BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, a division of PacifiCorp, Respondent.	DOCKET UE-140762 and UE-140617 (*consolidated*)
In the Matter of PACIFIC POWER & LIGHT COMPANY Petition for an Order Approving Deferral of the Washington-Allocated Revenue Requirement Associated with the Merwin Fish Collector.	
In the Matter of PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY Petition for an Order Approving Deferral of costs Related to Colstrip Outage.	DOCKET U E-131384
In the Matter of PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY Petition for an Order Approving Deferral of Costs Related to Declining Hydro Generation.	DOCKET UE-140094 COMMISSION STAFF'S RESPONSE TO COMMISSION QUESTIONS IN ORDER 08

1 In Order 08, Dockets UE-140762, et al. (*consolidated*), the Utilities and Transportation Commission (Commission), required Pacific Power & Light (Pacific Power or Company) to implement a properly designed PCAM. The Commission's order also

scheduled a brief proceeding to determine the details required to effectuate implementation of Pacific Power's PCAM. In preparation of this proceeding, Staff was directed by the Commission to address the following four questions in order to further develop the record in this matter.[1] Staff addresses each of the questions in the Q&A below.

2 **Q. Is it appropriate to use the Western Control Area Inter-Jurisdictional Allocation Methodology (WCA) as the jurisdictional divide for wholesale power costs?**

3 A. Yes. It is not only appropriate, but essential, that both base and actual Net Power Costs (NPC) in Pacific Power's PCAM be calculated from the basis of the WCA. The WCA consists of generation and transmission resources that are either located within Pacific Power's West balancing authority (PACW) or have the physical capability to deliver energy into the WCA.[2] The WCA isolates the costs associated with these assets and purchases and sales, and allocates to Washington a proportionate share of the costs based on Washington's relative contribution to the WCA's demand and energy requirements.[3] The PCAM's deferral amounts will be calculated first from the WCA whole and then allocated to Washington using the appropriate factor for each FERC account.

4 Staff understands the term "wholesale power costs", within the context of Pacific Power's PCAM, to mean both Sales for Resale – FERC Account No. 447 and Purchased Power – FERC Account No. 555. Account 447 would include the East Area Sales (WCA Sale) which will be treated the same as any Fixed Price/Firm Energy Power Purchase Agreement. Account No. 555 would exclude any BPA residential exchange credit pass-

[1] *See* Docket UE-140762, Order 08, ¶ 123.
[2] *WUTC v. Pacific Power*, UE-140762, Siores, Exhibit No. __ (NCS-5), Page 2.
[3] Siores Exhibit No. __ (NCS-5), Page 3.

through which Staff understands is accounted for elsewhere and not included in the calculation of NPC.

5 In UE-130043[4], the Company removed a significant cost-calculation hurdle by abandoning the use of "pseudo actual, computer-generated" data to calculate actual NPC in favor of actual NPC per the books and records of the Company. Assets or proportions of assets included in the reporting of actual NPC will be consistent with the WCA used to determine normalized NPC in the Company's general rate cases. To the extent an energy imbalance exists after accounting for actual loads and resources, the Company will account for the difference by reducing actual short-term balancing purchase or sales transactions, leaving actual, per books.

6 **Q. Is $25 million the appropriate dead band and how did Staff determine this amount?**

7 A. Yes. Staff arrived at a $25 million dead band by averaging both the Company's Base and Actual NPC, on a WCA basis, as reported by Mr. Duvall in UE-130043 Exhibit No.___ (GND-6)[5] and NPC data derived from Avista's annual ERM filings. The NPC data for both companies are provided in Table 1 below. Staff divided Avista's existing deadband amount by the average of both Adjusted Actual and Authorized Net NPC for the years shown in Table 1. The results are shown in Table 2.[6] The same was done with the average of Pacific Power's Base and Actual NPC amounts. These results are also show in Table 2

[4] *WUTC v. Pacific Power*, UE-130043, Duvall, Exhibit No. __ (GND-1CT), Page 46: 3-12.
[5] In UE-130043, Public Counsel's data request No. 133 asked Pacific Power to update the data in the workpapers to the exhibit to include 2012 actuals. Staff, as part of an informal data request in the consolidated docket to UE-140762; UE-140094 (Hydro Deferral Petition), asked the Company to update the exhibit with 2013 data.
[6] On page 5 of the settlement stipulation in *WUTC v. Avista Corporation*, UE-011595, approved by the Commission in its Fourth Supplemental Order of June 18, 2002; established $9 million as the ERM's deadband. A subsequent settlement was approved by the Commission in UE-060181, Order 03 (June 16, 2006), reducing the deadband to its current level of $4 million.

below. As a result of this analysis, Staff therefore established 5 percent as a reasonable starting point for Pacific Power's deadband.[7]

Table 1 Historical NPC

	In millions						
Avista ERM	**2007**	**2008**	**2009**	**2010[8]**	**2011**	**2012**	**2013**
NPC, Adjusted Actual Net Expense (System)	$161.92	$174.11	$161.23	-	$129.16	$170.59	$200.75
NPC, Authorized Net Expense (System)	$108.03	$163.56	$189.80	-	$141.31	$197.87	$181.24
Pacific Power PCAM[9]	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
WCA NPC (Base)	$410.02	$414.47	$430.88	$514.92	$529.78	$543.73	$547.10
WCA NPC (Actual)	$498.73	$518.48	$479.98	$493.76	$546.79	$532.14	$580.30

Table 2, Deadband Design

	Deadband as a percent of NPC Avg. 2007 - 2013	Amount in millions when percentage is applied to NPC Avg. 2007 - 2013
Avista ERM @ $4 million deadband – 2006 to present		
Adjusted Actual Net Expense (System)	2.4%	$3.99
Authorized Net Expense (System)	2.4%	$3.93
Avista ERM @ $9 million deadband – 2002 to 2006		
Adjusted Actual Net Expense (System)	5.4%	$8.98
Authorized Net Expense (System)	5.5%	$9.00
Pacific Power PCAM @ $25 million deadband		
WCA NPC (Base)	5.2%	$24.22
WCA NPC (Actual)	4.8%	$26.07

Q. Does $25 million reflect normalized variability in power costs?

A. Yes. As articulated by the Company, the WCA is used "to determine normalized NPC [Base] in the Company's rates."[10] Furthermore, in this most recent case, the Company

[7] Staff also compared the results of its analysis with the various PCAM proposals offered in UE-061546 which are summarized in the Commission's Order 08 in UE-061546, ¶ 66, Table 2. The deadband figures in the order are on a Washington allocated basis.
[8] For the year 2010, there were no ERM deferral entries. Per the Stipulation approved in Order No. 7 in Docket UE-100467, no ERM deferral entries were made in 2010.
[9] The NPC data provided by Pacific Power does not include the East Area Sales (WCA Sale) amounts which would be included in the Company's actual calculation of both Base and Actual NPC.
[10] *WUTC v. Pacific Power*, UE-130043, Duvall, Exhibit No. __ (GND-1CT), Page 46: 6-7.

testified that it believes that its Generation and Regulatory Initiative Decision Tools model (GRID) "is a reasonable tool for developing normalized power costs [NPC] specific to [Pacific Power's] unique system."[11] Therefore, the normalization process employed by the Company at arriving at its pro-forma estimates of NPC for inclusion in rates and from which the PCAM will derive its base NPC already accounts for and adjusts for non-normal variability between periods. Staff's believes that the deadband is designed to recover or refund only when significant, unexpected variations in power costs occur that clearly have not been included in the "normalization" process. The nearly identical resulting ratios for both companies, when both the normalized base NPC average and actual NPC average is divided by the $25 million deadband, are mostly the result of back-to-back yearly rate cases since 2008. Since the baseline has been reset each time a rate case is completed, the ability to observe the capability of the Company's normalization process and the performance of the bands is limited. Nonetheless, Staff believes we are at an acceptable starting point.

10 **Q. How exactly did Staff arrive at its recommendation for a 50/50 sharing between the Company and its customers for under recoveries of NPC that exceed the dead band and a 25/75 sharing for over recoveries, in favor of customers?**

11 A. Staff was primarily guided by the Commission's Order 08 in Docket UE-061546, Paragraphs 85 through 87:

> "This case illuminates a point not analyzed in our prior consideration of PCAMs--the distribution of net power costs may not be symmetrical, but skewed and not statistically normal. For example, in this record the distribution of net power costs is skewed toward higher costs, in part because poor hydropower is correlated with higher wholesale power costs and higher fuel costs. Staff finds that 60 percent of the variability in the Company's power costs is on the "high side." This means that any symmetrical PCAM design will shift some level of risk to ratepayers, because the probabilistic benefit ratepayers receive from good water conditions does not equal the probabilistic risk customers will incur from poor hydrologic conditions.

[11] *WUTC v. Pacific Power*, UE-140762, Duvall, Exhibit No. __ (GND-1CT), Page 37: 16-17.

An optimally designed PCAM would recognize the inequality between upside and downside risk in its design of deadbands and sharing bands. For example, to equally balance risk with benefit, the deadband and sharing bands should be set at lower levels on the "lower cost" side of base costs to increase the expected value of customer benefits enough to balance the expected value of customer risks on the "high side" of base costs. The parties in this proceeding have not proposed such a design.

All three PCAM designs present in this case entail a shift in risk that arguably needs to be accompanied by a modification to the Company's return to compensate for that shift. In the alternative, a PCAM design that recognizes the asymmetry in risk would not produce a risk-shift and might not require any adjustment to the Company's allowed return. In light of the record in this proceeding, it is evident that recognition of potential asymmetry in risk in any PCAM design represents a significant refinement that must be considered as we review PCAMs in the future."

12 Consequently, any design for the sharing band for an over recovery cannot reflect an equal split (50/50) and therefore must be asymmetric. This is because any benefit in the rebate direction must be proportioned to reflect the added risks absorbed by ratepayers in the surcharge direction. Rather than propose a more advantageous split at let's say 10 percent for the Company and 90 percent for the Customer, Staff's proposal for a "25/75" split reflects a more reasonable starting point.

Dated this 9th day of April, 2015.

Respectfully submitted,

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