

**Exh. JLB-1CT  
Docket UE-170717  
Witness: Jason L. Ball  
REDACTED VERSION**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of**

**PACIFIC POWER & LIGHT  
COMPANY,**

**2016 Power Cost Adjustment Mechanism  
Report.**

**DOCKET UE-170717**

**TESTIMONY OF**

**Jason L. Ball**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Pacific Power PCAM*

**January 25, 2018**

**TABLE OF CONTENTS**

I. INTRODUCTION ..... 1

II. SUMMARY..... 2

III. BACKGROUND ..... 4

    A. The Power Cost Adjustment Mechanism ..... 4

    B. Standard Of Prudence ..... 6

    C. The Joy Longwall System..... 7

    D. Summary of Events..... 10

IV. MISMANAGEMENT BY PACIFIC POWER..... 12

    A. Introduction..... 12

    B. Four Avoidable Errors ..... 14

        1. The Mine’s Geological Condition Was Known But Disregarded ..... 14

        2. Operational Capacity Was Not Adequate..... 16

        3. Operational Procedures Did Not Exist ..... 17

        4. Communication Plans Did Not Exist..... 18

V. THE COMPANY DID NOT RETAIN RELEVANT RECORDS ..... 19

VI. CONSEQUENCES OF MISMANAGEMENT..... 23

    A. Costs of Abandonment..... 23

    B. Increased Power Production Costs..... 24

VII. CONCLUSION..... 29

## LIST OF EXHIBITS

- Exh. JLB-2C     Timeline of Events
- Exh. JLB-3C     Company Response to Informal UTC Staff Data Request No. 3, Final Report of Investigation
- Exh. JLB-4        Company Response to UTC Staff Data Request No. 1
- Exh. JLB-5C     Company Response to Informal UTC Staff Data Request Nos. 4 and 5, UTC Staff Data Request No. 2 and Confidential Attachment
- Exh. JLB-6C     Staff Proposed Net Power Cost Deferral
- Exh. JLB-7C     Graphical Illustration of Joy Longwall System
- Exh. JLB-8C     Confidential Testimony of Cindy A. Crane in Docket UE-140762
- Exh. JLB-9C     Attachment to Company Confidential Response to UTC Staff Data Request No. 10

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Jason L. Ball. My office address is the Richard Hemstad Building,  
5 1300 S Evergreen Park Drive SW, P.O. Box 47250, Olympia, Washington, 98504.  
6 My email address is jball@utc.wa.gov.

7

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Washington Utilities and Transportation Commission  
10 (Commission) as a Regulatory Analyst. Among other duties, I am responsible for  
11 policy, economic, financial, and accounting analysis, and for evaluating certain  
12 power supply issues of the investor-owned electric and gas utilities under the  
13 jurisdiction of the Commission.

14

15 Q. How long have you been employed by the Commission?

16 A. I have been employed by the Commission since June 2013.

17

18 Q. Would you please state your educational and professional background?

19 A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-  
20 major in Economics and Government. In 2013, I graduated with honors from New  
21 Mexico State University with a Master of Economics degree specializing in Public  
22 Utility Policy and Regulation.

1 **Q. Have you previously testified before the Commission?**

2 A. Yes. I testified on cost of service, rate spread, and rate design for both electric and  
3 natural gas in Puget Sound Energy's (PSE) general rate case in Docket UE-170033  
4 and Avista Corporation's (Avista) general rate case in Docket UE-160228. I  
5 sponsored testimony in Pacific Power & Light Company's (Pacific Power or  
6 Company) general rate case in Docket UE-152253 on overall policy, revenue  
7 requirement, decoupling mechanism, and proposed rate plan. I provided testimony  
8 on restating and expense adjustments in Avista's 2015 general rate case Docket UE-  
9 150204. I presented power supply and load forecasting testimony in Avista's general  
10 rate case in Docket UE-140188. I presented an economic feasibility study relating to  
11 line extensions for PSE in Docket UE-141335.

12

13 **II. SUMMARY**

14

15 **Q. What is the purpose of your testimony?**

16 A. My testimony examines the Company's proposed deferral for the 2016 Power Cost  
17 Adjustment Mechanism (PCAM). Included in this deferral is approximately \$20  
18 million related to the abandonment and recovery of the Joy Longwall Mining System  
19 at the Jim Bridger coal mine.

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21 **Q. Please summarize your findings.**

22 A. The Company failed to prudently manage the operational risk of the Joy Longwall  
23 Mining System in five key areas:

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[REDACTED]

The Company's actions do not meet the reasonableness standard set forth by the Commission. Based on the imprudent and unreasonable decisions by Pacific Power in managing the Joy Longwall System, I make three recommendations overall:

- 1) The Commission should disallow costs related to the abandonment of the Joy Longwall System.
- 2) Net power costs should be adjusted to reflect the impact of the Joy Longwall System abandonment on power production costs.
- 3) The Company should change its email retention policy to better preserve important communications in the future.

1 **Q. Please summarize your recommendation regarding Pacific Power’s Power Cost**  
2 **Adjustment Mechanism Deferral.**

3 A. I recommend that the Commission reject the deferral calculation provided by the  
4 Company. As the remainder of my testimony shows, the Joy Longwall System was  
5 not prudently managed. Therefore, the PCAM deferral should not include the costs  
6 of the Joy Longwall or the resulting increased power production expenses. I  
7 recommend that the current \$5.6 million over collection of Washington allocated net  
8 power costs be reduced by \$11.2 million for a total over collection of \$16.8 million.  
9 This results in a deferral of \$10,487,318 in the rebate direction for the ratepayers and  
10 \$6,331,924 in the rebate direction for shareholders. The details of this calculation  
11 are included in Exhibit JLB-6C.

12

13 **III. BACKGROUND**

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15 **A. The Power Cost Adjustment Mechanism**

16

17 **Q. Please describe the Power Cost Adjustment Mechanism.**

18 A. The PCAM was created through a settlement in the Company’s 2014 GRC.<sup>1</sup> Similar  
19 to the power cost mechanisms for PSE and Avista, the Pacific Power PCAM  
20 compares actual net power costs to baseline power costs for a calendar year. The  
21 difference between actual power costs and the approved baseline is recovered from  
22 or returned to customers through a process of cost sharing and deferrals.

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<sup>1</sup> *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-140762, Order 09 (May 26, 2015).

1 **Q. How is the baseline set?**

2 A. The PCAM baseline reflects the level of the Company's power costs at the time the  
3 baseline is set. It is calculated on a per MWh basis to account for differences in  
4 overall load. The per MWh rate is determined using a power cost model called  
5 GRID. Baseline power costs are included in general rates and recovered through  
6 every kWh the Company sells. Pacific Power's baseline was set in the 2014 GRC  
7 and is \$31.76/MWh.

8

9 **Q. What are actual power costs?**

10 A. Actual power costs are the amounts recorded by the Company in several FERC  
11 accounts for the period in question (usually one calendar year).<sup>2</sup> As discussed in the  
12 direct testimony of Mr. Wilding, these include such costs as purchased power and  
13 fuel.<sup>3</sup>

14

15 **Q. In general, what are the findings of your review?**

16 A. Most of the Company's net power costs are standard purchases, sales, and generation  
17 decisions. The Company provided adequate documentation to support a finding of  
18 prudence for all of these revenues and expenses except for costs related to the Jim  
19 Bridger Mine and the Joy Longwall System mining equipment. As I discuss in the  
20 next two sections, these do not meet the reasonableness standard for expenses and  
21 should be removed from the calculation of actual power costs.

22

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<sup>2</sup> *Id.* at ¶ 27.

<sup>3</sup> Direct Testimony of Michael G. Wilding, Exh. MGW-1T at 6:7 - 7:3.



1           **B.     Standard of Prudence**

2

3           **Q.     What standard of review applies to a power cost deferral filing?**

4           A.     As with any other expense, the reasonableness standard is appropriate to determine  
5           whether certain power costs should be deferred and ultimately born by ratepayers.<sup>4</sup>

6           The Commission has historically applied a reasonableness standard “when reviewing  
7           the prudence of decisions relating to power costs, including those arising from power  
8           generation asset acquisitions.”<sup>5</sup> Prudence is an expression of the reasonableness  
9           standard, and the Commission typically employs the term “prudence” when it  
10          evaluates rate base expenditures. In determinations of the reasonableness of non-rate  
11          base expenditures, such as power costs, the Commission’s prudence decisions are  
12          just as applicable.

13

14          **Q.     Has there been recent guidance from the Commission on prudence?**

15          A.     Yes. In Pacific Power’s 2015 GRC, the Commission stated that:

16                         Simply because a decision to begin a project is initially prudent does not, *ipso*  
17                         *facto*, make the continuation or actual completion of the project prudent. We  
18                         have required that companies “continually evaluate a project as it progresses  
19                         to determine if the project continues to be prudent from both the need for the  
20                         project and its impact on the company’s ratepayers.”<sup>6</sup>

21

22          The Commission further explained the importance of documenting communication:

23                         Although helpful, we find that ... the verbal exchanges ... among ...  
24                         management in place of a full SO model reassessment is not sufficiently

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<sup>4</sup> Charles F. Phillips, Jr., *The Regulation of Public Utilities* 256 (1993) (“In all cases . . . the commissions should require proof as to the reasonableness of a utility’s charges to operating expenses”).

<sup>5</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12, ¶ 19 (Apr. 7, 2004) (footnotes and related citations omitted).

<sup>6</sup> *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, ¶ 98 (Sep. 17, 2016) (footnotes and related citations omitted).

1 documented or precise enough to support an ultimate decision of prudence on  
2 the basis of continuous and rigorous analysis over this seven month period. In  
3 our view, ...[this] simply does not prove that the Company adequately  
4 examined the changing circumstances in coal and natural gas prices, which  
5 could have impacted a prudent or imprudent decision. As we stated in a  
6 previous order involving PSE:

7 'robust discussions' about various resources, with 'a consensus' on  
8 the decisions, are not sufficient to demonstrate prudence [...] The  
9 parties and the Commission therefore should be able to follow the  
10 company's decision-making process, knowing what elements the  
11 company used, and the manner in which the company valued those  
12 elements. Such a process should certainly be documented.<sup>7</sup>

13  
14 **C. The Joy Longwall System**

15  
16 **Q. Please describe the Joy Longwall System mining system.**

17 **A.** The Joy Longwall System is a series of machines that excavate coal using shearers  
18 and hydraulic struts that advance along the mine. The picture below depicts a Joy  
19 Longwall System:<sup>8</sup>

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<sup>7</sup> *Id.* at 107 (footnotes and related citations omitted). [Emphasis added].

<sup>8</sup> The first picture is from Mining.Com, available at <http://suppliersandequipment.mining.com/2014/07/02/caterpillar-to-supply-two-complete-longwall-top-coal-caving-systems-to-mine-in-turkey/> (accessed Jan. 15, 2018).

Illustration 1

**ILLUSTRATION 1 IS REDACTED**

1 Attached as Confidential Exhibit JLB-7C is a graphical illustration of this system at  
2 the Jim Bridger Mine.

3 **Q. Was the decision to acquire the Joy Longwall System prudent?**

4 A. Yes. The Company provided over 60 pages of detailed information concerning the  
5 terms of the initial acquisition of the Joy Longwall System. The Joy Longwall  
6 System would [REDACTED]  
7 [REDACTED]<sup>9</sup> The Company's  
8 acquisition analysis included alternatives such as [REDACTED]  
9 and documented the involvement of executive level management approving the  
10 purchase.<sup>10</sup>

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<sup>9</sup> Company response to Boise Informal Data Request No. 4, Confidential Attachment 004-5 at 4.

<sup>10</sup> *Id.* at 1-3, 14-15.

1                    However, the Company’s obligation to make prudent decisions does not end  
2                    once a decision has been made to acquire a resource or piece of capital equipment.  
3                    The reasonableness standard extends throughout the period in which the Company  
4                    operates the asset. The Company also has an ongoing duty to prudently manage the  
5                    operational risk of its assets.

6

7    **Q.    How have the Joy Longwall System costs been treated in the Company’s other**  
8                    **operating jurisdictions?**

9    A.    The Company has filed for cost recovery of net power costs, including the Joy  
10                    Longwall System, in all five of their other operating jurisdictions. In summary:

11                    1. Oregon – Parties to the Oregon docket reached a settlement on November 3,  
12                    2017. The settlement stipulation specifically found:

13    PacifiCorp agrees to exclude the Joy Longwall System recovery and  
14    abandonment costs from its 2016 NPC if referenced in future TAM or  
15    other NPC proceedings because a prudence determination was not  
16    made in relation to these costs.<sup>11</sup>

17                    2. California – The filing is still pending before the commission.<sup>12</sup>

18                    3. Idaho – The commission approved the Company’s power cost deferral  
19                    calculation and discussed increased coal costs:  
20

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<sup>11</sup> *In the Matter of PacifiCorp, dba Pacific Power, 2016 Annual Power Cost Adjustment Mechanism*, Docket UE-327, Settlement Stipulation at ¶ 12 (Nov. 3, 2017).

<sup>12</sup> *In the Matter of the Application of PacifiCorp (U901E) for Approval of its 2018 Energy Cost Adjustment Clause and Greenhouse Gas-Related Forecast and Reconciliation of Costs and Revenue*, Application 17-08-005 (August 1, 2017).

1 Noting the increase in coal costs, Staff stated that one reason for the  
2 increase “was the unanticipated abandonment of the Joy Longwall  
3 System at Bridger Coal Company.”<sup>13</sup>

4 4. Wyoming – A settlement was filed on November 16, 2017, that resolved all  
5 contested issues and did not discuss the Joy Longwall System.<sup>14</sup>

6 5. Utah – The filing is still pending before the commission. Various intervenors  
7 including the Office of Consumer Services (Public Counsel) and the Division  
8 of Public Utilities (Staff) have recommended disallowance of the costs  
9 associated with the Joy Longwall System abandonment and recovery. This  
10 recommendation was based on an independent report provided by Daymark  
11 Energy Advisors.<sup>15</sup>

12

13 **D. Summary of Events**

14

15 **Q. Please describe the timeline of events that you are reviewing.**

16 A. Attached as Exhibit JLB-2C is a graphical timeline of events as reconstructed from  
17 the Company’s testimony and responses to data requests. In summary:

18

[REDACTED]

19

[REDACTED]

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<sup>13</sup> *In the Matter of PacifiCorp, dba Rocky Mountain Power’s Application for Approval of its \$16.7 Million Deferral of Net Power costs, and Authority to Decrease Rates by \$9.0 Million*, Case No. PAC-E-17-02, Order No. 33776 at 3, Internal Citation Omitted (May 31, 2017).

<sup>14</sup> *In The Matter Of The Application Of Rocky Mountain Power To Decrease Current Rates By \$15.7 Million To Refund Deferred Net Power Costs Pursuant To Tariff Schedule 95 Energy Cost Adjustment Mechanism And To Decrease Current Rates By \$528 Thousand Pursuant To Tariff Schedule 93, Rec And So2 Revenue Adjustment Mechanism*, Docket No. 20000-514-EA-17, Record No. 14696 (Nov. 16, 2017).

<sup>15</sup> *In The Matter Of The Application Of Rocky Mountain Power To Decrease The Deferred EBA Rate Through The Energy Balancing Account Mechanism*, Docket No. 17-035-01, Exhibit No. DPU 1.0 Dir.

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]

15 **Q. What is the current status of the Joy Longwall System?**

16 A. The Joy Longwall System has been abandoned in place and will not be recovered.  
17 The Company has written off the costs associated with the Jong Longwall System on  
18 its GAAP books.<sup>16</sup>

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<sup>16</sup> Company response to UTC Staff Data Request No. 4.

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**IV. MISMANAGEMENT BY PACIFIC POWER**

**A. Introduction**

**Q. What led you to the conclusion that the Joy Longwall System was mismanaged?**

A. The Company’s internal investigation, principally, and follow up information provided through discovery revealed the extent of the problems cited in the Company’s internal report. The testimony in this section identifies four of the five specific errors made by the Company, which ultimately led to almost \$50 million in increased net power costs for ratepayers.

The fifth error concerns Pacific Power’s apparent failure to maintain important records, evidenced by its email retention policy. I discuss the problems with records retention separately in section V.

**Q What were the findings of the Company’s internal report?**

A. According to the Company’s internal “Final Report of Investigation” (FRI), [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]<sup>17</sup>  
[REDACTED]  
[REDACTED]

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<sup>17</sup> Confidential Attachment to Company Response to UTC Staff Informal Data Request No. 3.

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
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16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED]

22 The FRI is contained in my Confidential Exhibit JLB-3C.



1           **B.     Four Avoidable Errors**

2

3                   **1.     The Mine’s Geological Condition Was Known But Disregarded**

4

5   **Q.    Was the Company aware of the geological conditions at the Jim Bridger Mine?**

6   A.    Yes. The underground mine has been in operation since 2004 and Bridger Coal  
7        Company has been its operator since the beginning.<sup>18</sup> Further, the Company  
8        received a detailed geological report in August 2015, four months before the Joy  
9        Longwall System became stuck.

10

11 **Q.    Did the geological report highlight any key recommendations?**

12 A.    Yes. Only one of the recommendations appeared in bold face type, [REDACTED]  
13 [REDACTED]  
14 [REDACTED]<sup>19</sup>

15

16 **Q.    [REDACTED]**

17 A.    [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]<sup>20</sup> [REDACTED]

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<sup>18</sup> Company response to UTC Staff Data Request No. 16.  
<sup>19</sup> Exh. JLB-9C at 5.  
<sup>20</sup> *Id.* at 5.

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[REDACTED]

[REDACTED]

[REDACTED]

**Q. Was training provided to mining crews regarding this recommendation?**

**A. [REDACTED]**

[REDACTED]<sup>21</sup> [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Q. Were procedures created or updated to reflect the findings of the geological report?**

**A. The Company responded through discovery [REDACTED]**

[REDACTED]

[REDACTED]<sup>22</sup>

<sup>21</sup> Company response to UTC Staff Data Request No. 18.  
<sup>22</sup> Company response to UTC Staff Data Request No. 17.

1 **Q. Were these procedures followed?**

2 A. [REDACTED]  
3 [REDACTED]  
4 [REDACTED]

5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]<sup>23</sup>

11

12 **2. Operational Capacity Was Not Adequate**

13

14 **Q. Was the Company able to [REDACTED] during December**  
15 **2015 and January 2016?**

16 A. No. The FRI called specific attention to the [REDACTED]<sup>24</sup>  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]

20 This is not a reasonable management decision given the operational requirements of  
21 the Joy Longwall System.

22

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<sup>23</sup> Ball, Exh. JLB-3C at 10.

<sup>24</sup> *Id.* at 6.

1 **Q. Can you describe these operational requirements?**

2 A. In order to maintain an appropriate retreat rate, the Joy Longwall System needed to

3 [REDACTED]<sup>25</sup> [REDACTED]

4 [REDACTED]

5 [REDACTED]<sup>26</sup>

6

7 **3. Operational Procedures Did Not Exist**

8

9 **Q. Did the Company have written operating procedures for the circumstance that**  
10 **occurred during December 2015?**

11 A. No. [REDACTED]

12 [REDACTED]

13 [REDACTED] The FRI specifically found that:

14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]

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<sup>25</sup> As provided in the Company’s response to UTC Staff Data Request No. 19:

A “steady rate of retreat” is important to longwall mining at Bridger Coal because it reduces prolonged abutment loading on the weak strata, which can result in deterioration of the roof strata, potential roof failures, and convergence on the longwall face. Abutment loading can be defined as the weight of waste material or rock over a longwall face being transferred to the front abutment (solid coal ahead of the longwall) and rear abutment (settled packs behind the face or gob) areas. Convergence can be defined as a narrowing of distance between the floor and roof which occurs as the longwall retreats. Abutment loading can result in caving of the roof strata above the longwall shields, which inundates the area between and in front of the longwall shields with waste material. This negatively impacts longwall productivity rates, coal quality, and operating costs. If convergence is excessive, the shearer could cut more waste material in order to retreat, which negatively impacts coal quality and productivity rates.

<sup>26</sup> Exh. JLB-3C at 10.

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[REDACTED]

**Q. How could these procedures have helped during the events of December 2015?**

A. [REDACTED]

**4. Communication Plans Did Not Exist**

**Q. Were the Company’s communication plans adequate for the Joy Longwall System?**

A. No. There were no written procedures in place for communication between crews, or among crews, supervisors, and management. The Company stated through discovery that verbal exchanges occurred consistent with industry practice. Specifically, the “mine environment and conditions do not coincide with a typical

<sup>27</sup> *Id.* at 7.  
<sup>28</sup> *Id.*

1 office setting. Communication and training is adapted to a specific site given that  
2 each mine is unique and faces constant changing conditions.”<sup>29</sup>

3 In light of the unique and well documented conditions at the Jim Bridger  
4 mine, a communications plan would have been a reasonable precaution. As  
5 discussed in the FRI, the purpose of a communications plan is so:

6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED] <sup>30</sup>

9

10 **V. THE COMPANY DID NOT RETAIN RELEVANT RECORDS**

11

12 **Q. What are the results of your investigation into the Company’s management**  
13 **records?**

14 A. As shown on the timeline in my Exhibit JLB-2C, Staff was unable to verify  
15 communication to or from management for extensive periods from December 2015  
16 through July 2016. Further, the information relied upon by management after July  
17 2016 was not provided to Staff or was provided in a modified form. The Company’s  
18 failure to provide documentation of what management knew and any direction it  
19 gave is likely a result of the Company’s email policy, which directly states that all  
20 emails not retained manually by employees will be automatically deleted after 90  
21 days.

22

---

<sup>29</sup> Company response to UTC Staff Data Request No. 17.  
<sup>30</sup> Exh. JLB-3C at 11.

1 **Q. Was management briefed on the situation with the Joy Longwall System and**  
2 **throughout the recovery efforts?**

3 A. Yes, but that’s all we know. In discovery, Staff asked for “all external or internal  
4 communication or documentation at the director level or higher” about the Joy  
5 Longwall System from December 2015 through the date of abandonment in October  
6 of 2016 (over 10 months later).<sup>31</sup> The Company provided nine emails and two nine-  
7 page documents.<sup>32</sup> One of the documents was [REDACTED]

8 [REDACTED]<sup>33</sup>

9 Any information provided [REDACTED]  
10 [REDACTED] is not relevant to the decision making process. The three data requests  
11 Staff issued and their responses comprise Exhibit JLB-5C. Only the response to  
12 UTC Staff Data Request No. 2 contains information useful for a prudence review.

13 A prudence analysis requires clear evidence that shows when the company  
14 executives met, what information they received, and how that information was used  
15 to inform their thinking at the time decisions were made. The Company’s  
16 procedures, executive involvement, various options for recovery, and the evolution  
17 of this information apparently was not retained or perhaps never documented while  
18 the Joy Longwall System was in operation. Pacific Power’s responses to Staff’s data  
19 requests, provided in Exhibit JLB-5C, provided nothing informative about the  
20 decisions made in 2016, when recovery efforts were ongoing. Given the operational

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<sup>31</sup> Exh. JLB-5C, Company response to UTC Staff Data Request No. 2.

<sup>32</sup> Exh. JLB-5C, Confidential Attachment to Company response to UTC Staff Data Request No. 2.

<sup>33</sup> *Id.*

1 problems that occurred with the Joy Longwall System, high-level management  
2 involvement, decision making, and consideration of alternatives was needed.  
3 Without the documentation used by management during 2016, the costs incurred by  
4 the Company for the recovery and abandonment cannot be deemed reasonable.

5  
6 **Q. Was the decision to abandon the Joy Longwall System reasonable?**

7 A. Staff cannot know the extent to which abandonment may have been reasonable  
8 because of the lack of documentation. The Company provided a copy of the 103(k)  
9 order dated October 10, 2016 from the Mining Safety and Health Administration.  
10 The mine had become unsafe for the purpose of recovery operations and the  
11 Company decided to cease all further efforts.

12 However, the Company has identified October 7, 2016 as the date that the  
13 abandonment decision was made. Other than the 103(k) order, three days after the  
14 decision, the Company did not provide any “communications detailing management  
15 involvement or decision regarding the Joy Longwall System abandonment.”<sup>34</sup> There  
16 was a phone call that occurred on October 7 between company executives. The  
17 Company has not provided details about the conversation or a copy of the  
18 information under consideration at the time this phone call was made.

19 Regardless of whether abandonment was reasonable, the decisions that lead  
20 to the need for abandonment were not. Had the Company properly managed its  
21 operational risk, the chance of losing the Joy Longwall System would have been

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<sup>34</sup> Company Response to Informal UTC Staff Data Request No. 4.



1 significantly reduced. The costs of the abandonment are a direct result of those  
2 decisions.

3

4 **Q. What is the Company's policy regarding email retention?**

5 A. Attached as Exhibit JLB-4 is the Company's response to UTC Staff Data Request  
6 No. 1, which confirms that all emails not manually saved by a user are automatically  
7 deleted after 90 days.

8

9 **Q. Is this policy troubling?**

10 A. Yes. Staff's review of the issues at the Joy Longwall System were hampered by the  
11 lack of any detail regarding the decisions made by management. The Company's  
12 email policy, which has been in effect since January 22, 2015, seems to ignore the  
13 most recent Pacific Power GRC in which the Commission found:

14 The Commission is presented with statements from the Company's witness  
15 of what the Company says its employees did or thought at the time, but is  
16 provided no supporting contemporaneous documentation. ... There is no  
17 documentation that Pacific Power's board of directors or senior Company  
18 management were adequately informed or on what basis they [reached  
19 decisions].

20

21 ...  
22 As stated earlier, we recognize that the Company faced a regulatory  
23 obligation. ... We do not accept, however, that the Company was without  
24 options in meeting this obligation or that it could decline to maintain  
25 contemporaneous documentation in determining the most appropriate option.  
26 Keeping in mind the interests of Washington ratepayers and the interests of  
27 Company shareholders, we find that while Pacific Power ratepayers would  
28 face some higher costs as the Company complied with the environmental  
29 regulations, Pacific Power placed ratepayers at risk of larger-than appropriate  
30 expenses when declining its responsibility to pursue, and document its pursuit  
of, the least-cost option.<sup>35</sup>

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<sup>35</sup> *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253, Order 12 at ¶¶ 103, 114.

1 **Q. Do you have a specific recommendation for updating the Company's email**  
2 **retention policies?**

3 A. I recommend the Commission direct Pacific Power to modify its email records  
4 retention policy. Consistent with WAC 480-100-228, I recommend that all decision  
5 making emails, and their chains, related to expenses for which the Company might  
6 seek rate recovery, be preserved for a period of three years.

7

8 **VI. CONSEQUENCES OF MISMANAGEMENT**

9

10 **A. Costs of Abandonment**

11

12 **Q. How should the costs of abandonment be treated?**

13 A. I recommend the Commission disallow the full value of the recovery and  
14 abandonment costs. The Joy Longwall System was not prudently and reasonably  
15 managed and its abandonment is a direct result of this failure. My recommendation  
16 removes [REDACTED] from the Company-wide net power cost calculation.<sup>36</sup> On a  
17 Washington-only basis this represents a [REDACTED] reduction in net power costs.  
18 The effect of this change on the PCAM deferral is included in Exhibit JLB-6C.

19

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<sup>36</sup> Confidential Attachment 002-3 to Company response to Boise Informal Data Request No. 002.

1           **B.     Increased Power Production Costs**

2

3           **Q.     What is your conclusion regarding Bridger Coal costs?**

4           A.     I recommend net power costs be [REDACTED] on a Washington allocated  
5           basis. The Company experienced [REDACTED] aggregate coal costs related to the  
6           underground mine. The [REDACTED] costs are a direct result of the Company's  
7           unreasonable actions regarding the Joy Longwall System. This is consistent with the  
8           original decision to purchase the Joy Longwall System, which found that:

9           [REDACTED]  
10          [REDACTED]<sup>37</sup>

11          The PCAM's sharing bands are not designed to handle [REDACTED] coal expenses when  
12          the cause is an imprudent action by the Company. The Company alone should [REDACTED]  
13          [REDACTED] coal costs.

14

15          **Q.     How did coal costs at Jim Bridger compare to the Company's forecasts?**

16          A.     For 2016, excluding expenses related to abandonment and recovery, underground  
17          mine costs were [REDACTED] than forecasted in the Long Term Fuel Cost Plan  
18          (LTFP), updated in [REDACTED]. At the same time, surface coal expenses were  
19          [REDACTED] than expected. The chart below summarizes the differences in costs  
20          between the LTFP and the actual costs per ton for 2016.

---

<sup>37</sup> Company response to Boise Informal Data Request No. 4, confidential attachment 004-5 at 13.

**CONFIDENTIAL FIGURE 1 IS REDACTED**

1

2

3 **Q. How did overall production costs compare to market prices?**

4 A. Aggregate production costs for both the underground and surface mine were

5

6 [REDACTED]. This price difference is significant given the Company's testimony in the

7

2014 GRC:

8

[T]he BCC and Black Butte coal remain comparably priced. While Black

9

Butte was slightly higher priced in the direct filing, BCC is now slightly

10

higher than Black Butte. This is consistent with the historical BCC and

11

Black Butte costs. In some years, BCC's production costs are lower than the

12

third-party supply from Black Butte, and in other years, BCC's production

13

costs are higher. On balance and over the long term, PacifiCorp's diversified

1 approach has produced a reasonably priced, stable coal supply to the Bridger  
2 plant.<sup>38</sup>

3 I do not believe that the [REDACTED] in price at the Bridger mine is “comparably” or  
4 “reasonably” priced.

5

6 **Q. Has the Company offered an explanation for the variation in power production**  
7 **costs?**

8 A. Yes. Pacific Power was asked if there was reduced production at the underground  
9 mine as a result of the abandonment of the Joy Longwall System. The Company  
10 responded by stating:

11 No. The reduced production at the underground mine was not directly related  
12 to the Joy Longwall System issues. BCC’s volume reduction compared to the  
13 base period was driven by lower generation levels at the Jim Bridger plant  
14 (resulting from lower power market prices, lower natural gas prices, and  
15 renewable generation impacts during 2016). The combination of coal  
16 delivered to the plant from BCC and Black Butte met plant generation  
17 requirements. Production decreases at the BCC underground mine were  
18 partially offset by increases at the BCC surface mine in 2016. Therefore, the  
19 Company did not prepare a hypothetical analysis of what costs might have  
20 been, had the Joy Longwall System been operational. An analysis such as this  
21 would be dependent on numerous speculative operational and cost  
22 assumptions, while the realities of the market in 2016 dictated that those  
23 volumes of coal were not required at the Jim Bridger plant. However, the  
24 Company did conduct an analysis of the 2016 coal costs at the Jim Bridger  
25 plant, which quantified the cost impact of volume reductions in the plant’s  
26 coal requirements compared to the base period. That amount is [REDACTED],  
27 please refer to Confidential Attachment Boise 004-4, which provides the  
28 analysis. A major driver of the [REDACTED] in the coal fuel expense at the Jim  
29 Bridger plant was a generation volume decrease of 2,111 gigawatt hours  
30 (GWh) (21 percent), which resulted in a decrease in tons delivered of 29  
31 percent, compared to the base period.<sup>39</sup>

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<sup>38</sup> Exh. JLB-8C, Direct Testimony of Cindy A. Crane in Docket UE-140762, Exh. CAC-1CT, at 5:3-10.

<sup>39</sup> Company response to Boise Informal Data Request No. 4, subpart (q).

1 **Q. Is this answer sufficient?**

2 A. No. The Company's argument is that volume reductions explain the differences in  
3 power production costs. However, there is no evidence to support the Company's  
4 assertion. Correlation (reduced dispatch) does not imply causation ([REDACTED] coal  
5 fuel expense). The graph below plots total operating costs with tons of coal  
6 produced at the underground mine based on actual operations spanning 2005 to 2016  
7 (11 years of data).

Confidential Figure 2

**CONFIDENTIAL FIGURE 2 IS REDACTED**

8

9 The trend line in the graph, which shows cost for a certain tonnage of coal, has an  $R^2$   
10 of [REDACTED]. Based on the  
11 previous 11 years of operations, the [REDACTED] of coal produced during 2016 at the

1 underground mine [REDACTED]. However, 2016 actual  
2 underground costs [REDACTED]. The Company's  
3 response does not explain such [REDACTED].

4

5 **Q. What is an appropriate calculation for coal costs?**

6 A. The unit price of coal for the Bridger underground mine should be [REDACTED] to the  
7 comparable price at the Black Butte Mine. This [REDACTED] net power supply expenses  
8 by [REDACTED] on a Company-wide basis. On a Washington allocated basis this  
9 represents [REDACTED]. The effect of this change on the PCAM deferral is included  
10 in my Exhibit JLB-6C.

11

12 **Q. How are future power costs at Jim Bridger affected by the Joy Longwall**  
13 **System?**

14 A. The Company's initial decision documents supporting the purchase of the Joy  
15 Longwall System found that, on a net present value basis, the Joy Longwall System  
16 would save ratepayers [REDACTED]<sup>40</sup> [REDACTED]

17

18 [REDACTED] for underground coal production in every future PCAM deferral period. As a  
19 result of the Company's mismanagement, ratepayers will be [REDACTED]

20

21 [REDACTED].

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<sup>40</sup> Confidential Attachment 004-5 to Boise Informal Data Request No. 4.

1 **VII. CONCLUSION**

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**Q. Please summarize your overall review of the Pacific Power 2016 PCAM.**

A. The Company failed in its responsibility to prudently manage the operation of the Joy Longwall Mining System. However, the Company is taking ongoing actions to prevent this situation from repeating itself.<sup>41</sup> Staff is encouraged by the Company’s steps to avoid repeating this failure, but corrective action does not absolve the Company of its fundamental obligation to prudently manage its costs. As shown through my analysis above, the Company’s internal investigation and other responses to discovery place the responsibility for costs associated with the abandonment of the Joy Longwall System with the Company. Moreover, [REDACTED] [REDACTED] also rests solely in the hands of Pacific Power. The Company’s disregard for its own internal procedures, operational needs, communications planning, and record keeping has created a significant burden that should not be borne by ratepayers.

**Q. Please summarize your recommendation on the specific adjustment for this PCAM?**

A. I recommend that the full costs of the abandonment and recovery of the Joy Longwall, [REDACTED], be removed from actual net power costs. Further, underground mining expenses at BCC should be [REDACTED] to the comparative rate at

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<sup>41</sup> Confidential Company response to UTC Staff Data Request No. 3.



1 the Black Butte Mine. This [REDACTED] actual net power costs by a further [REDACTED].

2 On a Washington allocated basis, my recommendation removes \$11,213,560 from

3 actual net power costs for the 2016 PCAM deferral period.

4

5 **Q. Does this conclude your direct testimony?**

6 A. Yes.