Exhibit No. ___CT (DCG-1CT)
Docket UE-130043
Witness: David C. Gomez
Redacted Version

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY** **Respondent.**	**DOCKET UE-130043**

TESTIMONY OF

David C. Gomez

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Power Supply Issues

June 21, 2013

CONFIDENTIAL PER PROTECTIVE ORDER – Redacted Version

1 **B. Purchased Power Agreements with QFs Located in Oregon and**
2 **California**
3

4 **Q. Please explain the background for the Company's proposal to allocate to**
5 **Washington a portion of the cost of PPAs with QFs located in Oregon and**
6 **California.**
7 A. The WCA allocation methodology was formulated in a full party settlement
8 agreement that the Commission approved and adopted in the Company's 2006
9 general rate case. That agreement included a Company proposal for situs allocation
10 of purchased power agreements with QFs that are located physically in
11 Washington.[16] At the same time, the Commission ordered a five-year trial period
12 before revisiting the WCA methodology in future Company filings. The trial period
13 was later extended to allow a collaborative among the interested parties on interstate
14 cost allocation.[17]
15 This trial period has expired and the collaborative was concluded without
16 agreement. The Company has included in this case its post-collaborative report on
17 the WCA methodology.[18] This report outlines the Company's concerns regarding
18 the use of the existing WCA allocation methodology to set rates in Washington. It
19 does not represent any conclusions or recommendations of Staff or other parties
20 involved in the collaborative.

[16] *WUTC v. PacifiCorp*, Dockets UE-061546 and UE-060817, Order 08 at ¶43 (June 21, 2007).
[17] *WUTC v. PacifiCorp*, Docket UE-111190, Order 07, Settlement Stipulation at ¶¶28-29 (February 21, 2012).
[18] Dalley, Exhibit No. __ (RBD-2).

1 In its report, the Company expressed its opinion that the existing WCA
2 allocation methodology is deficient because it does not allocate to Washington any
3 of the costs of PPAs with QFs located in California and Oregon.[19]
4
5 **Q. Please explain the Company's proposal regarding the allocation of contracts**
6 **with California and Oregon QFs.**
7 A. In this filing, the Company proposes changing the WCA allocation methodology to
8 allocate to Washington 22.6382 percent (CAGW allocation) of the $76.9 million in
9 QF power modeled in GRID for the rate year. The effect for Washington is an
10 increase of $10.7 million in normalized NPC.
11
12 **Q. What is the Company's rationale for its proposal?**
13 A. At pages 5-6 of his direct testimony, Mr. Duvall explains the Company's rationale
14 for this change to the WCA as follows:
15 • The Oregon and California QF contracts physically deliver power to meet
16 Washington load like any other resource in the WCA;
17 • Most of the contracts have been executed or renewed recently at current
18 avoided cost rates for Oregon and California;[20] and
19 • Excluding these resources from Washington rates is contrary to the policies
20 underlying the Public Utility Regulatory Policy Act of 1978 ("PURPA") and
21

[19] Dalley, Exhibit No. __ (RBD-2) at 5-6.
[20] The Company's workpapers show that [redacted] percent of these contracts were executed or renewed in the last three years.

1 effectively denies the Company cost-recovery for resource acquisitions
2 mandated by federal statute.[21]
3
4 **Q. Do you agree that any portion of the Oregon and California QF contracts**
5 **should be allocated to Washington?**
6 A. No. The allocation of power costs within the WCA is not based, and never has been
7 based, on actual power flow studies (modeling). Instead, cost allocation is driven
8 primarily by a determination of the amount of power supply and other costs that
9 should appropriately be assigned to Washington customers. The requirements, size
10 of eligible resource, term length and pricing for these contracts are driven entirely by
11 state-specific policies, which, supports continued situs allocation of QF contract
12 costs. Situs allocation protects Washington ratepayers, and the ratepayers of the
13 Company's other jurisdictions, from uneven and policy driven differences among the
14 states regarding the acquisition and pricing of QF power.
15 The QF allocation issue is also not new. In Docket UE-050684, the
16 Company proposed its "Revised Protocol" as the allocation methodology to use in
17 the WCA to determine the revenue requirement to be borne by each state's
18 ratepayers. The proposal included a complex cost allocation scheme that
19 differentiated QF contracts as either "new" or "existing". Existing QF contracts
20

[21] The Company does not argue that situs allocation of the PPAs with California and Oregon QFs is unlawful under PURPA or any other statute.

1 were treated similarly to regional resources and new QF contracts were treated as
2 system resources.[22]
3 The Commission rejected the Company's Revised Protocol including its
4 proposed QF allocation. The Commission's decision was principled on the failure of
5 the Company to meet its burden of proof to show that the proposed allocations
6 resulted in rates for Washington ratepayers that met the statutory standard of being
7 fair, just, reasonable and sufficient.[23]
8 In this case, the Company once again fails to meet its burden of proof that
9 any method other than situs allocation of QF power is warranted. Mr. Duvall
10 provides only unsubstantiated broad statements regarding Washington customers not
11 shouldering their fair share of these costs, while he fails to provide the quantitative
12 evidence necessary for the Commission to accept the Company's proposed QF
13 contract allocation. As a result, the proposal to change the approved situs allocation
14 of PPAs with QFs should be rejected.
15
16 **Q. Does recent QF acquisition activity within the WCA show that situs allocation**
17 **of all QF costs protects against policy differences among the states regarding**
18 **the acquisition and pricing of QF power?**
19 A. Yes. The Company has modeled in GRID just under ■ million MWh of QF power
20 purchases for the WCA. Of that amount, slightly over ■ percent is from new QF

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[22] *WUTC v. PacifiCorp*, Docket UE-050684, Order 04 at ¶32 (April 17, 2006). The Company's proposal in this docket does not make such a differentiation and allocates all QF contracts within the WCA through the CAGW allocation factor.
[23] *WUTC v. PacifiCorp*, Docket UE-050684, Order 04 at ¶¶48-70 (April 17, 2006).

1 contracts entered by the Company after 2009.[24] This is significant considering that,
2 in the Company's 2006 rate case, power contracts for QFs in Oregon, Washington
3 and California added up to less than one-half (█ MWh) of the total amount of
4 QF power modeled in this case.[25] The recent and substantial expansion of QF power
5 purchases (█ percent of WCA net system load in this case) is entirely due to other
6 states' policies designed to rely on the QF requirements of PURPA to considerably
7 increase generation from independent power producers.
8
9 **Q. Mr. Duvall states that most of the QF contracts proposed for allocation to**
10 **Washington have been executed or renewed recently at current avoided cost**
11 **prices.[26] What is your response to his testimony?**
12 A. Mr. Duvall's testimony is not on point. Not only does he minimize significantly the
13 true impact of these contracts to WCA power costs during the rate year, he distorts
14 PURPA's underlying principle that individual states have the right to set QF pricing
15 policies.
16 In the last few years, avoided costs have come down dramatically due largely
17 to the weaker economy and lower market prices for natural gas. The difference
18 between the nominal $77.20 MWh[27] costs of the Company's California and Oregon

[24] Two-thirds of the power from these new QF sources is from twelve wind projects where the Company does not hold title to the renewable energy credits. The Company's testimony is silent as to whether any of the renewable energy attributes associated with these projects may be used to comply with state renewable portfolio standards or other regulatory requirements.
[25] Docket UE-061546, Company Exhibit No. 134 (PMW-4), Results of Operations for Period Ending March 31, 2006, Embedded Cost Differential.
[26] Dalley, Exhibit No. __ (GND-1CT) at 5:18-20.
[27] Dalley, Exhibit No. __ (GND-1CT) at 7:9-10.

1 QF contracts and Oregon's current nominal avoided costs of $34.65 MWh,[28] results
2 in $42.4million in additional rate year power costs for the WCA in this case, which
3 merely strengthens the argument for situs allocation of these costs, consistent with
4 PURPA. While this kind of price risk would also be present in any contract with a
5 Washington QF, the risk impact is offset by the smaller size and output of the project
6 and the shorter term lengths of the purchase agreements, as directed by Commission
7 policy.[29]
8
9 **Q. If QF power was acquired in Washington at prices that increased NPC, would**
10 **Staff still recommend continued situs allocation?**
11 A. Absolutely. Situs allocation of QFs is not driven by costs, but instead by principles
12 that account properly for variances in the pricing and acquisition policies of
13 individual jurisdictions established under PURPA, and, coincidentally, protect each
14 jurisdiction's ratepayers from those variances. Therefore, if those policies resulted in
15 purchases of power from QFs located in Washington that increased NPC, fairness
16 would dictate continued situs allocation to Washington.
17
18 **C. Removal of the Eastern Market Modification**
19
20 **Q. Please explain the Eastern Market Modification.**

[28] PacifiCorp's Oregon Schedule 37, Avoided Cost Purchases from Qualifying Facilities of 10,000 KW or Less.
[29] WAC 480-107-095 (QF eligibility for standard contract terms and conditions is set at 2 MW or less and provides for fixed pricing for a term of only five years.) If the contract term length of QFs being proposed for CAGW allocation were five years instead of 20 years, the Company could have renewed expiring contracts at current avoided costs and reduced power costs for the WCA by $█ million.

1 A. Exhibit No. __ (DCG-3) summarizes my proposed adjustments and corresponding
2 decreases to the filed NPC, using the existing CAGW allocation factor based on 75
3 percent demand and 25 percent energy. They are:
4
- Continued situs allocation for all QFs within the WCA ($10.7 million);
5
- Retaining the Eastern Market Modification ($0.3 million);
6
- Maintaining the same capacity factors for wind resources, as originally
7 approved by the Commission ($1.0 million); and
8
- Excluding the cost of the DC Intertie ($1.1 million).

9 As part of my testimony, I recommend the Commission order the Company to carry
10 out the appropriate GRID model runs including any Commission- accepted
11 adjustments, as part of the Company's compliance filing. This will provide the
12 appropriate assurances that the effect of accepted adjustments is captured for
13 ratemaking purposes.
14
15
VI. STAFF'S RESPONSE TO PCAM PROPOSAL
16
17 **Q. Please briefly describe the Company's proposal for a PCAM.**

18 A. Mr. Duvall summarizes the Company's PCAM proposal.[47] The proposal does not
19 include dead-bands or sharing bands, which allows the Company to collect or credit
20 all of the differences between actual NPC and the amount of NPC in base rates. The
21 Company also proposes a one-time update to Base NPC 24 months after the effective
22 date of its last general rate case filing.

[47] Duvall, Exhibit No. __ (GND-1CT) at 26:2-29:16.

1

2 **Q. Has the Commission previously specified threshold requirements for a PCAM**
3 **for the Company?**

4 A. Yes. In Docket UE-061546 the Commission specified that any PCAM must:

5 - Demonstrate the process, accounting, and reliability of the computer-
6 generated "actual costs" that the Company then-proposed to use in the annual
7 PCAM true-up; and
8 - Refine the PCAM design to reflect asymmetry of power cost distribution.[48]

9

10 **Q. Has the Company met these threshold requirements in its current proposal?**

11 A. Partly. Before addressing that issue, however, it should be clear that Staff
12 considered the fundamental question of whether a PCAM is both practical and
13 appropriate at this time for the Company. Mr. Duvall's testimony and exhibits
14 reaffirm Staff's support for a properly designed PCAM for the reason previously
15 stated in the 2006 rate case: that the Company faces variability in NPC sufficient to
16 justify such a mechanism.[49] The expanded role today of renewable resources within
17 the Company's generation portfolio is an additional element supporting a properly
18 designed PCAM for the Company.

19 Returning to your question, in the 2006 general rate case the Commission
20 rejected the Company's use of a computer generated cost methodology (*i.e.*, costs

[48] *WUTC v. PacifiCorp*, Docket UE-061546, Order 08 at ¶111 (June 21, 2007). The Commission also stated that any PCORC proposal must include a provision that a general rate case must be filed within a certain term; and must direct that any water-year adjustment for power cost normalization be consistent with the way the PCAM design reflects the asymmetric power cost distribution. These requirements are not applicable to the Company's current proposal since it has not proposed a PCORC and the Company's proposal does not rely on GRID to develop baseline power costs.

[49] *WUTC v. PacifiCorp,* Docket UE-061546, Exhibit 261 (APB-1T) at 32:16-33:10 (Testimony of Alan P. Buckley).

1 derived from a model rather than a record of actual costs) to true-up normalized base
2 power costs. The Commission did so because of its concern that computer-generated
3 costs will be only estimates and could lead to a further departure from actual costs.[50]
4 In this case, the Company abandons its prior proposal that relied on computer
5 generated costs and, instead, proposes to report actual NPC per its books and
6 records. This approach is an appropriate alternative that addresses the Commission's
7 prior concerns on this issue.
8 However, the Company has failed to comply with the fundamental design
9 requirement to reflect asymmetry of power cost distribution, because its PCAM
10 proposal does not include deadbands and sharing bands. Therefore, Staff
11 recommends that the Commission reject the proposed PCAM at this time.
12
13 **Q. What is the Company's justification for excluding deadbands and sharing**
14 **bands from a PCAM?**
15 A. The Company dismisses deadbands and sharing bands as "poor regulatory policy"
16 because NPC variability is largely outside of its control and, therefore, bands are
17 ineffective for motivating the utility towards greater efficiency.[51] Staff does not
18 support this view given eleven years of experience with Avista and PSE showing that
19 that sharing bands and dead-bands work as the Commission has desired.[52]
20 Most notably, the Commission rejected explicitly the Company's argument,
21 stating:

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[50] *WUTC v. PacifiCorp*, Docket UE-061546, Order 08 at ¶77 (June 21, 2007).
[51] Duvall, Exhibit No. __ (GND-1CT) at 31:20-22-31:1-7.
[52] *WUTC v. Avista Corp*., Docket UE-011595, Order 05 at ¶¶34-40 (June 18, 2002) and *WUTC v. Puget Sound Energy,* Inc., Dockets UE-011570/UG-011571, Order 12 at ¶¶22-24 (June 20, 2002).

> [P]ower cost recovery mechanisms should also apportion risk equitably between ratepayers and shareholders. In striking that balance, we consider risks already allocated through the normalization process, a utility's financial condition and other circumstances affecting a utility's ability to recover its prudent expenditures. Deadbands and sharing bands are useful mechanisms, not only to allocate risk, but to motivate management to effectively manage or even reduce power costs.[53]

The Company continues to ignore the Commission's statements regarding PCAM design. Despite Staff's general support for a PCAM, the real obstacle to the specific PCAM proposal in this case is the Company's continued insistence on a PCAM without deadbands and sharing bands. This deficiency more than offsets the Company's forward progress in addressing the Commission's other concerns from the 2006 rate case.

Q. Should the Commission nevertheless consider a PCAM for the Company that includes sharing bands and deadbands?

A. No. It is Staff's understanding that the entire issue of inter-state cost allocations will be revisited in the near future across the Company's six jurisdictions.[54] Any resulting changes may have major impacts on jurisdictional costs used to develop a baseline power cost level for any PCAM. Therefore, it is premature to consider even a properly designed PCAM for the Company. The Commission should wait until the interstate cost allocation review is complete before considering a PCAM for the Company.

[53] *WUTC v. PacifiCorp*, Docket UE-050684, Order 04 at ¶¶96-97 (April 17, 2006).
[54] Daley, Exhibit No. __ (RBD-2) at 7-8.

1 **Q. Does this conclude your testimony?**

2 A. Yes.