relevant confidential workpapers.

On September 29, 2023, Staff contacted the Acting Administrative Law Director via email requesting an extension of the September 13, 2023, 90-day review period, which was granted.

On October 6, 2023, Staff's legal counsel filed a Motion for Continuance to October 31, 2023.

On October 10, 2023, AWEC filed a Petition for Adjudication of this docket stating "PacificCorp's proposed increase is substantial, and AWEC is concerned that it is also tainted by an imprudent hedging strategy by PacifiCorp." They also assert that "there appear to be issues of material fact that require additional time, process and the development of an administrative record prior to a Commission determination..."

On October 11, 2023, Public Counsel filed a Response to Staff's Motion for Continuance stating that they did not oppose Staff's Motion for Continuance and that they believed "the additional time for adjudication proposed in AWEC's Petition is warranted to develop the record for decision in this proceeding."

⁴ *Wash. Util. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-180494, Petition to Alter the Sur-Credit Amortization and Effective Date at ¶ 7 (October 8, 2018).

⁵ 2015 PCAM Order, Settlement Stipulation at ¶ 19.

On October 11, 2023, Staff's Motion for Continuance was granted as well as an exemption to WAC 480-07-385(3) as Staff did not file its Motion before the deadline required.

On October 30, 2023, PacifiCorp filed a Response to the Petition from AWEC for Adjudication and stated, "AWEC's Petition is better addressed informationally through a collaborative."

On November 2, 2023, Staff filed a second motion for Continuance as it was still awaiting outstanding Data Request responses and required additional time to complete its review.

On November 6, 2023, AWEC filed a Motion to File a Reply and Reply to PacifiCorp's Response opposing PacifiCorp's recommendation to use an informal collaborative, noting that "while an informal collaborative could result in an agreement among all parties regarding the Company's hedging practices, it also might not. If it does not, there will be no established process to resolve disagreements."

On November 13, 2023, Staff's Motion for Continuance was granted as well as an exemption to WAC 480-07-385(3) as Staff did not file its Motion before the deadline required.

Overview of PacifiCorp's 2022 PCAM Deferrals

The 2022 Washington allocation portion of PacifiCorp's actual net power costs (NPC) was approximately \$212.4 million, which led to the Company under collecting by \$72.7 million because the approved base NPC is \$139.8 million. PacifiCorp then applied the dead band and asymmetrical sharing band to the NPC differential, which resulted in a \$71.5 million deferral charge, including interest. If the PCAM deferred balancing account has a surcharge or credit threshold of \$17 million a rate change is proposed to Schedule 97. PacifiCorp is proposing to recover the \$71.5 million surcharge over a 24-month amortization period, resulting in PacifiCorp recovering a total of \$77.3 million, including interest.

Discussion

Variance Analysis

The increase is driven by extreme weather events, increased market purchases, and both higher market prices and natural gas fuel prices. PacifiCorp had a \$43 million increase in market purchases, \$31 million increase in natural gas fuel expenses, and a \$2 million increase in wheeling and other expenses. These increases were partially offset by a \$2 million reduction in coal fuel expense and a \$200 thousand increase in wholesale sales revenue.

PacifiCorp's Hedging Policy

We asked the Consultant to examine PacifiCorp's hedging policy as part of his review. The Consultant did note that he was not an expert in the specific design of hedging policies and practices. However, the Consultant could state in his opinion that this policy appears to have the

important policies and practices that he has observed when reviewing the power costs and related practices of other utilities.

PacifiCorp's hedging practices are conducted at the system level (not Washington). Documents supporting the review of PacifiCorp's hedging policies and practices can be found in WUTC DR 1 and AWEC DRs 2-8. In conducting this review, PacifiCorp's documentation was qualitatively compared to that of PSE in a concurrent docket as well as one other utility whose materials are available to Staff on a confidential basis.

In general, PacifiCorp's hedging policies and practices appear to be reasonable. For example, there are specific counterparty exposure limits indexed to the creditworthiness of the counterparty, there are trading targets and limits, with escalation of seniority requirements for exceptions to those policies.

PacifiCorp conducts annual internal audits of its energy trading. This is high-level testing, verifying compliance with basic practices. PacifiCorp has not engaged third-party auditors to evaluate its hedging practices from a financial performance perspective.

Mitchell's testimony responds to a Commission directive to address its risk management practices and market exposure for Washington. Mitchell's response is that the Company's IRP evaluated the balance between market purchases and owned/contracted generation and is pursuing the least-cost approach. Mitchell represents that the shift from the West Control Area Inter-Jurisdictional Allocation Methodology (WCA) to the Washington Inter-Jurisdictional Allocation Methodology (WIJAM) has reduced costs to Washington customers because it allocates a share of non-emitting resources in the PacifiCorp East Balancing Authority Area (PACE) (the eastern control area) to Washington.

Mitchell states that hedging Washington separately in operations and not performing the hedging in the WIJAM would lead to an increase of \$7.1 million to the 2022 NPC. The evidence for this is shown in the difference between actual NPC in Workpaper 3 and 5 and summarized in RJM-2-6-15-23.

Washington Balancing Adjustment

The Consultant noted that in the most recent PacifiCorp GRC, AWEC's witness Mullins raised the issue of whether the balancing adjustment is fair to Washington's customers and whether it should be considered on an hourly rather than monthly basis. Data was sought to analyze this issue in terms of actual costs, but PacifiCorp was unresponsive, resulting in follow-up data requests being submitted, which have not been received as of November 13, 2023.

Interested Parties

AWEC has filed a petition for adjudication suggesting that further review is necessary to determine if power costs increased due to an imprudent hedging strategy by PacifiCorp.

Public Counsel has expressed interest in this filing and is not opposed to AWEC's petition for adjudication.

Conclusion

Staff and our Consultant reviewed the workpapers, testimony, and exhibits offered by PacifiCorp and found nothing to indicate that the Company's 2022 power costs were imprudently incurred. PacifiCorp appears to have followed its internal hedging policies. However, Staff and the Consultant lack expertise in hedging strategy, so we reserve the right to modify this position should another party provide evidence of imprudence.

Staff recommends that the Commission issue an order approving PacifiCorp's PCAM 2022 report along with the accumulated customer deferral balance as of December 31, 2022, of \$71.5 million and approve the Company's petition to extend the amortization period for surcharges on Schedule 97, PCAM, from 12 months to 24 months.