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December 3, 2021

SENT VIA WEB PORTAL

Amanda Maxwell
 Executive Director and Secretary
 Washington Utilities & Transportation Commission
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 Lacey, WA 98503

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 COMMISSION

Re: *In the Matter of the Petition of PacifiCorp d/b/a Pacific Power & Light Company to Modify and Extend the Decoupling Mechanism*
 Docket UE-152253, Comments of Public Counsel

Dear Director Maxwell:

The Public Counsel Unit of the Washington State Attorney General's Office ("Public Counsel") respectfully submits these comments in advance of the December 9, 2021, Open Meeting. These comments are in response to PacifiCorp's (the "Company") Petition to Modify and Extend the Decoupling Mechanism ("Petition"). Public Counsel has reviewed the filing and has also discussed the matter with the Washington Utilities and Transportation Commission Staff and the Company. Based on our review, Public Counsel provides the following recommendations.

Public Counsel's Recommendations:

- I. Public Counsel recommends that the Commission consider eliminating PacifiCorp's decoupling mechanism.
- II. In the alternative, in response to each of PacifiCorp's four requests in its Petition to Modify and Extend the Decoupling Mechanism, Public Counsel recommends that the Commission:
 1. Grant PacifiCorp's request to change the deferral period to calendar year;
 2. Grant PacifiCorp's request to remove Schedules 36 and 40 from the decoupling mechanism;
 3. Deny PacifiCorp's request to combine tracking and order PacifiCorp to continue to separately track and true-up deferrals by rate class; and
 4. Grant PacifiCorp's request to continue the earnings test for the tariff schedules decoupled, and address potential over-earnings for non-decoupled classes.

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1. The Washington Utilities and Transportation Commission (WUTC or “Commission”) Should Consider Eliminating PacifiCorp’s Decoupling Mechanism.

In the context of Washington State policy, decoupling aims to remove disincentives for utility conservation. In its Decoupling Policy Statement, the Commission says the purpose is to “address declines in revenue due to utility-sponsored conservation or other causes of conservation.”¹ PacifiCorp has “found no evidence that decoupling has altered its conservation achievement.”² From 2014 to 2019, PacifiCorp has exceeded its biennial conservation targets.³ Moreover, as PacifiCorp also points out, under Initiative 937, PacifiCorp must pursue all conservation that is cost-effective, reliable, and feasible.⁴ Because of the lack of effect of decoupling on conservation and the already existing statutory mandate, it is unclear why there is a need for the decoupling mechanism.

PacifiCorp says that the “ultimate purpose” of the decoupling mechanism is to provide revenue stability, despite the Commission’s stated intent to encourage conservation.⁵ However, PacifiCorp shows only minor changes in revenue stability for the four years of the decoupling mechanism when comparing no decoupling, decoupling without the earnings test, and decoupling with earnings test scenarios. Table 1, below, compares statistics for each of these scenarios.⁶

The four years of data show a slight increase in stability from not having decoupling to having decoupling (without the earnings test). The no-decoupling scenario has a standard deviation of \$6.2 million, while the decoupling scenario without the earnings test decreases the standard deviation by \$0.7 million. Adding the earnings test to the decoupling scenario increases the standard deviation from the no-decoupling case by \$0.1 million. Another measure of statistical dispersion is the range of values divided by the average values, the normalized range.⁷ This statistic also shows that decoupling resulted in a very small improvement in earnings stability

¹ *In re the Wash. Utils. & Transp. Comm’n. Investigation into Energy Conservation Incentives*, Docket UE-100522, Report and Policy Statement on Regulatory Mechanisms, including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets at 1 (Nov. 4, 2010) (Decoupling Policy Statement); *See also, Wash. Utils. & Transp. Comm’n. v. Northwest Nat. Gas*, Docket UG-181053, Final Order 06: Rejecting Tariff Sheets, ¶ 32 (Oct. 21, 2019) (“[T]he statutory framework for decoupling is based on utility energy efficiency programs...”). In the State of Washington Decoupling Mechanism: Three Year Evaluation, PacifiCorp characterizes its decoupling mechanism to “provide the Company better fixed cost recovery in light of changes in usage due to weather or energy efficiency.” PacifiCorp’s Petition to Modify and Extend the Decoupling Mechanism, Exh. C, at 3, *In re the Petition of PacifiCorp to Modify and Extend the Decoupling Mechanism*, Docket UE-152253 (filed Aug. 10, 2021) [hereinafter “*Decoupling Evaluation*”].

² *Decoupling Evaluation*, at 5.

³ *Id.*

⁴ *Decoupling Evaluation*, at 5; RCW 19.825.040(1).

⁵ *Decoupling Evaluation*, at 18.

⁶ Workpapers Figure 3.xlsx of PacifiCorp represent the data value used in Table 1.

⁷ Stability is, roughly, the opposite of statistical dispersion. So, the greater the dispersion, the less stability there is.

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with the no decoupling scenario resulting in a normalized range of 4.7 percent of the average revenue. The decoupling scenarios change this by -0.6 percent and +0.3 percent without the earnings test and with the earnings test, respectively.

Table 1: Statistics for Total Revenue (\$ Millions), No Decoupling, Decoupling, Decoupling with Earnings Test Comparison, 2017-2020

	No decoupling	Decoupling w/o earnings test (relative to No Decoupling)	Decoupling with earnings test (relative to No Decoupling)
Average (\$ millions)	283	+1	-4
Standard deviation (\$ millions)	6.1	-0.7	+0.1
Range (Max-Min) (\$ millions)	13	-2	+1
Normalized Range (Range/Average) (%)	4.7%	-0.6%	+0.3%

On the available evidence, the stability impacts of decoupling are minor, and therefore the justification for keeping the decoupling mechanism because of revenue stability considerations should be rejected. Decoupling has not accomplished the Commission's primary, stated goal to encourage conservation, nor has it produced significant revenue stability. For these reasons, the Commission should consider eliminating PacifiCorp's decoupling mechanism.

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2. In the Alternative to Eliminating PacifiCorp's Decoupling Mechanism, Public Counsel Makes the Following Recommendations in Response to each of PacifiCorp's Four Requests in its Petition to Modify and Extend its Decoupling Mechanism:

1) The Commission Should Grant PacifiCorp's Request to Change the Deferral Period to Calendar Year.

PacifiCorp has proposed changing the timing of the deferral periods to calendar years to simplify its annual earnings test calculations. This change will also mean that Schedule 93 increases will no longer occur during the higher heating cost month of February. This change appears to have no other material impacts, will make the earnings test calculations more straightforward, and potentially help customers with energy cost budgeting. For these reasons, the Commission should grant PacifiCorp's requested change to the deferral periods.

2) The Commission Should Grant PacifiCorp's Request to Remove Schedules 36 and 40 From the Decoupling Mechanism.

If the Commission decides not to eliminate PacifiCorp's decoupling mechanism, it should at least remove Schedules 36 and 40 from the decoupling mechanism. The decoupling mechanism for PacifiCorp appears not to affect conservation nor have any significant effect on PacifiCorp's revenue stability. Removing Schedules 36 and 40 from the decoupling mechanism is a step in the right direction of eliminating the mechanism entirely.

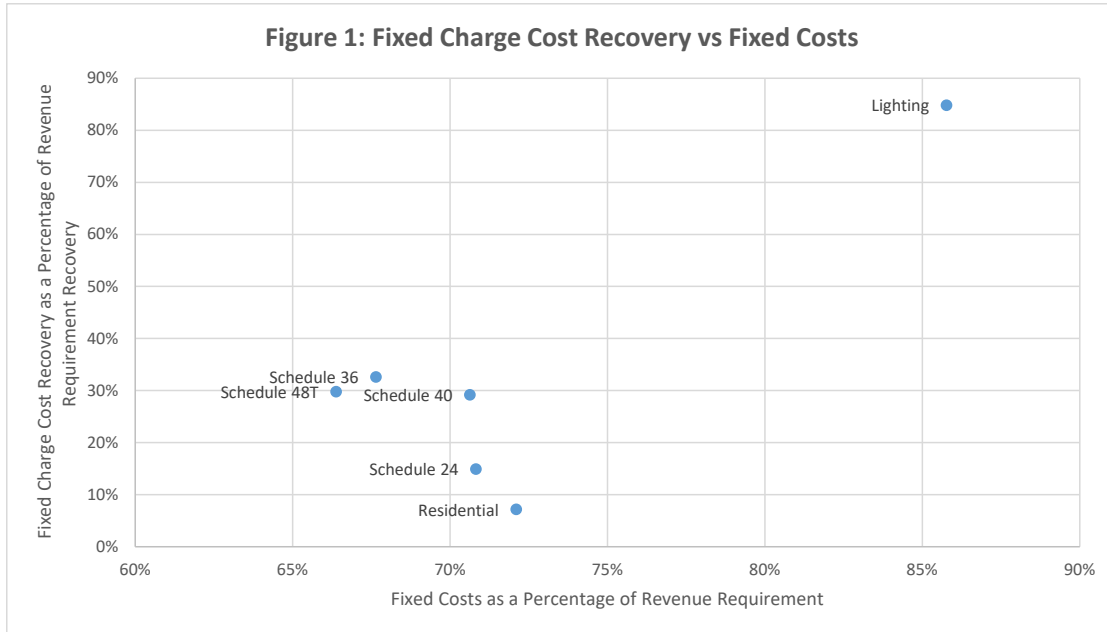
PacifiCorp argues that Schedule 36 and Schedule 40 more closely resemble Schedule 48T in their fixed cost recovery. Therefore, because Schedule 48T is not decoupled, Schedules 36 and 40 should be removed from the decoupling mechanism.⁸ Figure 1⁹, below, shows the relationship between the fixed charge cost recovery as a percentage of revenue requirement recovery compared to fixed costs as a percentage of revenue requirement. Schedules 36, 48T, and 40 are indeed grouped together.

⁸ Decoupling Evaluation, at 9.

⁹ Workpapers Figure 4.xlsx from PacifiCorp represent the data values used for Figure 1.

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However, while it is true that Schedules 36, 40, and 48T resemble each other in their fixed cost recovery, PacifiCorp points out that Schedule 48T has “large swings in sales to large customers” which “could introduce an unacceptably high level of volatility to the mechanism.”¹⁰ Therefore, Schedule 48T should continue to be excluded from decoupling whether Schedules 36 and 40 are decoupled or not.

3) The Commission Should Deny PacifiCorp’s Request to Combine Tracking and Order PacifiCorp to Continue to Separately Track and True-Up Deferrals by Rate Class.

PacifiCorp requests to end the separate tracking and true-up because combining them “will likely” result in “greater stability.”¹¹ As evidence, PacifiCorp calculated the annual decoupling adjustment rates if all classes were combined and compares them to the results from tracking the classes separately. Small general and residential classes have the smallest changes with larger changes for agricultural and large general classes.¹²

The original purpose of the separate tracking and true-up of rate classes was to avoid cross-subsidization between customer classes. In proposing the mechanism, PacifiCorp stated:¹³

¹⁰ Decoupling Evaluation, at 10.

¹¹ Decoupling Evaluation, at 12–13.

¹² See *id.*

¹³ Direct Testimony of Joelle R. Steward Exh. No. JRS-1T at 13:19–14:9.

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The Company is proposing to separately track and defer revenue differences on these schedules to minimize cost or benefit shifting between these classes. For instance, combining into one decoupling class shifts irrigation Schedule 40 volatility due to weather to Schedules 24 and 36. Likewise, Schedule 36 may not see any potential benefits from growth if combined with the other schedules. Additionally...the current rate structure for Schedule 24 collects a significant amount of revenue from energy charges, which could shift fixed cost recovery to Schedules 36 and 40. Separately tracking and recovering deferrals by rate schedule will minimize any cost or benefit shifting between rate schedules and provide for a more equitable outcome.

Staff agreed with this approach, noting that “[s]eparating the rate classes is, in Staff’s opinion, a practical design choice that does not overly complicate the implementation of a decoupling mechanism.”¹⁴ Regardless whether the Commission accepts or rejects the proposal to remove Schedules 36 and 40 from the decoupling mechanism, the Company is already tracking costs separately. This would depart from current practice.

Sacrificing cost causation for the sake of a small amount of gained stability is a poor trade-off. Though amounts may be small, on average, the necessary implementation is already in place. For these reasons, the Commission should continue to require the separate tracking of rate classes in PacifiCorp’s decoupling mechanism.

4) The Commission Should Grant PacifiCorp’s Request to Continue the Earnings Test for the Tariff Schedules Decoupled, and Address Potential Over-Earnings for Non-Decoupled Classes.

The Commission’s Decoupling Policy Statement states that an earnings test should be included in any decoupling proposal.¹⁵ PacifiCorp proposed one with its decoupling proposal, and the Commission approved an earnings test as part of its approval of decoupling for PacifiCorp. Commission Staff provided that “the earnings test in the Company’s proposed decoupling mechanism will prevent the Company from receiving a windfall of additional earnings.”¹⁶

These factors would seem to indicate that the earnings test is tied to the decoupling mechanism, and so if a schedule is removed from the decoupling mechanism, the earnings test should be removed from those schedules as well.

However, in the 2015 General Rate Case (GRC), Staff tied its approval of PacifiCorp’s overall rate plan to the earnings test:¹⁷ “The rate plan should only be approved if the earnings test is approved as well. The earnings test in the Company’s proposed decoupling mechanism provides

¹⁴ Direct Testimony of Jason L. Ball Exh. JLB-1T at 32:15–16.

¹⁵ Decoupling Policy Statement, ¶ 28.

¹⁶ Ball Exh. JLB-1T at 3:12–15.

¹⁷ Ball Exh. JLB-1T at 29:11–14.

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the Company an opportunity to share excess earnings with rate payers while still having a direct incentive to control costs.”

As a practical matter for ratepayers, this is relevant because, for the four decoupling periods reviewed in the Decoupling Evaluation, since PacifiCorp has returned \$17.8 million in over-earnings. PacifiCorp says the inter-jurisdictional nature of their operations, particularly the small percentage of energy sales for PacifiCorp and the dynamic allocation factors in the 2020 Inter-jurisdictional Cost Allocation Protocol, have resulted in “uniquely high over-earnings.” This allocation protocol, PacifiCorp states, was approved in the last GRC.¹⁸

The problem with PacifiCorp’s analysis is that rates are set based on the allocation protocol. Periodic over-earning in the Company’s Washington jurisdiction perhaps means that the allocation protocol should be changed. There are plans to change the allocation methodology, but that process is beyond the scope of this proceeding.¹⁹ Increased loads in other states relative to Washington appropriately shifts costs to those states under the current methodology.²⁰

The Decoupling Docket is not the ideal way to address issues of rate-of-return for PacifiCorp. The issue of over-earnings would be more appropriately addressed in a GRC. However, with an average of \$4.5 million per deferral period at stake for ratepayers,²¹ waiting for the next GRC or implementing performance-based ratemaking may mean years of over-earnings paid for by ratepayers, especially considering the Company’s current multi-year rate plan.²²

The earnings test should be continued for decoupled schedules, and the Commission could address potential over-earnings in the short term. If there is a potential that parties could reach an agreement regarding treatment of over-earnings prior to the Company’s next GRC filing, then it might be worth addressing the issue in a stakeholder collaborative. Then, the result of the collaborative would be rolled into the next GRC. Otherwise, it would just be litigated in the next GRC. This would allow the mechanism to function as intended, while cooperatively reaching an agreement among stakeholders to shield ratepayers from persistent over-collections.

* * *

Public Counsel appreciates the opportunity to submit these comments. We will be present at the December 9, 2021, Open Meeting and will be available to answer any questions the Commission

¹⁸ Decoupling Evaluation, at 16–18.

¹⁹ See generally Etta Lockett, Exh. EL-3, *Wash. Utilis. Transp. Comm’n. v. Pacific Power & Light Co.*, Docket UE-191024 (filed Dec. 13, 2019) [hereinafter “2020 Protocol”].

²⁰ See *id.* at 39:825–40:840.

²¹ *Id.* at 16.

²² See *id.* If only Schedules 36 and 40 are removed from the decoupling mechanism and the earnings test, then the amount of potential over-earnings at issue is, according to Public Counsel’s understanding on the order of three million over the first three deferral periods.

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may have regarding these comments. Please direct any questions to Ann Paisner, Ann.Paisner@ATG.WA.GOV or (206) 521-3211, or Corey Dahl, Corey.Dahl@ATG.WA.GOV or (206) 464-6380.

Thank you.

Sincerely,

Lisa W. Gafken

/s/

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