

**Exh. HEN-2
Dockets UE-220066, UG-220067,
UG-210918
Witness: Hanna E. Navarro**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**DOCKETS UE-220066, UG-220067,
UG-210918 (consolidated)**

In the Matter of the Petition of

PUGET SOUND ENERGY

**For an Order Authorizing Deferred
Accounting Treatment for Puget Sound
Energy's Share of Costs Associated with
the Tacoma LNG Facility**

EXHIBIT TO TESTIMONY OF

HANNA E. NAVARRO

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Docket UE-210402, Gomez Exh. DCG-1CT (Dec. 13, 2021)

July 28, 2022

**Exh. DCG-1CT
Docket UE-210402
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-210402

REBUTTAL TESTIMONY OF

David C. Gomez

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Power Costs

December 13, 2021

**CONFIDENTIAL PER PROTECTIVE ORDER IN DOCKET UE-210402
REDACTED VERSION**

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	PURPOSE AND SCOPE OF STAFF’S REBUTTAL TESTIMONY	1
III.	POWER COST UPDATE.....	3
IV.	OTHER ADJUSTMENTS PROPOSED BY AWEC	28

LIST OF EXHIBITS

- Exh. DCG-2 Docket UE-200900, Kalich Exh. CGK-8, Energy and Environmental Economics, Inc. (E3), Avista Power Cost Modeling Review (June 2020).
- Exh. DCG-3 Docket UE-170485, Gomez Exh. DCG-1CT, Excerpt of Response Testimony Pro Forma Power Costs, Pages 4:5–8:6 (October 27, 2017).
- Exh. DCG-4 Docket UE-210447, Staff Open Meeting Memo (September 30, 2020).

1 **I. INTRODUCTION**

2

3 **Q. Are you the same David C. Gomez who submitted joint testimony in support of**
4 **the Settlement Stipulation in this proceeding on November 5, 2021, on behalf of**
5 **the Washington Utilities and Transportation Commission Staff (“Staff”)?**

6 A. Yes. On November 5, 2022, Staff along with PacifiCorp d/b/a Pacific Power & Light
7 Company (“PacifiCorp” or “the Company”), The Energy Project, and Walmart Inc.
8 (collectively “Settling Parties”) submitted joint testimony in support of the
9 Settlement Stipulation.¹

10

11 **II. PURPOSE AND SCOPE OF STAFF’S REBUTTAL TESTIMONY**

12

13 **Q. Please state the purpose of your rebuttal testimony.**

14 A. The purpose of my testimony is to address the Alliance of Western Energy
15 Consumers’ (“AWEC”) opposition to the Settlement Stipulation filed by the Settling
16 Parties on November 5, 2021 (“Stipulation”). As such, I will be responding directly
17 to the testimony of Bradley G. Mullins contained within Exhibit BGM-1CT and his
18 three exhibits: BMG-2; BMG-3C; and BMG-4.

19

20 **Q. What is the scope of your rebuttal testimony?**

21 A. As specified by the Commission in Order 05 in this case, rebuttal testimony should
22 be focused on the points of disagreement raised by AWEC or Public Counsel

¹ Exh. JT-1CT at 2:1-3:2 & 14:10-18:16.

1 regarding the Stipulation.² Public Counsel has chosen not to file responsive
2 testimony in opposition and instead neither opposes nor supports the Stipulation.³

3

4 **Q. What is AWEC’s primary opposition to the Stipulation as articulated in the**
5 **response testimony of Mr. Mullins?**

6 A. Mr. Mullins’ opposition is primarily centered around the Commission’s practice of
7 updating the power cost mechanism baseline close to the rate effective date in Power
8 Cost Only Rate Cases (“PCORC”) or General Rate Cases (“GRC”). Mr. Mullins
9 provides several arguments as to why the proposed NPC baseline update in the
10 Stipulation (“proposed update”) is unlawful and against public policy.⁴

11

12 **Q. Do you agree with Mr. Mullins’ opposition to the proposed update?**

13 A. No. Staff supports the proposed update and rebuts the points of opposition raised by
14 Mr. Mullins in Section III of this testimony.

15

16 **Q. Does AWEC advocate for the Commission to adopt any additional adjustments**
17 **within the testimony of Mr. Mullins?**

18 A. Yes. Mr. Mullins advocates three additional adjustments: (1) An adjustment to
19 decrease the base rates established in the PacifiCorp 2020 GRC to include an
20 additional \$3 million in incremental Fly Ash revenues;⁵ (2) An adjustment to
21 decrease the net power cost (“NPC”) baseline by \$45,104 to revise PacifiCorp’s

² Order 05 ¶ 10.

³ Dahl, Exh. CJD-1T at 4:10-12.

⁴ See generally Mullins, Exh. BGM-1CT at 5:1-19:16.

⁵ Mullins, Exh. BGM-1CT at 23:13-24:15.

1 allocation of rate-year transmission wheeling expense;⁶ and (3) An adjustment to
2 disallow costs associated with PacifiCorp's Nodal Price Model ("NPM") or
3 alternatively to impute a \$312,000 level of NPM benefits into the NPC baseline.⁷
4

5 **Q. Do you agree with any of the additional adjustments proposed by Mr. Mullins?**

6 A. As explained in Section IV of this testimony, the Settling Parties would not oppose
7 the Commission adopting the wheeling expense adjustment as proposed by Mr.
8 Mullins. As further explained in Section IV, Staff does not support the other two
9 adjustments as proposed by Mr. Mullins.
10

11 III. POWER COST UPDATE

12

13 **Q. Can you provide a description of the proposed update in the Stipulation?**

14 A. Yes. The proposed update will set the NPC baseline based on PacifiCorp's most
15 recent Official Forward Price Curve ("OFPC")⁸ (likely March 2022).⁹ The proposed
16 update also includes the Company's most recent electric and gas market hedging
17 positions and mark-to-markets its various contracts for both power and gas for the
18 rate year.¹⁰ This update will be calculated in the same manner as the baseline that
19 was used to derive the revenue requirement in the Stipulation.¹¹ Under the current

⁶ Mullins, Exh. BGM-1CT at 24:16-25:14.

⁷ Mullins, Exh. BGM-1CT at 19:17-23:11.

⁸ PacifiCorp's OFPC is developed from a combination of forward market prices on a given quote date and a long-term fundamentals-based price forecast. *See* Staples, Exh. DRS-1CT 5:19-6:2.

⁹ Settlement Stipulation ¶ 12.

¹⁰ Exh. JT-1CT at 10:16-11-5.

¹¹ Exh. JT-1CT at 10:19-21.

1 procedural schedule, briefing will be completed on February 25, 2022.¹² The
2 Stipulation requests that the Commission issue an order by the end of March.¹³ This
3 would then allow the Company two weeks to complete the update based on the most
4 recent OFPC available and submit the compliance filing.¹⁴ The parties would have
5 two weeks to review the compliance filing—leading to a requested May 1, 2022, rate
6 effective date.¹⁵

7

8 **Q. Can you describe the primary purpose of the proposed update?**

9 A. Yes. The primary purpose of the proposed update is to adjust the NPC baseline to
10 reflect the most current forward prices for gas and power in commodity markets—in
11 which PacifiCorp is a price taker. This aspect of the PCORC (the NPC update) is
12 therefore a vital element in meeting the stated goal of the PCORC—which is to set
13 the company’s power cost baseline “as close as possible to the forecasted power
14 costs during the rate year, based on the most up-to-date information available to the
15 Commission.”¹⁶ In my experience, changes in the level of NPC during the pendency
16 of a case (including this one) are driven primarily by updated forecasts of market
17 prices for power and gas that a company will face in the upcoming rate year.

18

19 **Q. Can you provide a description of what specific input data (“inputs”) will be**
20 **updated from the Company’s initial filing?**

¹² Order 05 ¶ 12.

¹³ Settlement Stipulation ¶ 13.

¹⁴ Exh. JT-1CT at 10:3-10.

¹⁵ Exh. JT-1CT at 10:3-10.

¹⁶ *WUTC v. Puget Sound Energy*, Docket UE-200980, Order 05 ¶ 13 (June 1, 2021) (hereinafter “2020 PSE PCORC Order”).

1 A. Yes. In the proposed update, PacifiCorp will recalculate its NPC for the rate year
2 based on its most recent forecast of forward power and gas market prices. The most
3 recent forecast of forward power and gas market prices will also be reflected in the
4 Company’s latest electric and gas hedging and contract positions at the time. This
5 specifically includes:

- 6 • Wholesale electric sale and purchase contracts that are for long-term firm
7 sales and purchases;
- 8
- 9 • Short-term firm sales and purchases; and
- 10
- 11 • Natural gas sales and purchase contracts.¹⁷
- 12
- 13

14 **Q. Would the proposed update include a recalculation of Energy Imbalance
15 Market (“EIM”) benefits?¹⁸**

16 A. Yes. The primary purpose of the proposed update is to adjust the level of rate year
17 NPC based on the most up to date forecast of power and gas market prices. As the
18 level of rate-year EIM benefits are directly correlated to market prices (sub-hourly
19 vs. hourly)—then so too must EIM benefits be adjusted within the compliance filing.
20 Accordingly, both categories of EIM benefits (inter-regional dispatch and
21 greenhouse gas revenue) will be recalculated in the proposed update.

22

23 **Q. Do you agree with Mr. Mullins’ testimony that it is unclear what inputs will be
24 updated?¹⁹**

¹⁷ Exh. JT-1CT at 11:2-5.

¹⁸ Mullins, Exh. BGM-1CT at 13:4-14 (“An update to [EIM] benefits calculation for the OFPC was not specifically identified by the Settling Parties.”).

¹⁹ Mullins, Exh. BGM-1CT at 12:3-8 (“What cost items will be included in the update? That is not entirely clear.”).

1 A. No. The Stipulation clearly specifies that PacifiCorp will update its market price
2 inputs in the AURORA Model and mark-to-market its various contracts and hedges
3 for the rate year—whose costs (for the purposes of setting the NPC baseline) are
4 dependent on forecasted market prices.

5
6 **Q. Has the Commission recently approved a PCORC settlement that included a**
7 **power cost update that occurred in a compliance filing?**

8 A. Yes. The Commission recently approved a settlement stipulation in the 2020 Puget
9 Sound Energy (“PSE”) PCORC.²⁰ The settlement stipulation included a term to
10 update PSE’s power costs in a compliance filing.²¹ AWEC was a party to this
11 settlement.²²

12
13 **Q. Would the proposed update be similar to the update in the 2020 PSE PCORC?**

14 A. Yes. Below is the update term from the 2020 PSE PCORC compared to the proposed
15 update in this case (2021 PacifiCorp PCORC):

16 **2020 PSE PCORC:** “The Settling Parties agree to an electric revenue increase
17 of approximately \$65.3 million, or 3.07 percent, which will be updated through
18 a power cost update at the compliance filing to reflect the most up-to-date
19 natural gas prices as well as the most up-to-date electric and gas hedging
20 positions. . . .”²³
21

²⁰ 2020 PSE PCORC Order.

²¹ *Id.* at Joint Narrative in Support of Settlement Stipulation and Agreement ¶ 11 (April 2, 2021) (“The Settling Parties agree that [the baseline] will be updated at the compliance filing, when PSE updates its power costs to reflect the most current natural gas prices as well as the most current power and gas-for-power hedging positions. An update to power costs at the compliance filing is an explicit term of the Settlement.”). This testimony does not cite the 2020 PSE PCORC settlement update term for its precedential effect. *Id.* at Settlement Stipulation and Agreement ¶ 14 (April 2, 2021).

²² AWEC joining the 2020 PSE PCORC settlement should not be deemed to be a concession to any position it has taken in this case. *Id.* at ¶ 15.

²³ *Id.* at ¶ 11A.

1 **2021 PacifiCorp PCORC:** “Parties agree that the NPC baseline will be set
2 using the methodology identified in PacifiCorp’s testimony and updated in the
3 compliance filing after a Commission order to reflect the latest power and gas
4 forward prices as well as electric and gas hedging positions at the time”²⁴
5

6 The method employed in these two updates would be similar—with one notable
7 exception.²⁵ PSE’s NPC modeling approach arrives at market prices for power as an
8 output of the model. PacifiCorp’s NPC model, on the other hand, relies on a forecast
9 of rate year power market prices as an input to the model.²⁶ Both methods rely on
10 forward market prices for gas as an input in their model.²⁷ Staff’s intent in supporting
11 both these PCORC updates (regardless of the method employed) is the same—to set
12 the baseline as close as possible to the forecasted power costs during the rate year,
13 based on the most up-to-date information available to the Commission.²⁸
14

15 **Q. Do you agree with Mr. Mullins’ testimony that a two-week period to review the**
16 **compliance filing is insufficient?**²⁹

²⁴ Settlement Stipulation ¶ 8.

²⁵ Mr. Mullins levels vague and unsubstantiated claims that the modeling method employed by PacifiCorp to arrive at rate year NPC in this case is somehow more unpredictable and complex presumably, in part, because it uses power forwards as an input as opposed to power prices being deterministically derived from the model itself (like in the PSE model). Mullins, Exh. BGM-1CT at 7:1-5. Mullins, on behalf of AWEC, advocates for an as-filed NPC baseline arrived at via PacifiCorp’s modeling method—yet questions the employment of this same method for the proposed update. *Id.* at 5:15-17 & 7:1-5. Mr. Mullins’ testimony and exhibits provide no compelling data or analysis which support his claim that one modeling approach produces better results over the other. *See id.* at 7:1-5. Exhibit DCG-2 contains a report from a third-party consultant in Avista’s Commission-mandated power cost collaborative—that provides a brief explanation of the three primary methods used by utilities to estimate future power market prices, which is central to determining the level of rate year NPC (regardless of the modeling method employed). These modeling methods include: (1) Forward Prices [as an input to the model] (used by PacifiCorp and Avista); (2) Fundamentals Modeling (used by PSE); and (3) Regression Analysis. Gomez, Exh. DCG-2 at 18-20.

²⁶ Gomez, Exh. DCG-2 at 18-19.

²⁷ Gomez, Exh. DCG-2 at 19.

²⁸ 2020 PSE PCORC Order ¶ 13.

²⁹ Mullins, Exh. BGM-1CT at 10:17-11:8.

1 A. No. WAC 480-07-880 requires Staff to file a response to a compliance filing within
2 five business days unless other such deadline is established by the Commission. The
3 Stipulation provides for two weeks to review the compliance filing—which is more
4 time than what is typically provided. Staff recently filed a response to a compliance
5 filing that included a power cost update within the 2020 PSE PCORC. In that
6 instance, Staff only requested five business days to review the compliance filing.³⁰
7 This was sufficient time for Staff to review and respond to the update contained
8 within the PSE compliance filing.³¹ Accordingly, the specified two-week period
9 provides for a sufficient review period.
10

11 **Q. During the two-week review period, would Staff review the updated power cost**
12 **inputs?**

13 Yes. The inputs to the AURORA Model in the proposed update would consist
14 primarily of updated market price and fuel tables which are easily verifiable as are
15 the Company’s various mark-to-market adjustments to its power and gas contracts.
16

17 **Q. Do you agree with Mr. Mullins’ testimony that there would be no process to**
18 **contest the compliance filing?**³²

³⁰ *WUTC v. Puget Sound Energy*, Docket UE-200980, Staff Testimony in Support of Full Multiparty Settlement Agreement at 5:5-9 (April 2, 2021).

³¹ Staff took five business days to review the 2020 PSE PCORC compliance filing and thereafter filed its response on June 28, 2021.

³² Mullins, Exh. BGM-1CT at 11:1-2 (“[T]here is no process established for contesting issues that are likely to arise in the compliance filing.”).

1 A. No. WAC 480-07-880 provides the Commission may provide for “additional
2 process” if a party disputes the filing as not in compliance with the final order. WAC
3 480-07-880 further states:

4 If the commission allows a compliance filing to become effective but later
5 discovers that the filing does not fully comply with the order authorizing or
6 requiring the filing, the commission may take any necessary and lawful steps
7 to secure full compliance with that order. The commission's erroneous
8 acceptance of a compliance filing does not validate the noncompliant elements
9 of the filing or modify the final order requiring that filing.
10

11 **Q. Could any party dispute a compliance filing?**

12 A. Assuming they are party to a proceeding, yes.
13

14 **Q. Do you agree with Mr. Mullins’ testimony that the Commission could not
15 review the prudence of certain inputs in the proposed update?³³**

16 A. No. A challenge to the prudence of power costs can occur at the time of the Power
17 Cost Adjustment Mechanism (“PCAM”) annual review.³⁴ While parties can (and do)
18 contest power cost inputs and their effect on the NPC baseline in the course of a
19 PCORC or GRC—they are not foreclosed from making a prudency challenge later at
20 the PCAM annual review once actual costs (as compared to base values) are known.
21 If the Commission approves the proposed update, when PacifiCorp files its 2022
22 PCAM annual review in June of 2023, parties to the proceeding would be able to

³³ Mullins, Exh. BGM-1CT at 13:15-14:4 (“Can the Commission evaluate whether the new contracts proposed in the update are prudent? No.”).

³⁴ PacifiCorp is required to annually file a request for the Commission to confirm and approve deferred PCAM balances for the previous calendar year. *WUTC v. Pacific Power & Light Company, a Division of PacifiCorp*, Docket UE-140762, Final Order Approving and Adopting Settlement Agreement ¶ 35 (May 26, 2021). Staff and other parties have the opportunity to review these annual filings and to ask the Commission to conduct appropriate process if they dispute the deferral balances reported by the Company. *See id.*

1 review and/or contest the prudence of power costs included within the NPC baseline
2 that resulted from the proposed update.

3 For example, parties reviewed and contested outage replacement power costs
4 incurred by PacifiCorp in the 2018 PCAM Annual Review.³⁵ These outage
5 replacement power costs were not included as part of the NPC baseline. This is
6 because these costs resulted from an extra-ordinary event, and, therefore, were not
7 captured (nor anticipated) in the NPC baseline setting process. Ultimately, the
8 Commission agreed with the position of the parties (Staff and Public Council) and
9 ordered a disallowance against PacifiCorp—which amount was reflected in the
10 cumulative PCAM balance.³⁶

11

12 **Q. Have any Commission-mandated power cost collaboratives addressed the topic**
13 **of updating power costs?**

14 A. Yes. A power cost modeling methodology collaborative recently concluded with
15 Avista. This collaborative was mandated by the Commission in the 2018 Avista
16 GRC.³⁷ This collaborative consisted of a series of workshops that spanned several
17 years—in which the topic of power cost updates was addressed. AWEC and its
18 consultant, Mr. Mullins, participated in this collaborative.³⁸

³⁵ *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-190458, Final Order 06 (May 29, 2020).

³⁶ *Id.* at ¶ 5.

³⁷ *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485, UE-171221 & UE-171222, Order 07/Order 02/Order 02 ¶ 161 (April 26, 2018) (hereinafter “2018 Avista GRC Order”) (“[W]e order the Company to engage Staff, Public Counsel, ICNU, and other interested stakeholders in a discussion about how power cost modeling may be simplified and improved.”).

³⁸ Although E3 worked with AWEC (as well as other stakeholders) in the development of its findings and conclusions, the final report constitutes E3’s independent perspectives on the issues and was not intended to reflect a consensus view of all the stakeholders. Gomez, Exh. DCG-2 at 3.

1 **Q. Did this collaborative hire an independent third-party consultant?**

2 A. Yes. Energy and Environmental Economics, Inc. (“E3”) was hired as an independent
3 consultant to provide a report on Avista’s power cost modeling practices.³⁹ Avista
4 was directed to consult with an independent expert by the Commission in the 2018
5 Avista GRC Order.⁴⁰

6

7 **Q. Did E3 address the practice of updating power costs in its final report?**

8 Yes. E3 not only conducted a review of Avista’s power cost modeling practices—but
9 also surveyed the power cost modeling practices of other utilities across different
10 jurisdictions—which included both PacifiCorp and PSE.⁴¹ E3 also reviewed the cost
11 tracking and cost sharing mechanisms employed by other regulatory Commissions
12 in different jurisdictions as a comparison to Avista’s Energy Recovery Mechanism
13 (“ERM”).⁴² Based on its review of practices across several jurisdictions and
14 numerous regulated utilities, E3 provided several recommendations.⁴³ One of E3’s
15 listed recommendations related to the standardization of updating forward electric
16 and natural gas inputs close to the rate effective date:

17 **Due to the reliance on market forwards, there may be value in standardizing**
18 **the practice of updating forward electricity and natural gas inputs close**
19 **to the rate implementation date, as is done in “compliance runs.”**

³⁹ Gomez, Exh. DCG-2.

⁴⁰ 2018 Avista GRC Order ¶ 161 (“While we do not think that a technical topic like power cost modeling lends itself to a formal collaborative or Commission proceeding at this time, we direct Avista to consult with its peer utilities, independent experts in the power cost modeling industry, Staff, and the other parties in this case on ways in which the Company may document the functionality and rational of its power cost modeling and make changes to eliminate its directional bias.”).

⁴¹ Gomez, Exh. DCG-2 at 3, 8.

⁴² Gomez, Exh. DCG-2 at 3.

⁴³ Gomez, Exh. DCG-2 at 55-56. E3’s recommendation of standardizing the practice of updating forward electricity and natural gas inputs close to the rate implementation date is applicable regardless of the modeling method employed (power prices as an input or output). This is because both methods require a refresh of gas forward prices, a key driver in rate year NPC costs.

1 Incorporating such a “data refresh” – after the rate case had already been
2 concluded – would allow for costs to be most reflective of the current market
3 information, which generally improves as the forward period approaches.
4 (bolding in original).⁴⁴
5
6

7 **Q. Do you agree with E3 that the accuracy of forward price forecasts improves as**
8 **the delivery date approaches?**

9 A. Yes. Forward prices for power and gas are largely informed over time by broker
10 transactions occurring in the forward markets.⁴⁵ Logically, the further away these
11 broker transactions are from their delivery date, the less likely that the prices for
12 power and gas that emanate from these transactions will be reflective of the prices
13 used to dispatch resources and pay for power and gas in the rate year.
14

15 **Q. Do you believe E3’s recommendation related to power cost updates is applicable**
16 **to PacifiCorp?**

17 A. Yes. As stated above, E3’s recommendations were based on its survey of several
18 utilities (including PacifiCorp) and other regulatory Commission practices across
19 multiple jurisdictions. There is no reason to believe that E3’s recommendation
20 related to updating price input data would only be applicable to Avista—and not also
21 PacifiCorp.

⁴⁴ Gomez, Exh. DCG-2 at 55 (emphasis supplied). Avista summarizes E3’s recommendation as follows: “Avista and the Commission should consider updating forward mark inputs as close to the rate implementation date as possible, as done in ‘compliance runs,’ due to the reliance on market forwards.” *Id.* at 3.

⁴⁵ See Staples, Exh. DRS-1CT at 6:3-9 (“Power forward prices in the market period are derived from an average of broker quotes received daily from multiple brokers who provide monthly, quarterly, and calendar prices.”).

1 **Q. Do you conversely agree with Mr. Mullins’ testimony that there is no reason to**
2 **believe that an updated power cost baseline will perform any better than a**
3 **baseline using the inputs provided within the initial filing?**⁴⁶

4 A. No. Mr. Mullins states that the proposed update should not be accepted because it is
5 uncertain how the updated NPC baseline will perform during the entire rate effective
6 period (anticipated through the end of 2023).⁴⁷ This statement is not supported by
7 convincing data or analysis which counters the reality we are facing as we approach
8 the requested rate effective date—which is, elevated market prices for power and gas
9 during the rate effective period (as compared to the forward market prices in the
10 initial filing). Staff examined mid-November 2021 annual (12-month) strip prices
11 for power and gas and found both years (2022 and 2023) considerably elevated by
12 way of comparison to their historical price levels.⁴⁸ While we will learn more as a
13 result of the proposed update, the current market expectation is for continued higher
14 market prices for power and gas through 2023 as well.

15
16 **Q. Do you believe the proposed update sets the baseline on the most-up-to-date**
17 **information available to the Commission?**

18 A. Yes. The Commission recently stated that the goal of a PCORC is to set the NPC
19 baseline “based on the most up-to-date information available to the Commission:”

⁴⁶ Mullins, Exh. BGM-1CT at 9:14-18 (“Given the dynamic nature of power costs, there is no reason to believe that an update performed at any period during the pendency of this case will be any more or less accurate than the NPC baseline PacifiCorp identified in its initial filing over the entire period that this baseline will be in effect.”).

⁴⁷ *Id.*

⁴⁸ For instance, according to S&P Global Market Intelligence, as of November 15, 2021, the 12-month Price Strip for Mid C power in 2023 stood at \$50.71 MWh.

1 The goal of a PCORC proceeding is to set the Company’s power cost baseline
2 as close as possible to the forecasted power costs during the rate year, *based*
3 *on the most up-to-date information available to the Commission.*⁴⁹
4

5 The proposed update will set the baseline to reflect PacifiCorp’s most recent electric
6 and gas hedging positions and contract positions at the time of the update—as well
7 as PacifiCorp’s most recent OFPC (likely March 2022)—the *most up-to-date*
8 information available to the Commission in this proceeding.
9

10 **Q. Do you conversely believe AWEC is advocating to set the baseline on “the most-**
11 **up-to date information available to the Commission?”**

12 A. No. AWEC supports using the input data provided in the initial filing (June 2021)—
13 the most *out-of-date* information available to the Commission in this proceeding.⁵⁰

14 This would result in the rate year NPC baseline not reflecting the current reality in
15 commodity markets—increases in forward market prices for both gas and power.

16 The Commission should consider whether it believes AWEC would be taking this
17 same position if power and gas forwards conversely showed a significant *decrease* in
18 rate year market prices.⁵¹
19

20 **Q. Please provide an example of how forward market prices for power and gas**
21 **have changed significantly compared to the initial filing.**

⁴⁹ 2020 PSE PCORC Order ¶ 13 (emphasis added).

⁵⁰ Mullins, Exh. BGM-1CT at 5:9-17 (“AWEC recommends that the NPC baseline be based on the NPC included in PacifiCorp’s filing of \$114,802,054 subject to the adjustments in the stipulation and further adjustments discussed below.”).

⁵¹ *WUTC v. Puget Sound Energy*, Dockets UE-111048 & UG-111049, Exh. DWS-1T at 3:7-10 (Dec. 7, 2021) (“INCU recommends the Commission to require PSE to update its power supply costs to take into account current gas prices and short-term purchases and sales. This should result in a substantial reduction in PSE’s projected power costs as indicated in the table above.”).

1 A. In the initial filing, PacifiCorp included an estimate of its 2022 rate year power costs
2 based on its March 2021 OFPC.⁵² According to the March 2021 OFPC, the Around
3 the Clock (“ATC”) annual average price for the 2022 rate year at the Mid-Columbia
4 Trading Hub (“Mid C”) was forecasted at \$ [REDACTED] MWh.⁵³ Near the time of the initial
5 filing, Staff benchmarked PacifiCorp’s Mid C ATC annual average price for the
6 2022 rate year against the March 31, 2021 S&P Global Market Intelligence ATC
7 annual average price for the 2022 rate year of \$33.12 MWh. Staff found PacifiCorp’s
8 Mid-C forecast reasonable along with the Company’s forecast of forward prices for
9 gas and power at its other trading hubs.⁵⁴ However, in tracking the progress of
10 forward market prices for gas and power during the pendency of this case, Staff
11 became aware of significant increases in market prices for power and gas for the
12 2022 rate year—not accounted for in the as-filed NPC. For example, according to
13 S&P Global Market Intelligence, as of November 15, 2021, the ATC annual average
14 price for the 2022 rate year at Mid C rose to \$54.84 MWh (a [REDACTED] percent increase
15 since March 31, 2021).

16 If the stated goal of this PCORC is to set the NPC baseline as close as
17 possible to forecasted power costs during the rate year (based on the most up-to-date
18 information),⁵⁵ then not updating power costs in the face of overwhelming evidence
19 of increasing market prices for gas and power in the forward markets will certainly
20 thwart this goal.

⁵² Staples, Exh. DRS-1CT at 5:18 (“The forecast NPC uses the OFPC dated March 31, 2021.”).

⁵³ Staples Confidential Workpaper: AURORA GN Market Prices (CONF).

⁵⁴ Staff derives forward market prices for power and gas through its subscription to S&P Global Market Intelligence.

⁵⁵2020 PSE PCORC Order ¶ 13.

1 **Q. Do you agree with Mr. Mullins' inference that updating contract price inputs**
2 **from the initial filing is controversial?**⁵⁶

3 No. Based on my experience, the update is usually the most uncontroversial part of
4 the case.⁵⁷ This is because it comes after the final order and presumably after all
5 issues involving the NPC methodology have either been settled or decided. The
6 scope of controversy that may emanate from simply updating an input price on a
7 contract is limited. Using my ATC Mid C example above, if you have a power
8 contract for 1000 MWh priced at the Mid C at the as-filed forecasted annual market
9 price of \$ [REDACTED] MWh for delivery in 2022, the cost is \$ [REDACTED]. If we update the price
10 with the November 15, 2021, ATC Mid C forecast of \$54.84 MWh, then the contract
11 delivery cost for 2022 rises to \$5,484 (an \$ [REDACTED] increase to power costs). While this
12 is a very oversimplified example, it does aim to rebut the inference that updating
13 price inputs (mark-to-market) is somehow controversial.

14
15 **Q. Do you agree with Mr. Mullins' testimony that the proposed update would**
16 **change the NPC modeling methodology?**⁵⁸

17 A. No. The PacifiCorp NPC methodology is essentially a mathematical formula used to
18 derive the total forecasted NPC for every hour of the rate year (8760 hours) and set
19 the PCAM baseline. For instance (on page 18 of Exhibit DCG-2), E3 provides an
20 illustration of the NPC mathematical formula. Simply updating the input data in such

⁵⁶ Mullins, Exh. BGM-1CT at 12:12-20 (“[T]he term ‘contract positions’ is so broad that it could be interpreted to include any cost item included in NPC, as every such cost results from some sort of contract.”).

⁵⁷ *WUTC v. Puget Sound Energy*, Dockets UE-060266 & UG-060267, Order 08 ¶ 104 (Jan. 5, 2007) (“[t]he update should be a straightforward, mechanical and non-controversial process.”).

⁵⁸ Mullins, Exh. BGM-1CT at 2:12-14 (“[T]he Multi-Party Stipulation relies on an entirely new modeling methodology...”).

1 a formula—is not tantamount to changing the formula itself. In the future, Staff
2 welcomes any discussion pertaining to the modification of the underlying method
3 with the goal of producing a baseline which minimizes variances from actuals during
4 the PCAM deferral year. However, Staff has little to no interest in debating parties
5 who oppose updating input data in the methodology (to reflect the most up-to-date
6 forward market information)—simply because they believe they might not like the
7 results of the calculation.

8
9 **Q. How do you respond to Mr. Mullins’ concerns about PacifiCorp’s proposal to**
10 **use both actual and forecasted input price data in the proposed update?**⁵⁹

11 A. The most-up-to date information available to the Commission to set the NPC
12 baseline in the proposed update will likely be the March 2022 OFPC—given the
13 procedural schedule and requested rate effective date. Accordingly, PacifiCorp in the
14 joint testimony proposed to use the average settled daily prices in place of broker
15 quotes for the first three months of the rate year (January 1—March 31, 2022).⁶⁰
16 Staff believes this is a reasonable approach in order to utilize the March 2022 OFPC
17 because this input price data is distinct and very specific to this portion of the rate
18 year. The use of settled daily prices as opposed to forwards does not change the
19 operation of the model itself. Rather, it simply utilizes actuals in the price inputs to
20 solve the problem of not having broker support for the prices covering these

⁵⁹ See Mullins, Exh. BGM-1CT at 16:12-17:5.

⁶⁰ Exh. JT-1CT at 11:8-11 (“The Company proposes to use the average of settled daily prices in place of broker quotes for the first three months of the test period, with other inputs to the model formulated in a manner consistent with the study supporting the direct filing in this case. This will allow the update to still reflect a normalized forecast, but also solves the problem of not having broker support for prices covering historical months.”).

1 months.⁶¹ An alternative to PacifiCorp’s proposed approach, would be for the
2 Commission to order the proposed update to utilize the December 31, 2021, OFPC—
3 as inferred by Mr. Mullins.⁶² The utilization of the December 31, 2021 OFPC,
4 however, may not be the most up-to-date information available for the Commission
5 to set the NPC baseline—the stated goal of a PCORC.⁶³

6

7 **Q. Do you agree with Mr. Mullins’ testimony that PacifiCorp’s hedging policies**
8 **and practices are imprudent?**⁶⁴

9 A. No. Mr. Mullins takes note that the Company only recorded a few hedge contracts
10 for the rate year at the time of its initial filing.⁶⁵ He infers from this that the
11 significant increase to the NPC baseline (anticipated in the proposed update) could
12 have been avoided if only PacifiCorp would have executed more hedge contracts for
13 the rate year at the time of the initial filing.⁶⁶

14 Staff believes that the lack of hedge contracts in PacifiCorp’s initial filing is
15 not proof within itself that PacifiCorp’s hedging program is imprudent. At the time
16 of the initial filing, the Company had not yet completed its hedge position for the
17 upcoming rate year. The Company’s hedging position continuously evolves during
18 the pendency of the rate setting process which ultimately culminates at the time of

⁶¹ *Id.*

⁶² Mullins, Exh. BGM-1CT at 16:8-10 (“The Commission, could, for example, require PacifiCorp to update NPC based on the January 1, 2022 OFPC, which would be the latest OFPC at the time of the hearing in this docket.”).

⁶³ 2020 PSE PCORC Order ¶ 13.

⁶⁴ Mullins, Exh. BGM-1CT at 14:5-15:16 (“[F]rom Washington’s perspective, PacifiCorp’s hedging policies and practices are not prudent. In Exh. BCM-3C, I present an analysis of the hedges that were included in NPC in PacifiCorp’s initial filing in this matter.”).

⁶⁵ Mullins, Exh. BGM-1CT at 14:19-15:13.

⁶⁶ Mullins, Exh. BGM-1CT at 15:14-22.

1 the NPC update. The best snapshot of what PacifiCorp will pay for commodities in
2 the rate year (including hedging) will come within an NPC update close to the rate-
3 effective date. In other words, the lack of hedge contracts for the rate year within the
4 initial filing (June 2021) is not evidence of imprudence on the part of the
5 Company—but instead highlights the importance of the proposed update. The
6 proposed update would reflect PacifiCorp’s latest hedging positions based on the
7 most up-to-date rate year market price information available.

8

9 **Q. Do you agree with Mr. Mullins’ testimony that the proposed update is outside**
10 **the scope of this proceeding?**⁶⁷

11 A. No. I am not aware of any prohibition to updating power costs close to the rate-
12 effective date as a term of a settlement. It is my understanding however, that the
13 Commission has the discretion to order PSE to update its power costs at the
14 compliance stage of a PCORC—if power costs have increased or decreased due to
15 changes in natural gas prices.⁶⁸

16

17 **Q. Mr. Mullins suggests that PacifiCorp may cherry pick the inputs it will update**
18 **to manipulate the NPC baseline.**⁶⁹ **How do you respond?**

19 Mr. Mullins seems to suggest that PacifiCorp may act in bad faith when conducting
20 the proposed update by potentially “ignoring” inputs that could lower NPC.⁷⁰ Mr.

⁶⁷ Mullins, Exh. BGM-1CT at 9:5-11; 10:3-16 (“[A]n update is outside the scope of this proceeding.”).

⁶⁸ See *WUTC v. Puget Sound Energy*, Docket UE-072300, Order 13 ¶¶ 41, 45, 46 (Jan. 15, 2009) (“The Commission may order a second update at the compliance stage if power costs have increased or decreased due to changes in natural gas prices.”).

⁶⁹ Mullins, Exh. BGM-1CT at 12:21-13:3 (“PacifiCorp is given extra time to identify modeling updates that will increase NPC, while potentially ignoring updates or corrections that will reduce NPC.”).

⁷⁰ *Id.*

1 Mullins provides no evidence or specifics to support this suggestion—nor does Staff
2 have any reason to believe such an unfounded suggestion. With that said, during the
3 two-week review period, Staff would review the compliance filing to determine if
4 the NPC input data was properly updated and if additional process is needed.⁷¹

5
6 **Q. Does Mr. Mullins imply that the proposed update is unlawful for the**
7 **Commission to adopt?**

8 A. Yes. Mr. Mullins implies that a power cost update that occurs in a compliance filing
9 would violate RCW 80.04.150 and RCW 80.04.130. Mr. Mullins provided the
10 following testimony:

11 Under RCW 80.04.150, rates in Washington must be subject to “complaint and
12 inquiry.” If the final rates at issue are not presented until the utility makes its
13 compliance filing, no such complaint or inquiry could possibly occur. Further,
14 under RCW 80.04.130, the Commission can only approve a rate increase “upon
15 a hearing concerning such proposed change and the reasonableness and justness
16 thereof.” No such opportunity for hearing would exist with respect to the
17 potential increase proposed in the update provision.⁷²

18
19 Mr. Mullins then cites the United States Supreme Court case of *Federal*
20 *Power Commission v. Hope Natural Gas Co.*⁷³ In citing this case, Mr. Mullins
21 concludes that “if the Commission does not know the results reached, it cannot
22 determine whether the rates are just and reasonable.”⁷⁴ It is my understanding that
23 *Hope* deals with issues of federal and constitutional law.

24

⁷¹ WAC 480-07-880.

⁷² Mullins, Exh. BGM-1CT at 13:20-14:4.

⁷³ Mullins, Exh. BGM-1CT at 11:9-12:2 (citing *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944)).

⁷⁴ Mullins, Exh. BGM-1CT at 12:1-2.

1 **Q. How do you respond to Mr. Mullins' claim that it is unlawful for the**
2 **Commission to adopt the proposed update?**

3 A. Staff generally believes that arguments involving statutory interpretation and
4 constitutional law should be reserved for briefing by legal counsel. Staff will respond
5 to Mr. Mullins' analysis and conclusions pertaining to the legality of the proposed
6 update within the scheduled rounds of briefing. With that said, I am aware that this
7 Commission has *routinely* in the past allowed and even required, power cost updates
8 related to changes in fuel supply costs late in general rate proceedings, *even at the*
9 *compliance stage*.⁷⁵ I am also aware that with regard to PSE, the Commission has
10 stated that "it may order a second update at the compliance stage if power costs have
11 increased or decreased due to changes in natural gas prices."⁷⁶

12
13 **Q. Mr. Mullins concludes that the two block quoted passages on page 15 of Exhibit**
14 **JCT-1CT do not establish a precedent for the proposed update. How do you**
15 **respond?**⁷⁷

16 A. Mr. Mullins spends a portion of his testimony providing analysis why the underlying
17 cases associated with the two block quoted passages within my section of the joint
18 testimony "do not establish a precedent for the type of update contemplated in the
19 Multi-Party Stipulation."⁷⁸ I did not block quote these passages to establish that the
20 facts underlying the cases created a precedent for the proposed update. Staff will

⁷⁵ *WUTC v. Pacific Power & Light Co.*, Dockets UE-140762, UE-140617, UE-131384, UE-140094, Order 07 ¶ 4 (Dec. 5, 2014).

⁷⁶ See *WUTC v. Puget Sound Energy*, Docket UE-072300, Order 13 ¶¶ 41, 45, 46 (Jan. 15, 2009).

⁷⁷ Mullins, Exh. BGM-1CT at 6:5-7 ("The issues in those dockets, however, are distinct and not relevant to the update at issue in this docket, and therefore, do not establish a precedent for the type of update contemplated by the Multi-Part Stipulation.").

⁷⁸ *Id.*

1 respond to Mr. Mullins’ analysis and conclusions pertaining to the precedent of these
2 cases in the scheduled rounds of briefing.

3

4 **Q. Explain your intention in block quoting the first passage on page 15 lines 7-11 in**
5 **Exhibit JT-1CT.**

6 A. My intention in block quoting the first passage was not to establish that the facts of
7 the underlying case created a precedent for the proposed update. Rather, I block
8 quoted the passage to testify as to the Commission’s goal stated within the passage
9 itself—to set the baseline as close as practical to what is likely to be experienced
10 during the rate year.⁷⁹ As stated earlier in my testimony, this goal is a reason why
11 Staff supports the proposed update. The Commission has frequently used similar
12 language in prior GRC and PCORC orders when discussing the NPC baseline.⁸⁰

13

14 **Q. Moving on to the second block quoted passage on page/lines 15:12-19 in Exhibit**
15 **JCT-1T, what was your intention in quoting this passage in your testimony?**

16 A. My intention in block quoting this second passage was also not to establish that the
17 facts of the underlying case created a precedent for the proposed update. Rather, I
18 cited the passage for what was explicitly stated within the passage itself. In this
19 passage, it states that the “Commission should not ignore evidence that a significant
20 increase in the Company’s power costs during the rate year will result from

⁷⁹ *WUTC v. Puget Sound Energy*, Dockets UE-060266 & UG-060267, Order 08 ¶ 22 (Jan. 5, 2007).

⁸⁰ For instance, within the same case the Commission stated that the baseline “[S]hould be set as closely as possible to costs that are reasonably expected to be actually incurred during the short and intermediate periods following the conclusion of such proceedings.” *Id.* at ¶ 102 (citing *WUTC v. Puget Sound Energy*, Docket UE-040641, Order 06 (Feb. 18, 2005)).

1 increased fuel supply costs, if these costs are shown to have become reliably known
2 and measurable during the pendency of the Company’s current general rate case.”⁸¹

3 As explained earlier in my testimony, there is reliable evidence that rate year forward
4 market prices for power and gas have significantly increased during the pendency of
5 this case—evidence which Staff believes the Commission should “not ignore.”

6 In the same passage, the Commission explicitly states the “Commission has
7 routinely during the past decade allowed, and even required, power cost updates
8 related to changes in fuel supply costs late in general rate proceedings, even at the
9 compliance stage.”⁸² AWEC has taken the position that these routine updates
10 historically performed by the Commission are now contrary to public policy. Staff
11 takes note that the Washington State Legislature recently passed legislation requiring
12 power cost updates within certain multi-year rate plans starting next year.⁸³

13
14 **Q. Why is updating power costs good public policy?**

15 A. The genesis for the Commission’s adoption of power cost mechanisms came about
16 as a result of the Western U.S. Energy Crisis of 2000 and 2001—which adversely
17 affected the financial condition of Washington state power and gas utilities during
18 that period.⁸⁴ This was largely due to the dramatic and rapid increases in market

⁸¹ *WUTC v. Pacific Power & Light Company*, Dockets UE-140762, UE-140617, UE-13184, & UE-140094, Order 07 ¶ 4 (Dec. 5, 2014) (emphasis added).

⁸² *Id.* (emphasis added).

⁸³ RCW § 80.28.425 (“If the commission approves a multiyear rate plan with a duration of three or four years, then the electrical company must update its power costs as of the rate effective date of the third rate year. The proceeding to update the electrical company’s power costs is subject to the same standards that apply to other rate filings made under this title.”).

⁸⁴ Gomez, Exh. DCG-3 at 3:4-7:3. (“The ERM came about as a result of the Western U.S. Crisis of 2000 and 2001, which contributed significantly to a decline in Avista’s financial condition during that period.”); *see also* *WUTC v. Puget Sound Energy*, Dockets UG-040640, UE-040640, UE-031471 & UE-032043, Order 06 ¶ 105

1 prices for gas and power which affected the Western United States in the early
2 2000s.⁸⁵ The traditional rate setting process simply could not keep up with the
3 increases to market prices which, in turn, resulted in both under-recovery of power
4 cost expense on the part of the utility and rate instability for the ratepayer.⁸⁶ As a
5 solution to this problem, the Commission implemented power cost mechanisms for
6 both Avista and PSE (and eventually PacifiCorp) as a long-term answer to address
7 the limits of traditional rate making to anticipate changes in power costs largely
8 outside the utilities' control.⁸⁷ In the case of Avista, the implementation of a power
9 cost mechanism, along with other provisional actions by the Commission, helped
10 restore investor confidence in the company and staved off bankruptcy.⁸⁸

11 The objectives of the power cost mechanisms and their respective sharing and
12 dead bands are to: (1) equitably share risk between the shareholder and the ratepayer
13 of power costs variability in the rate year;⁸⁹ and (2) incentivize the utility to

(Feb.18, 2005) (“[T]he PCA protects the public interest through cost sharing designed to mitigate against the consequences of market price excursions as were experienced during 2000 and 2001.”).

⁸⁵ Gomez, Exh. DCG-3 at 3:4-7:3.

⁸⁶ *See id.*

⁸⁷ The PCAM closely aligns with the ERM. *See WUTC v. Pacific Power & Light Company, a Division of PacifiCorp*, UE-140762, Joint Narrative in Support of Settlement Stipulation ¶ 37 (“The stipulated PCAM aligns closely with Avista’s ERM, although there are aspects that are similar to PSE’s PCA.”).

⁸⁸ Gomez, Exh. DCG-3 at 3:4-7:3 (“During the crisis, [Avista] managed to accrue over \$200 million in deferred power costs attributed to a perfect storm of poor hydro conditions in the Pacific Northwest coupled with high wholesale electric market prices. To help ameliorate Avista’s dire financial situation, the Commission took action by allowing deferral of certain power costs for potential later recovery through a combination of a surcharges on rates and general rate increases. [T]he Commission also implemented the ERM as a long-term solution to address the limits of traditional rate making. Together, these actions helped restore investor confidence in Avista and stave off a bankruptcy.”).

⁸⁹ The term “power cost variability in the rate year” refers to both ordinary and extraordinary variability. For utilities with power cost mechanisms, the dead-band represents the utility’s level of *ordinary variation* in power costs—both above and below an NPC baseline representing normalized rate-year power costs. The utility is therefore incented to control its power costs within this zone of ordinary variation. Large PCAM deferrals in power costs, occurring during the rate year, are caused by unanticipated events like forced outages and extreme weather. These are examples of *extraordinary variation* in power costs which the mechanisms sharing bands are intended to address—but not the baseline to anticipate. A recent example of an event which resulted in extra-ordinary power costs is the heatwave that occurred in 2021. *See Gomez*, Exh. DCG-4.

1 effectively manage or even reduce its power costs.⁹⁰ For these objectives to be met, it
2 is vital that the baseline (which the bands operate from) reflect the most up-to-date
3 information available to the Commission. In other words, the proper function of the
4 PCAM (or any other power cost mechanism) requires an updated baseline
5 representative of normalized rate-year power costs.

6

7 **Q. Can you explain what would likely happen if the Commission did not approve**
8 **the proposed update?**⁹¹

9 A. As explained above, forward market prices for power and gas have significantly
10 increased as compared to the initial filing. If no update were to occur in this case and
11 verifiable increases to major cost inputs to rate year NPC were to be ignored—
12 PacifiCorp would likely absorb a disproportional share of these rising costs via the
13 PCAM dead band and sharing bands (under recovery). Any additional costs not
14 absorbed by the Company would then be booked into the PCAM deferral account,
15 incurring interest and contribute to an already growing PCAM surcharge deferral
16 balance.

17 During the 2020 PCAM Annual Review, PacifiCorp reported a PCAM credit
18 deferral balance at the end of June 2021 of -\$11.4 million.⁹² This balance only
19 accounted for one month of the three-month long summer heatwave (as well as
20 extraordinary costs associated with a February cold snap).⁹³ Additionally, the DNBA

⁹⁰ Gomez, Exh. DCG-3 at 5:10-13.

⁹¹ Mullins, Exh. BGM-1CT 2:9-17 (“AWEC recommends that the NPC baseline be based on the NPC included in PacifiCorp’s filing of \$114,802,054 subject to the adjustments in the stipulation and further adjustments discussed below.”).

⁹² Gomez, Exh. DCG-4 at 5.

⁹³ Gomez, Exh. DCG-4 at 5.

1 also contributed to the depletion of \$11.7 million of the \$23.1 million (as of June
2 2021) in the credit deferral balance recorded at the end of the 2020 calendar year.⁹⁴
3 With a requested May 1, 2022, effective date for the new NPC baseline in this case,
4 the DNBA will need to be in place for an additional four months longer than
5 originally contemplated. The combined effect of two extraordinary weather events
6 and the DNBA will likely deplete the remaining \$-11.4 million in PCAM credit
7 deferral balance prior to the end of 2021.⁹⁵

8 With the likely full depletion of any remaining PCAM credit deferral
9 balances from 2020, we will likely start the 2022 PCAM deferral year in a surcharge
10 position. With that said, if the Commission were to accept the position of AWEC and
11 not take into account an almost 70 percent increase in forward market prices and set
12 the baseline based on a stale forecast—not only would we be thwarting the stated
13 objectives of the power cost mechanism, but we would also greatly increase the
14 probability of a surcharge to customers during PacifiCorp’s stay-out period (rate
15 instability).⁹⁶

16
17 **Q. What is Staff’s recommendation regarding power cost updates that should**
18 **apply to all regulated utilities with power cost mechanisms?**

⁹⁴ See Gomez, Exh. DCG-4 at 5.

⁹⁵ The Commission ordered PacifiCorp to provide quarterly reports of PCAM results during the active deferral year. *In the matter of PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210447, Order 01 ¶ 30 (Sept. 30, 2021). PacifiCorp’s PCAM deferral balance (as of the end of September 2021) is scheduled to be filed by the Company on December 15, 2021 (after rebuttal testimony is due). Staff recommends the Commission issue a bench request to PacifiCorp to provide its third quarter PCAM results after December 15, 2021—if the Commission would like this information within the record.

⁹⁶ *WUTC v. PacifiCorp, d/b/a Pacific Power & Light Company*, Dockets UE-191024, UE-190750, UE-190929, UE-190981, UE-180778, Final Order 09/07/12 ¶ 48 (Dec. 14, 2020) (“PacifiCorp agree[s] not to file a rate case resulting in a modification to rates prior to January 1, 2024.”).

1 A. Staff recommends that the Commission require an NPC baseline update after it has
2 issued its final order and just prior to the rate effective date in every GRC and
3 PCORC filed from now on.⁹⁷ This recommendation would be in addition to the
4 legislative requirement to include an NPC update within certain multi-year rate plans
5 starting next year.⁹⁸ Staff also recommends that the Commission not approve any
6 settlement on power costs which excludes such an update. This recommendation is
7 consistent with E3’s conclusion related to “standardizing the practice of updating
8 forward electricity and natural gas inputs close to the rate implementation date.”⁹⁹ In
9 adopting this recommendation, the Commission would take the NPC baseline update
10 off the table in future settlement negotiations.¹⁰⁰

11

12 **Q. Is Staff recommending that parties should not be able to dispute the results of a**
13 **power cost update?**

14 A. No. Staff is only recommending the Commission require the update. Given the
15 power cost update would occur after the Commission has issued its final order and
16 all known issues regarding the methodology and approach used to arrive at a
17 company’s NPC baseline have been resolved and/or decided—the scope of such
18 disputes would be limited. In other words, “[t]he update should be a straightforward,
19 mechanical and non-controversial process.”¹⁰¹

20

⁹⁷ As part of its recommendation, Staff asks the Commission to include the update in future GRC and PCORC procedural schedules at the time it issues the Pre-Hearing Conference Order.

⁹⁸ RCW § 80.28.425.

⁹⁹ Gomez, Exh. DCG-2 at 54.

¹⁰⁰ If the Commission decides not to adopt this recommendation in this proceeding, the Commission could alternatively adopt this recommendation in a separate policy statement.

¹⁰¹ *WUTC v. Puget Sound Energy*, Dockets UE-060266 & UG-060267, Order 08 ¶ 104 (Jan. 5, 2007).

1 **IV. OTHER ADJUSTMENTS PROPOSED BY AWEC**

2

3 **Q. Does AWEC propose additional adjustments for the Commission to adopt in**
4 **this proceeding?**

5 A. Yes. As stated in Section II of my testimony there are three additional adjustments
6 proposed by Mr. Mullins.

7

8 **Q. Can you briefly explain the first proposed adjustment related to Jim Bridger**
9 **Fly Ash revenues?¹⁰²**

10 A. Yes. Mr. Mullins proposes to adjust the base rates established in the PacifiCorp 2020
11 GRC to include an additional \$3 million in incremental Fly Ash revenues.¹⁰³ The
12 incremental revenues are the result of a new PacifiCorp agreement to sell the Fly
13 Ash byproduct from the Jim Bridger power plant.¹⁰⁴ On November 8, 2021, AWEC
14 also filed an Accounting Petition with the Commission seeking deferred accounting
15 treatment for later recovery of the incremental increase in Fly Ash revenues
16 associated with the new agreement.¹⁰⁵

17

18 **Q. What is your opinion of the proposed Fly Ash adjustment?**

19 A. Mr. Mullins has a valid point. The Commission should consider if any material
20 increase in Fly Ash revenues should be reflected in base rates—at some point. Staff

¹⁰² Mullins, Exh. BGM-1CT at 23:12-24:15.

¹⁰³ Mullins, Exh. BGM-1CT at 24:10-15 (“AWEC . . . recommends that the \$2,998,182 be incorporated into base rates in this proceeding.”).

¹⁰⁴ Mullins, Exh. BGM-1CT at 24:1-9.

¹⁰⁵ *In the Matter of Alliance of Western Energy Consumers*, Docket UE-210852, Petition for Order Approving Deferral of Increased Fly Ash Revenues (Nov. 8, 2021).

1 is not convinced from the current record that it is appropriate to adjust the base rates
2 established in the 2020 GRC to include incremental Fly Ash revenues not presently
3 included in rates and not, at the same time, consider changes in other costs and
4 revenues since base rates were approved by the Commission (single-issue
5 ratemaking).

6

7 **Q. Mr. Mullins infers a comparison between the proposed Fly Ash adjustment and**
8 **the PTC term in the Stipulation—as both reduce base rates. How do you**
9 **respond?**¹⁰⁶

10 A. Staff believes that the PTC term is distinct because it simply minimizes the future
11 PCAM annual true-up of PTCs—that would occur regardless of the Stipulation.¹⁰⁷
12 PTCs are also provided directly to PacifiCorp based on the generation of its owned
13 wind facilities—whereas it is questionable (given the record in this proceeding) if the
14 Fly Ash revenues are tied to power generation or rather the market for Fly Ash.¹⁰⁸

15

16 **Q. Is Staff stating any position within this testimony on the Fly Ash deferred**
17 **accounting petition currently before the Commission in Docket UE-210852?**

18 A. No. Staff has not fully considered whether a deferral is appropriate within the
19 context of this proceeding—given that the petition is in another docket and not part

¹⁰⁶ Mullins, Exh. BGM-1CT at 24:10-15.

¹⁰⁷ *WUTC. v. Pacific Power & Light Co.*, Dockets UE-191024, UE-190750, UE-190929, UE-190981 & UE-180788, Final Order 09/07/12 ¶¶ 69-70 (Dec. 14, 2020).

¹⁰⁸ The Fly Ash revenues raise several questions for Staff: Are these revenues the direct result of power generation and therefore should be recognized in FERC Account 501 (as an offset to NPC coal fuel costs borne by ratepayers) instead of FERC Account 456? Are these same revenues also being earned at Colstrip but not presently recognized in PacifiCorp's rates? These are questions surrounding the Fly Ash adjustment proposed by AWEC—but are not directly raised in Mr. Mullins' response testimony.

1 of the record in this case. Staff will consider and render its recommendation to the
2 Commission in Docket UE-210852 at the appropriate time.

3

4 **Q. How do you respond to the second proposed adjustment related to wheeling
5 expense?¹⁰⁹**

6 A. Mr. Mullins' testimony is the first time this proposed adjustment was brought to
7 Staff's attention. After conferring internally, the Settling Parties do not oppose the
8 \$45,104 wheeling expense adjustment as proposed by Mr. Mullins.

9

10 **Q How do you respond to the third proposed adjustment related to NPM?¹¹⁰**

11 A. Mr. Mullins supports a disallowance of "the NPM costs" principally because the
12 Company has failed to quantify their benefits as part of the NPC baseline in this
13 case.¹¹¹ Costs associated with NPM (including an allocation of the entire \$8.3
14 million annual fee) are within current rates as a result of last PacifiCorp GRC.¹¹²
15 With that said, while it is theoretically appropriate to tie the recovery of costs with
16 the quantification of benefits, in the case of NPM, these benefits, at present, are
17 particularly difficult to quantify. As Staff understands, NPM provides two principal
18 benefits (although currently not quantified) for PacifiCorp's customers:

19

¹⁰⁹ Mullins, Exh. BGM-1CT at 24:17-25:14.

¹¹⁰ Mullins, Exh. BGM-1CT at 19:17-23:11.

¹¹¹ Mullins, Exh. BGM-1CT at 22:4-13 ("[I]f PacifiCorp cannot quantify the benefits [of NPM], then it has failed to carry its burden on this issue and the Commission should identify a reasonable approximation of those benefits, or otherwise disallow the costs of the NPM."); 23:4-6 ("I recommend that the Commission: (1) disallow the NPM costs, for this proceeding only . . .").

¹¹² Staples, Exh. DRS-3T at 7:7-8:18. As term of the stipulation, PacifiCorp only included an allocation of \$4 million of the total NPM \$8.3 million annual fee. Settlement Stipulation ¶ 11.

- 1 1. Improves the efficiency of PacifiCorp’s Day Ahead balancing of its loads and
2 resources while minimizing schedule variance (and actual costs) between the
3 Day Ahead and Real Time planning horizon;¹¹³ and
4
- 5 2. Allocates actual NPC based on each node’s actual load, prices, and
6 transmission constraints which more accurately captures cost causation for the
7 purposes of more precisely allocating costs among the Company’s six-separate
8 jurisdictions.¹¹⁴
9

10
11 Rather than disallow the costs associated with NPM or introduce a bias in PCAM
12
13 base values by plugging in an arbitrary amount representative of NPM benefits as
14 proposed by Mr. Mullins—the Stipulation implicitly presumes NPM generates
15 benefits which, although unquantified in base values, manifest themselves through
16 actuals which in turn pass through the PCAM bands. At the same time, the
17 Company’s recovery of the costs associated with its NPM investment occurs through
18 actuals—which also pass through the bands. This very simple solution is intended as
19 a bridge until such time when NPM benefits can be observed and quantified through
20 PCAM actuals.

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

22 **A. Yes.**

¹¹³ In the AURORA Model, balancing transactions occur in the real time only—with the Day Ahead planning process not represented. It is therefore difficult to anticipate, in base values, cost savings for a process not represented in the model.

¹¹⁴ Base values account for nodal load, forecast prices and transmission constraints through an expanded zonal topology in the AURORA model. This is a reasonable compromise in approach given the significant complexities in time, cost and effort to execute a nodal study in AURORA. The overall level of NPM in the rate year is unaffected by PacifiCorp’s employment of an expanded zonal topology. Instead, the expanded zonal topology supports the allocation of power costs actuals consistent with NPM.