

**BEFORE THE WASHINGTON  
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

PACIFICORP d/b/a PACIFIC POWER & LIGHT COMAPNY,

Respondent.

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DOCKET UE-230482

**RESPONSE TESTIMONY OF ROBERT L. EARLE  
ON BEHALF OF THE  
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL  
PUBLIC COUNSEL UNIT**

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**EXHIBIT RLE-1T**

March 28, 2024

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1 Exhibit RLE-5 Dockets UE-220066 and UG-220067, Puget Sound Energy  
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4 Public Counsel Data Request 014

5 **Q. Please give an overview of your testimony.**

6 A. The Washington Utilities and Transportation Commission (Commission) recently  
7 reaffirmed what it said ten years ago that PacifiCorp (the Company) has a  
8 “responsibility to manage its power costs using integrated resource planning,  
9 carefully structured hedging practices, conservation initiatives, and other means  
10 available to PacifiCorp and other utilities.”<sup>1</sup> In 2022, the Commission listed  
11 numerous warnings to PacifiCorp’s about risk exposure to market fluctuations and  
12 specifically directed the Company to address its “choice of market exposure” in  
13 its next PCAM filing.<sup>2</sup> Instead, the Company’s current filing describes the impact  
14 of relying on market purchases, dismissing the increased power costs as  
15 unexpected. That excuse is insufficient; the precise incidents leading to the 2022  
16 costs may arguably have been difficult to predict, but the consequences of the  
17 Company’s gamble were not. Not only has PacifiCorp failed to demonstrate the  
18 prudence of its long-term strategy, the record before the Commission establishes  
19 PacifiCorp’s willful disregard for its Washington ratepayers. The Company could

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<sup>1</sup> *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-230172 and UE-210852, Order 08/06, ¶ 402 (Mar. 19, 2024) citing *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-130043, Order 05, ¶ 172 (Dec. 4, 2013).

<sup>2</sup> See *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 06, ¶ 3 (Mar. 29, 2022) (hereinafter *PCORC Docket*). The Commission stated that, “We are concerned, however, that the Company may not have prudently managed market risk for its Washington customers. We condition our acceptance of the Settlement on the Company demonstrating the prudence of its power costs in its next Power Cost Adjustment Mechanism (PCAM) filing.”

1 have planned for long-term resources to avoid market reliance; it did not. The  
2 Company could have hedged separately for Washington customers; it did not.

3 PacifiCorp gambled on the power market, and now asks the Commission  
4 to assign the loss to ratepayers; the Commission should find PacifiCorp's long-  
5 term strategy and lack of Washington specific hedging was improvident and  
6 allocate those costs to the Company. It is not a defense that PacifiCorp's approach  
7 is optimal across its system; the undisputed facts are that it is not optimal for  
8 Washington customers. Net power costs (NPC) for Washington customers have  
9 exploded, starting in 2021 with power costs on a \$/MWh increasing year-over-  
10 year by 46 percent in 2021 over 2020 and 29 percent in 2022 over 2021, resulting  
11 in NPC almost doubling for Washington customers. If Washington's net power  
12 costs had been similar to those in other PacifiCorp jurisdictions in 2021 and 2022,  
13 Washington customers' NPC would have been \$110 million less than those  
14 claimed by PacifiCorp. The Commission should reject PacifiCorp's request to  
15 recover improvidently incurred costs.

16 **Q. What are your recommendations to the Commission?**

17 A. My recommendations to the Commission are:

18 1. The Commission should reject PacifiCorp's request for \$71.5 million to be  
19 recovered through the Power Cost Adjustment Mechanism (PCAM).<sup>3</sup>

20 PacifiCorp imprudently did not perform long-term procurement or hedging  
21 separately on behalf of its Washington customers. The consequences of this  
22 include higher power costs for Washington customers. Moreover, PacifiCorp

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<sup>3</sup> Direct Testimony of Jack Painter, Exh. JP-1T at 4:21–22.

1 did not even attempt to show, despite the Commission’s directive, that even  
2 within its own system-optimizing framework, its actions were prudent. The  
3 \$71.5 million disallowance is an approximate consequence for its recent  
4 actions. The lack of long-term procurement for Washington will show up in  
5 future costs, and has already shown up in \$110 million of elevated NPC in  
6 2021 and 2022.

7 2. The Commission should find that PacifiCorp has been imprudent by not  
8 hedging for Washington customers separately and that PacifiCorp should be  
9 ordered to separately hedge for Washington customers going forward. In the  
10 event that the Company maintains its position that it either cannot or will not  
11 hedge for Washington customers separately, or does not do so, the  
12 Commission should order that an independent entity should be established to  
13 hedge for Washington customers at PacifiCorp shareholder expense.

14 3. The Commission should find PacifiCorp’s actions regarding long-term  
15 planning imprudent because it has not considered the interests of Washington  
16 ratepayers separately in its long-term planning. Moreover, despite the  
17 Commission’s warnings about PacifiCorp making Washington ratepayers  
18 overly reliant on market, the Company has persisted in its policy.

19 4. The Commission should order PacifiCorp to reform its Integrated Resource  
20 Plan (IRP) process so that it optimizes on behalf of Washington ratepayers  
21 within the framework of an inter-jurisdictional utility. In the event that the  
22 Company maintains its position that it either cannot or will not hedge for  
23 Washington customers separately, or does not do so, the Commission should

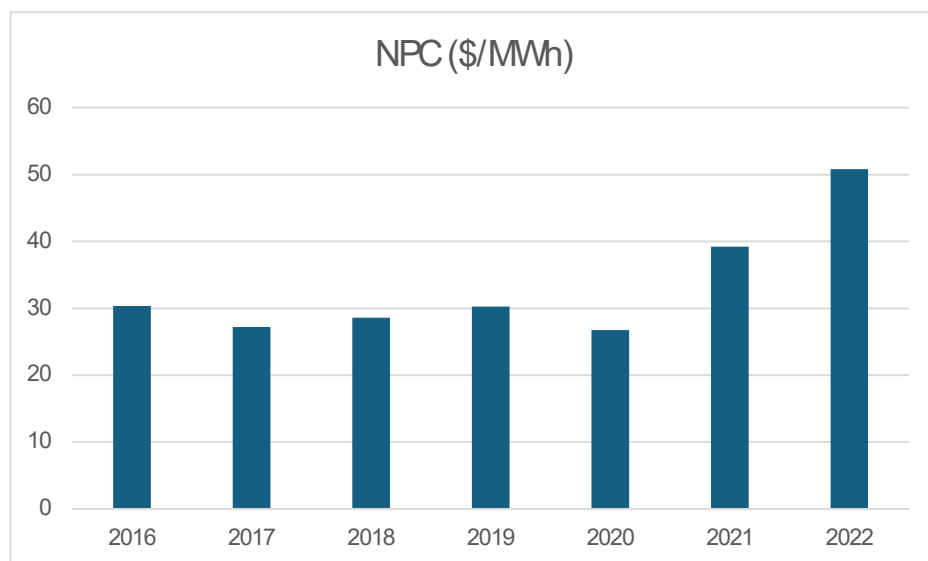
1 order that an independent entity should be established to perform resource  
2 procurement for Washington customers at PacifiCorp shareholder expense.

3 **II. WASHINGTON CUSTOMERS HAVE HIGHER NPC THAN**  
4 **CUSTOMERS IN OTHER JURISDICTIONS**

5 **Q. Why do you say that Washington customers have higher NPC than**  
6 **customers in other PacifiCorp jurisdictions?**

7 A. NPC for Washington customers have exploded starting in 2021 with power costs  
8 on a \$/MWh increasing year-over-year by 46 percent in 2021 over 2020 and 29  
9 percent in 2022 over 2021, resulting in power costs almost doubling for  
10 Washington customers. In 2022, Washington's \$/MWh NPC was 44 percent  
11 higher than in PacifiCorp's other jurisdictions on a net system load basis. If  
12 Washington's net power costs had been similar to those in other PacifiCorp  
13 jurisdictions in 2021 and 2022, Washington customers' NPC would have been  
14 \$110 million less than those claimed by PacifiCorp.

15 **Figure 1 Washington Customers Power Costs have Exploded**





1       **Q.     Is all of the \$110 million differential due to the overexposure of Washington**  
2       **customers to the market?**

3       A.     Possibly not. But, as documented below, Washington’s market overexposure has  
4       been an excuse and a concern for Washington NPC for a very long time.  
5       Moreover, for 2022, \$74 million of the increase to NPC was attributed to  
6       purchased power expense and natural gas expense,<sup>4</sup> for 2021 that figure was \$37  
7       million.<sup>5</sup> In other words, market exposure drove the increase in NPC. PacifiCorp  
8       has known that exposure to the market was a problem for its Washington  
9       customers from the inception of the West Control Area Inter-Jurisdictional  
10      Allocation Methodology (WCA) in 2007.<sup>6</sup> Yet, it has done nothing to specifically  
11      address Washington customers’ market overexposure.

12                   **III.    PACIFICORP DID NOT ATTEMPT TO SHOW THAT ITS**  
13                   **HEDGING OR LONG-TERM PROCUREMENT**  
14                   **PRACTICES WERE PRUDENT AS REQUIRED BY THE**  
15                   **COMMISSION**

16      **Q.     Why do you say that PacifiCorp did not attempt to show that its hedging or**  
17      **long-term procurement practices were prudent as required by the**  
18      **Commission?**

19      A.     In a 2022 order, the Commission required:

20                   In its next PCAM filing, the Company must address the issue of the  
21                   prudence of its power costs, specifically the prudence of its risk  
22                   management practices for hedging for its Washington-allocated  
23                   resources over calendar year 2022 and its choice of market exposure

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<sup>4</sup> Painter, Exh. JP-1T at 11, Table 3.

<sup>5</sup> Direct Testimony of Jack Painter, Exh. JP-1T at 14, Table 3, *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-220441 (June 15, 2022).

<sup>6</sup> Direct Testimony of Ramon J. Mitchell, Exh. RJM-1T at 14:7–9.

1 for its Washington-allocated portfolio given the concerns raised by  
2 the Commission over a number of years.<sup>7</sup>

3 As discussed below, the Company tries to justify its hedging and long-  
4 term procurement practices because they optimize for its system as a whole and  
5 not also separately for Washington. Addressing this was clearly part of the  
6 Commission's intent.<sup>8</sup> However, even if PacifiCorp were correct in its claims that  
7 it should not hedge or procure for Washington separately, this still leaves the  
8 question of PacifiCorp's implementation of its hedging and long-term  
9 procurement within its own framework of only optimizing its system as a whole.  
10 PacifiCorp does not address this at all in either the case of hedging or long-term  
11 resource procurement even though the Commission clearly required it.<sup>9</sup> The  
12 Company's failure to justify its hedging actions in 2022 are particularly surprising  
13 given the Commission's instructions and that the hedging the Company was  
14 engaged in for 2022 was a particular point of contention in the Power Cost Only  
15 Rate Case (PCORC) proceeding.<sup>10</sup>

16 With respect to hedging, one would expect that at a minimum PacifiCorp  
17 would have detailed its hedging actions for 2022 along with a justification for  
18 why they were prudent. PacifiCorp did nothing of the kind. In fact, PacifiCorp

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<sup>7</sup> See Mitchell, Exh. RJM-1T at 2:6–11 (quoting the *PCORC Docket* Order 06, ¶ 154).

<sup>8</sup> *PCORC Docket*, Order 06 ¶147.

<sup>9</sup> *Id.*, ¶ 108.

PacifiCorp is required in its next annual PCAM filing to: (1) demonstrate the prudence of applying its risk management and hedging practices to the load and resource mix of Washington customers and (2) demonstrate that the portfolio of long-term resources the Company acquired or chose not to acquire for Washington's allocated resources balanced the trade-off between portfolio costs and market risk.

<sup>10</sup> *Id.*, ¶¶ 98, 108.

1 provided no evidence that its hedging activities in 2022 were prudent within its  
2 own hedging framework.

3 With respect to long-term resource procurement, one would expect that  
4 PacifiCorp would provide some justification that its past actions were prudent. As  
5 detailed below, it does not. It merely provides a forward looking response.

6 **Q. What do you recommend to the Commission regarding PacifiCorp’s not  
7 addressing the Commission’s concerns?**

8 A. The Company has flouted the Commission’s directions and not provided any  
9 arguments that the Company’s actions, even within its own flawed framework,  
10 were prudent. The burden of proof is on PacifiCorp to show that its actions were  
11 prudent within its own “optimization for the system only” approach. It made no  
12 attempt to do so. As the Commission recently pointed out, PacifiCorp is well  
13 aware that prudency determinations are made in the PCAM proceedings and that  
14 there have been disallowances.<sup>11</sup> Therefore, for this reason alone, the Commission  
15 should completely disallow PacifiCorp’s request of \$71.5 million.

16 **IV. PACIFICORP HAS ACTED IMPRUDENTLY WITH RESPECT TO**  
17 **WASHINGTON RATEPAYERS IN ITS LONG-TERM RESOUCE**  
18 **PLANNING**

19 **Q. Why do you say that PacifiCorp has acted imprudently with respect to  
20 Washington ratepayers in its long-term resource planning?**

21 A. Starting at least as early as 2011, the Commission warned PacifiCorp about its  
22 over-exposure to the market in its long-term planning, reminding the Company

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<sup>11</sup> *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-230172 and UE-210852, Order 08/06, ¶ 354 (Mar. 19, 2024).

1 that, “it is the inherent obligation and responsibility of the utility to match active  
2 risk management with the long-term portfolio strategy to maintain reasonable  
3 levels of risk.”<sup>12</sup>

4 In the PCORC order, the Commission details how in its acknowledgment  
5 letters for the 2011, 2015, and 2017 IRPs, it cautioned PacifiCorp on its reliance  
6 on market purchases.<sup>13</sup> The Commission goes on to say that, “PacifiCorp has  
7 made significant investments in recent years, but the evidence in this case shows  
8 that the Company’s continued reliance on market purchases has exposed  
9 Washington customers to significant price increases.”<sup>14</sup>

10 The Commission concludes “despite these clear indications from the  
11 Commission, the Company continues to rely on market purchases to meet  
12 Washington customers’ load.”<sup>15</sup> The Commission should conclude that  
13 PacifiCorp’s actions in its long-term planning have been imprudent.

14 **Q. Does PacifiCorp provide any evidence that its decisions prior to 2023 were**  
15 **prudent in its long-term planning and consequent exposure of Washington**  
16 **customers to market prices?**

17 A. No, contrary to the Commission’s order in the Company’s PCORC, the Company  
18 does not provide any evidence that its long-term decisions concerning  
19 Washington customer market exposure were prudent prior to 2023. PacifiCorp

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<sup>12</sup> *PCORC Docket*, Order 06, ¶ 142.

<sup>13</sup> *Id.*, ¶¶ 143–145.

<sup>14</sup> *Id.*, ¶ 146.

<sup>15</sup> *Id.*, ¶ 147.

1 says that it evaluated the risk of its market reliance in its 2023 IRP,<sup>16</sup> but provides  
2 no evidence that its decisions prior to 2023 were prudent.

3 The only discussion in PacifiCorp’s testimony concerning long-term  
4 procurement prior to its 2023 IRP is of the ratemaking exposure for Washington  
5 customers that resulted from WCA and continues under Western Inter-  
6 Jurisdictional Allocation Methodology (WIJAM).<sup>17</sup> The important point to be  
7 gleaned from this discussion is that PacifiCorp knew from the inception of the  
8 WCA in 2007 that Washington “would have to meet a higher proportion of its  
9 retail load with market purchases than is the case in the east control area.”<sup>18</sup>

10 **Q. Has PacifiCorp been helpless and unable to specifically address Washington**  
11 **customers’ market overexposure?**

12 A. No, contrary to what PacifiCorp claims—that it is all the fault of the WCA and  
13 WIJAM, PacifiCorp could have specifically addressed Washington market  
14 overexposure in its long-term procurement. However, PacifiCorp has continued to  
15 unreasonably rely on the mantra that it “optimizes for the system as whole.”<sup>19</sup>

16 **Q. Does the WIJAM prevent PacifiCorp from procuring long-term resources**  
17 **for Washington customers to address their market overexposure?**

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<sup>16</sup> Mitchell, Exh. RJM-1T at 12:8–13:10.

<sup>17</sup> *Id.*, at 13:11–14:17.

<sup>18</sup> Mitchell, Exh. RJM-1T at 14:7–9. PacifiCorp says the Commission knew about this, strangely suggesting that it absolved PacifiCorp from addressing the issue.

<sup>19</sup> Mitchell, Exh. RJM-1T at 2:15–28 (citing *PCORC Docket Order 06*, ¶ 147); Robert L. Earle, Exh. RLE-3, (PacifiCorp Response to Public Counsel Data Request No. 01, subpart g); PacifiCorp, *Integrated Resource Plan*, Vol. 1, at 55, 162, 218 (Mar. 31, 2023), [https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2023-irp/2023\\_IRP\\_Volume\\_I.pdf](https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2023-irp/2023_IRP_Volume_I.pdf).

1 A. Not at all. It should be emphasized that the issue concerning hedging or long-term  
2 procurement in this proceeding does not have to do with any constraints imposed  
3 by WIJAM. WIJAM and the WCA address the issue of allocation of the costs of  
4 power resources shared by customers across jurisdictions. The allocation  
5 methodologies however do not address whether PacifiCorp's actions have been  
6 prudent. Nor do the allocation methods relieve PacifiCorp or the Commission of  
7 the obligation to ensure that rates are just and reasonable. Perhaps WIJAM should  
8 be reformed, but that is irrelevant to the prudence of PacifiCorp's actions. The  
9 WIJAM explicitly says:

10 Nothing in this Agreement is intended to abrogate the Commission's  
11 right or obligation to: (1) determine fair, just, and reasonable rates  
12 based upon applicable laws and the record established in rate  
13 proceedings conducted by the Commission; (2) consider the impact  
14 of changes in laws, regulations, or circumstances on  
15 interjurisdictional allocation policies and procedures when  
16 determining fair, just, and reasonable rates; or (3) establish different  
17 allocation policies and procedures for purposes of allocating costs  
18 and revenues to different customers or customer classes.<sup>20</sup>

19 That is, under WIJAM, the Commission was able to approve a proposal by  
20 PacifiCorp to acquire long-term resources that would specifically be for the sole  
21 benefit of Washington customers and paid for by Washington customers. The  
22 costs (and benefits) of such resources would not have to be subject to WIJAM  
23 allocation.

24 As the Commission points out in its PCORC Order, "there is no evidence  
25 that WIJAM, or the associated 2020 PacifiCorp Inter-Jurisdictional Allocation

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<sup>20</sup> Michael G. Wilding, Exh. MGW-2 at 3, *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-191024 (Western Inter-Jurisdictional Allocation Methodology, Section 2).

1 Protocol, prevents the Company from performing more comprehensive market  
2 risk reliance assessments or from prudently managing the risks of its Washington-  
3 allocated power costs.”<sup>21</sup>

4 The Commission further points out that PacifiCorp “admits that the terms  
5 of WIJAM do not relieve the Company from considering Washington’s market  
6 exposure.”<sup>22</sup>

7 Despite this, the Company failed to consider Washington’s  
8 disproportionate market exposure in its procurement of long-term resources. It  
9 lumped Washington’s exposure into the exposure of the system as a whole,  
10 willfully disregarding the impacts on its Washington customers.

11 **Q. PacifiCorp says that some market exposure is reasonable.<sup>23</sup> Does this absolve  
12 it from addressing the market overexposure of its Washington customers?**

13 A. While some market exposure maybe desirable under some circumstances,  
14 PacifiCorp has optimized (so it claims) for its system market exposure, leaving its  
15 Washington customers bearing a larger amount of exposure than the system as a  
16 whole. Applying the standards for market exposure of the system to Washington  
17 customers means not only that the Washington customers are overexposed, but  
18 also customers in other jurisdictions are necessarily underexposed.

19 **Q. Does the Company’s testimony establish what level of market exposure is  
20 reasonable and whether it has stayed within that reasonable level of market  
21 exposures?**

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<sup>21</sup> PCORC Docket, Order 06, ¶ 151.

<sup>22</sup> *Id.*, ¶ 150.

<sup>23</sup> Mitchell, Exh. RJM-1T at 13:1–10.

1 A. No, it does not. This is another example of the Company’s failure to comply with  
2 the Commission’s direction to “address the issue of the prudence of its power  
3 costs...and *its choice of market exposure* for its Washington-allocated portfolio  
4 given the concerns raised by the Commission over a number of years.”<sup>24</sup>

5 **Q. Does the 2023 IRP provide any hope that the Company will resolve**  
6 **Washington’s market overexposure going forward?**

7 A. No, it does not. Not only does the 2023 IRP provide no justification for  
8 PacifiCorp’s previous failures, but it does also not provide any reassurance that  
9 Washington specific issues will be addressed in the future.

10 **V. PACIFICORP HAS ACTED IMPRUDENTLY IN ITS SHORT-**  
11 **TERM MANAGEMENT OF WASHINGTON CUSTOMERS’**  
12 **MARKET OVEREXPOSURE**

13 **Q. Why do you say that PacifiCorp has acted imprudently with respect to**  
14 **Washington ratepayers in its short-term management of Washington**  
15 **customers’ market overexposure?**

16 A. Just as with the Company’s long-term resource procurement as discussed above,  
17 for over 10-years, the Commission warned PacifiCorp about its over-exposure to  
18 the market in its short-term decisions, reminding the Company that, “it is the  
19 inherent obligation and responsibility of the utility to match active risk  
20 management with the long-term portfolio strategy to maintain reasonable levels of  
21 risk.”<sup>25</sup>

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<sup>24</sup> Mitchell, Exh. RJM-1T at 2:6-11 (emphasis added) (citing *PCORC Docket* Order 06, ¶ 147).

<sup>25</sup> *PCORC Docket*, Order 06, ¶ 142.



1           In the PCORC order, the Commission details how in its acknowledgment  
2 letters for the 2011, 2015, and 2017 IRPs, it cautioned PacifiCorp on its reliance  
3 on market purchases.<sup>26</sup> The Commission goes on to say that, “PacifiCorp has  
4 made significant investments in recent years, but the evidence in this case shows  
5 that the Company’s continued reliance on market purchases has exposed  
6 Washington customers to significant price increases.”<sup>27</sup>

7           The Commission concludes “despite these clear indications from the  
8 Commission, the Company continues to relay on market purchases to meet  
9 Washington customers’ load.”<sup>28</sup> The Commission should conclude that  
10 PacifiCorp’s actions in its short-term planning have been imprudent.

11       **Q. Does PacifiCorp attempt to defend its hedging practices?**

12       A. Yes, in a limited way. As noted above, PacifiCorp does not provide any argument  
13 that its hedging practices within its own framework of not hedging for  
14 Washington separately were prudent. The Company does argue that hedging  
15 separately for Washington would not be prudent.

16       **Q. What are the Company’s justifications for the prudence of its hedging  
17 practices and what is your reaction to its justifications?**

18       A. First, the Company says that it “regularly updates commission staff in all  
19 jurisdictions on the Company’s hedging practices.”<sup>29</sup> PacifiCorp mischaracterizes  
20 these communications as a “review by the Company’s regulators.” Though it is

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<sup>26</sup> *Id.*, ¶¶ 143–145.

<sup>27</sup> *Id.*, ¶ 146.

<sup>28</sup> *Id.*, ¶ 147.

<sup>29</sup> Mitchell, Exh. RJM-1T at 4:14–5:2.

1 nice that the Company provides updates to Commission Staff, this does not  
2 provide any evidence of the prudence of its hedging practices.

3 Second, PacifiCorp says that it hedges for its system as a whole, and that  
4 hedging for its system is more efficient than hedging for each state separately.<sup>30</sup>  
5 By “efficient,” PacifiCorp means a minimization of “overall system costs,” not  
6 costs to Washington customers.<sup>31</sup> When asked if “efficient” means Washington  
7 customers benefit as much as PacifiCorp ratepayers in other jurisdictions, the  
8 Company did not answer the question, but reiterated that it optimizes for its  
9 system overall.<sup>32</sup> Clearly, given Washington’s overexposure to the market and  
10 PacifiCorp’s response, Washington customers do not benefit as much as  
11 ratepayers in other PacifiCorp jurisdictions.<sup>33</sup> PacifiCorp’s only hedging for its  
12 system as a whole is not efficient for Washington ratepayers. It is the welfare of  
13 Washington customers that should be the concern of the Commission, not the  
14 efficiency of PacifiCorp’s system as a whole. The Commission should reject  
15 PacifiCorp’s arguments about the efficiency of hedging for the system as a whole  
16 rather than also separately for Washington ratepayers.

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<sup>30</sup> *Id.*, at 4:6–9, 5:9–7:6.

<sup>31</sup> Earle, Exh. RLE-3, (PacifiCorp Response to Public Counsel Data Request No. 01, subpart h.1).

<sup>32</sup> *Id.*, (PacifiCorp Response to Public Counsel Data Request No. 01, subpart h.2).

<sup>33</sup> In response to another data request, when asked if “the Company’s approach maximally benefit Washington’s ratepayers,” PacifiCorp merely says under its approach by minimizing system costs, Washington ratepayers will benefit, not that Washington ratepayers’ interests are maximized. Earle, Exh. RLE-3, (PacifiCorp Response to Public Counsel Data Request No. 01, subpart h.2). Clearly, PacifiCorp’s approach is suboptimal for Washington ratepayers and should be found to be imprudent by the Commission.

1 Third, PacifiCorp claims that it is more “economically favorable to hedge  
2 for the entire system holistically than to hedge for each state separately.”<sup>34</sup> This is  
3 a false dilemma. PacifiCorp could do both—hedge for the system and, as  
4 appropriate, hedge for Washington separately. While there may be synergies that  
5 are derived from treating PacifiCorp’s system as a unit for some purposes,  
6 Washington’s situation with respect to market exposure is distinct from the rest of  
7 the PacifiCorp’s system as the Company has noted.<sup>35</sup> In its hedging, PacifiCorp  
8 could take into account any synergies (common interests amongst its various  
9 jurisdictions) while at the same time separately optimizing for Washington.<sup>36</sup>  
10 Moreover, neither the Commission nor Washington residents are obligated to  
11 assess prudence from a system standpoint; the Commission is permitted and even  
12 required to assess decisions from the perspective of benefit to Washington  
13 consumers, and from that lens, PacifiCorp’s position is indefensible. PacifiCorp  
14 provides two examples to support its “economically favorable argument.” The  
15 first example cites the benefits obtained by geographical diversity and cites the  
16 example of the Western Energy Imbalance Market as an example of the benefits  
17 of geographical diversity.<sup>37</sup> PacifiCorp’s example misses the point, as discussed

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<sup>34</sup> Mitchell, Exh. RJM-1T at 5:14–7:6. By “economically favorable,” PacifiCorp means “cost minimizing.” Earle, Exh. RLE-3 (PacifiCorp Response to Public Counsel Data Request No. 01, subpart i.1). Though the Company did not specify, from the context it seems that the Company means cost minimizing for the system as a whole, not with respect to Washington customers. See also, Earle, Exh. RLE-3 (PacifiCorp Response to Public Counsel Data Request No. 01, subparts i.2–4).

<sup>35</sup> Mitchell, Exh. RJM-1T at 14:7–9.

<sup>36</sup> The Company could take actions on behalf of its system as a whole that provide benefits to all of its jurisdictions (Pareto optimality or Pareto improving actions) while at the same time taking actions separately on behalf of its Washington customers with the costs and benefits of those actions accruing solely to its Washington customers. PacifiCorp does not or refuses not to recognize this. See, Earle, Exh. RLE-3 (PacifiCorp Response to Public Counsel Data Request No. 01, subparts i.5–7).

<sup>37</sup> Mitchell, Exh. RJM-1T at 5:14–6:11.

1 above, PacifiCorp can both take advantage of whatever geographical diversity it  
2 benefits from internally while still optimizing separately for its Washington  
3 customers with no impact on its other jurisdictions. PacifiCorp’s second example  
4 of why “it is more economically favorable to hedge for the entire system  
5 holistically than to hedge for each state separately”<sup>38</sup> is yet another flawed  
6 argument. As discussed above, it should be possible for the Company to walk and  
7 chew gum at the same time. It can hedge for the system as a whole, but also hedge  
8 separately for Washington customers. PacifiCorp strangely claims a conflict of  
9 interest with one state competing “for market purchases with other states within  
10 the system.”<sup>39</sup> This argument ignores the fact that combined gas and electric  
11 utilities such as Puget Sound Energy (PSE) and Avista hedge gas separately for  
12 potentially competing customer groups on a routine basis. They have processes in  
13 place to conduct trading on an “arms-length” basis so that there are no conflicts of  
14 interest.<sup>40</sup> Avista has stated that it is also possible for it to hedge separately for its  
15 Washington customers.<sup>41</sup>

16 Fourth, PacifiCorp claims that it hedges for Washington as “an accounting  
17 exercise”<sup>42</sup> and that accounting exercise is sufficient. What the Company’s

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<sup>38</sup> *Id.*, at 6:12–7:6.

<sup>39</sup> *Id.*, at 6:14–16.

<sup>40</sup> Earle, Exh. RLE-4 (Dockets UE-220066 & UG-220067, Puget Sound Energy Response to Public Counsel Data Request 0193, subpart c). Earle, Exh. RLE-5 (Dockets UE-220066 & UG-220067, Puget Sound Energy Response to Public Counsel Data Request 0196, subpart j).

<sup>41</sup> Earle, Exh. RLE-6 (Dockets UE-220053 & UG-220054, Avista Response to Public Counsel Data Request 014, subpart e.).

<sup>42</sup> Mitchell, Exh. RJM-1T at 7:16–22, 9:23–11:19. Notably, PacifiCorp struggles to explain that it is not just engaging in semantics (Mitchell, Exh. RJM-1T at 10:14–18). The reason for the struggle is clear in that it flatly contradicts what PacifiCorp has said elsewhere. For instance, Earle, Exh. RLE-3, (PacifiCorp Response to Public Counsel Data Request No. 01, subpart g).

1 argument boils down to is that hedges are allocated to Washington through  
2 WIJAM, and so Washington is hedged separately. But this is not true. Allocation  
3 through WIJAM is not hedging separately for Washington. As discussed above,  
4 there is no restriction under WIJAM for PacifiCorp to take separate actions on  
5 behalf of its Washington customers and for the Washington Commission to  
6 approve those actions

7 Under WIJAM, PacifiCorp is able to hedge separately for the sole benefit  
8 of Washington customers with those hedges and paid for by Washington  
9 customers. Moreover, under WIJAM, the Commission is able find hedges made  
10 separately for Washington customers to be prudent and eligible for recovery. The  
11 costs (and benefits) of such hedges would not be subject to WIJAM allocation.

12 As the Commission points out in its PCORC Order, “there is no evidence  
13 that WIJAM, or the associated 2020 PacifiCorp Inter-Jurisdictional Allocation  
14 Protocol, prevents the Company from performing more comprehensive market  
15 risk reliance assessments or from prudently managing the risks of its Washington-  
16 allocated power costs.”<sup>43</sup>

17 The Commission further points out that PacifiCorp “admits that the terms  
18 of WIJAM do not relieve the Company from considering Washington’s market  
19 exposure.”<sup>44</sup>

20 Fifth, and finally, PacifiCorp claims that if it hedged for Washington  
21 separately then that would have resulted in an increase in NPC of \$7.1 million in

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<sup>43</sup> *PCORC Docket*, Order 06, ¶ 150

<sup>44</sup> *Id.*, ¶ 150.

1           2022.<sup>45</sup> The evidence it provides for this shows nothing of the sort. It merely  
2           shows that if Washington was excluded from the hedging performed for the  
3           system as a whole, and no separate hedging was performed for Washington then  
4           the NPC for Washington would increase by \$7.1 million in 2022. This is clear  
5           from both an examination of the Company’s workpapers and the backup for its  
6           claim in Mitchell’s Exhibit RJM-2 where the “separately hedged” scenario is  
7           labeled “WA-Allocated NPC if covering Market Exposures Solely with Market  
8           Purchases.”<sup>46</sup> That is, rather than including Washington in the system wide  
9           hedging benefits or hedging for Washington separately, Washington’s short  
10          position is covered by market purchases. PacifiCorp’s claim that if it hedged for  
11          Washington separately then Washington’s NPC would increase should be rejected  
12          by the Commission.

13       **Q.    Does that conclude your testimony?**

14       A.    Yes it does.

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<sup>45</sup> Mitchell, Exh. RJM-1T at 12:1–5.

<sup>46</sup> Mitchell, Exh. RJM-2.