

Agenda Date: September 30, 2021  
Item Number: A1

**Docket:** UE-210447  
**Company:** PacifiCorp, d/b/a Pacific Power & Light Company

**Staff:** David Gomez, Assistant Power Supply Manager, Energy Regulation  
Betty Erdahl, Regulatory Analyst  
Margrete Jordahl, Regulatory Analyst

### **Recommendation**

Issue an order:

- (1) Approving Pacific Power & Light Company’s Power Cost Adjustment Mechanism annual report for 2020 along with the \$23.1 million accumulated customer deferral balance as of December 31, 2020;
- (2) Requiring Pacific Power and Light Company to file a tariff revision to refund half of the approved Power Cost Adjustment Mechanism balance totaling \$11.6 million, over one year, effective November 1, 2021, through October 31, 2022; and
- (3) Requiring Pacific Power and Light Company to provide continuous quarterly Power Cost Adjustment Mechanism balances beginning on December 15, 2021.

### **Background**

On May 26, 2015, the Utilities and Transportation Commission (Commission) issued Order 09 in Docket UE-140762 (Order 09).<sup>1</sup> Order 09 authorized Pacific Power & Light Company (Pacific Power or Company) to implement a Power Cost Adjustment Mechanism (PCAM). The PCAM adjusts for differences between actual and baseline power costs outside of an authorized band. If the cumulative positive or negative balance in the PCAM deferral account exceeds \$17 million, either a surcharge or credit is triggered. Under the Settlement Stipulation referenced in Order 09, a surcharge or credit is amortized over a 12-month period.<sup>2</sup> Pacific Power must request authorization to defer any costs for the previous year within the PCAM by June 1.<sup>3</sup>

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<sup>1</sup> *Wash. Utils. & Transp. Comm’n v. Pacifi Power & Light Co.*, Dockets UE-140762, UE-140617, UE-131384, & UE-140094 (consolidated), Order 09 (May 26, 2015) (hereinafter “2015 PCAM Order”).

<sup>2</sup> Although not provided in the Settlement Stipulation, “the Commission will consider any petitions to alter the surcharge or credit amortization and payout in any given year.” 2015 PCAM Order at ¶ 34. For instance, in Docket UE-180494, Pacific Power petitioned the Commission to amortize the credit amount over a two-year period—rather than the 12-month period provided in the Settlement Stipulation.

<sup>3</sup> 2015 PCAM Order, Settlement Stipulation at ¶ 19.

### **Summary of Filing**

On June 15, 2021, PacifiCorp, d/b/a Pacific Power & Light Company (Pacific Power or Company) filed testimony, exhibits, and supporting documentation related to its power costs for the calendar year ending December 31, 2020. In 2020, Pacific Power's actual power costs, allocated to Washington, were less than the authorized baseline by \$19.5 million. After the application of the PCAM's dead and sharing bands, the total deferred credit to ratepayers at the end of 2020 was \$13.7 million. As of December 31, 2020, the cumulative PCAM Deferral Balance is a credit to ratepayers of \$23,111,786. This amount exceeds the \$17 million threshold approved in Order 09 thereby triggering a refund to customers.<sup>4</sup>

In its June 15, 2021, filing, Pacific Power proposed the Commission forego a refund to its customers of the \$23.1 million in accumulated ratepayer credits and instead apply the full \$23.1 million towards the Deferred NPC Balancing Adjustment (DNBA) that was established in the Company's 2019 General Rate Case (GRC).<sup>5</sup> The DNBA will be included in the PCAM deferral balance calculation for the current calendar year ending December 31, 2021.

### **Discussion**

#### ***PCAM Results and the 2020 Deferral Balance***

Commission staff (Staff) believes that Pacific Power's 2020 power costs were prudently incurred.

The table below summarizes the PCAM annual results from 2015 through 2020. The variance in 2020 is mostly the result of the Company's reliance on an outdated PCAM baseline from the 2014 GRC.<sup>6</sup> The reliance on the 2014 PCAM baseline has resulted in the accumulation of deferral balances requiring two refunds since 2015 (as shown in Table 1).<sup>7</sup>

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<sup>4</sup> See *supra* footnote 3.

<sup>5</sup> Painter, Exh. JP-1T at 4:16-22.

<sup>6</sup> The 2014 PCAM baseline has been superseded by the baseline established in the 2019 GRC effective in the 2021 rate year.

<sup>7</sup> The Company's cumulative net share received via the PCAM dead band and sharing bands from 2015 to 2020 is \$17.1 million and \$7.6 million respectively.

**Table 1 - Pacific Power's PCAM Deferral Balance History (in Millions)**

Year	PCAM Variance	Dead Band Company (Absorbed)	Sharing Bands		Cumulative Deferral Balance
			Company Share	Customer Share (Deferred)	
2015 <sup>8</sup>	+\$2.9	+\$2.9	\$0.0	\$0.0	\$0.0
2016	-\$5.6	-\$4.0	-\$0.4	-\$1.2	-\$1.2
<b>2017 PCAM Settlement Adjustment</b>					-\$4.7
2017	-\$19.2	-\$4.0	-\$2.4	-\$13.2	-\$17.9
<b>2018 Refund of -\$17.9 million (\$17 million trigger met)</b>					-\$0
2018	-\$12.6	-\$4.0	-\$1.8	-\$6.9	-\$6.9
<b>2018 Colstrip Outage and Derate Disallowance</b>					-\$7.4
2019	-\$6.3	-\$4.0	-\$0.6	-\$2.1	-\$9.4
2020	-\$19.5	-\$4.0	-\$2.4	-\$13.7	-\$23.1
<b>2021 Refund (\$17 million trigger met)</b>					tbd

**2019 GRC**

On December 13, 2019, Pacific Power filed its 2019 GRC (Docket UE-191024), which included a new PCAM baseline of \$106.5 million for the January to December 2021 rate year. In its 2019 GRC, Pacific Power committed to providing two updates to its proforma estimate of 2021 rate year power costs. The table below summarizes the various PCAM baseline forecast amounts for the 2021 rate year from the 2019 GRC:

**Table 2 - Summary of Various NPC Forecasts**

	<b>NPC Forecast</b>
June 2015 through January 2020 Baseline; 2014 GRC	\$127.4 million
As filed; 2019 GRC	\$106.5 million
April 2020 Update; 2019 GRC	\$112.2 million
July 2020 Settlement Stipulation; 2019 GRC	\$102.0 million
October 2020 Update; 2019 GRC	\$119.5 million

In the negotiations leading up to the July 2020 Settlement Stipulation (July Stipulation) in the 2019 GRC, the parties agreed to a PCAM baseline of \$102.0 million. The parties also agreed that any increase above the \$102.0 million baseline, resulting from the October 2020 Update, would be offset by the 2019 PCAM Deferral Balance.<sup>9</sup>

<sup>8</sup> The 2015 PCAM deferral period at inception of the mechanism was April through December 2015.

<sup>9</sup> At the time of the July Stipulation in the 2019 GRC, the available Cumulative PCAM Deferral Balance at the end of 2019 stood at -\$9.5 million.

On October 28, 2020, Pacific Power filed a motion in the 2019 GRC to amend the July Stipulation. As stated previously, the July Stipulation had originally anticipated that any increase to the PCAM baseline, as a result of the October 2020 Update, would be offset almost entirely by the 2019 PCAM Deferral Balance. However, the 2019 PCAM Deferral Balance ended up being insufficient to cover the incremental \$17.5 million increase to power costs resulting from the October 2020 Update.<sup>10</sup>

Under the original July Stipulation, any increase beyond the 2019 PCAM Deferral Balance would have been allocated to customers on January 1, 2021. By the Company's estimation, this would have resulted in a \$7.8 million increase in revenue requirement. When compared to the rates indicated in the July Stipulation, such an increase in the revenue requirement would have resulted in a rate increase for customers on January 1, 2021, instead of the stipulated rate decrease. Therefore, in order to recognize the increase to Pacific's PCAM baseline from the October 2020 Update and preserve a decrease in customer's rates, the parties agreed to amend the July Stipulation to establish a monthly adjustment to the PCAM balancing account called the Deferred NPC Balancing Adjustment (DNBA).

On December 14, 2020, the Commission approved the amended July Stipulation which included the Company's use of the DNBA to recover the \$17.5 million increase to the PCAM baseline which resulted from the October 2020 Update.<sup>11</sup> The DNBA was part of an overall effort among the parties to preserve the stipulated rate decrease and avoid the necessity to increase rates for customers during the Covid-19 Pandemic.<sup>12</sup>

### ***PCAM Refund Scenarios and the DNBA***

As discussed above, Pacific Power's present filing revealed an end of 2020 PCAM Deferral Balance of -\$23.1 million (\$6.1 million above the \$17 million refund trigger) which pursuant to the Settlement Stipulation referenced in Order 09 requires a refund.<sup>13</sup> Using the cumulative PCAM balance through June of 2021 provided by Pacific Power in informal discovery, Staff evaluated three scenarios:

- (1) Apply the full -\$23.1 million toward a refund;

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<sup>10</sup> Thus, a modification to the language in Paragraph 21 of the July Stipulation was required to reflect this reality. The only amendment to the July Stipulation occurred in Paragraph 21: "If necessary and to the extent possible, deviations in the positive direction (increase in rates) from the NPC baseline estimated in this settlement as a result of the October Update [\$119.5 million] will be offset by the balance be reflected in the deferral account for the PCAM."

<sup>11</sup> *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-191024, UE-190750, UE-190929, UE-190981, & UE-180778 (consolidated), Order 09 (Dec. 14, 2020) at 35: 89.

<sup>12</sup> *Id.* at ¶ 89 ("We recognize in this instance the significance of the Parties' agreed rate reduction of \$4.15 million in the context of the complete Settlement, between the Company and the parties representing its customers.")

<sup>13</sup> *See supra* footnote 3.

- (2) Apply half of the -\$23.1 million (-\$11.6 million) toward a refund and preserve the other half towards the DNBA;<sup>14</sup> and
- (3) Provide no refund and apply the full -\$23.1 million towards the DNBA, as the Company requested in its initial filing.

A key consideration for Staff in evaluating each of these three scenarios was to minimize the number of rate changes experienced by Pacific Power’s customers at a time when many are struggling with everyday bills. The table below represents the estimated PCAM Deferral Balance as of June 2021 under each scenario:<sup>15</sup>

*Table 3 - End of June 2021 PCAM Deferral Balance Under Each Scenario*

June 2021 PCAM Deferral Balance	No Refund	\$11.6 million Refund	\$23.1 million refund
		\$(11,388,991)	\$355,961

A full refund of the -\$23.1 million would result in a June 2021 PCAM Deferral Balance that is \$12.1 million—only \$5 million below the surcharge trigger of \$17.0 million. Providing a full refund now increases the likelihood of a surcharge to customers in 2022. This could result in a credit for the upcoming 12 months followed immediately by a potential surcharge for the next 12 months. In effect, Pacific Power’s customers could experience dramatic rate fluctuation.<sup>16</sup>

While the no refund scenario proposed by the Company would result in a June 2021 PCAM Deferral Balance that is more than sufficient to cover the DNBA, the possibility that Pacific Power’s customers will ever see a refund in the near term is greatly diminished. This is especially true given the big spike in power costs stemming from the June through August 2021 heatwave (extraordinary event) which will likely push the end of the 2021 PCAM Deferral Balance further away from the refund trigger.

Based on Staff’s evaluation, a refund of 50 percent of the PCAM Deferral Balance strikes the proper balance. This scenario provides customers the benefit of an immediate rate reduction and offsets the DNBA surcharge deferral in 2021. Staff recommends the Commission require the Company to refund half of the -\$23.1 million (-\$11.6 million) deferred balance now while

<sup>14</sup> The DNBA is set to expire once the baseline established through the current PCORC becomes effective on February 1, 2022.

<sup>15</sup> Based on Pacific Power’s estimates of the current 2021 PCAM balance provided informally to Staff by Pacific Power on September 15, 2021. The current 2021 PCAM balance reflects power cost variances resulting from two extraordinary events: mid-February’s cold snap and June through August heatwave.

<sup>16</sup> A \$23.1 million refund would result in a 6.6 percent rate decrease overall. Under this scenario, an average residential customer would see a monthly bill decrease of \$6.91. However, the combined effect of the expiration of the refund and hitting the \$17 million PCAM surcharge trigger in 2022 could result in a rate increase to customers of over 10 percent.

retaining the other half to offset the DNBA in the 2021 PCAM deferral.<sup>17</sup> Staff's recommended approach allows sufficient headroom in either the credit or surcharge direction to decrease the possibility of a surcharge in 2022.<sup>18</sup>

### ***Current Year PCAM Reporting***

Unlike Puget Sound Energy and Avista Corporation, Pacific Power is not required to provide quarterly or monthly compliance reports for the current PCAM deferral year. As a result, Staff and other parties must wait until June of each year to evaluate results from the prior year. As described in Staff's memo above, the lack of visibility on the performance of the power cost baseline in the current deferral year has led to some problems. As regulated utilities move toward multi-year rate plans, it will be vital for the Commission to know the current level of PCAM deferral balances and power cost baseline performance in as close to real-time as possible. For this reason, Staff includes a recommendation that the Commission require Pacific Power to report PCAM results quarterly beginning December 15, 2021 (results through the 3<sup>rd</sup> Quarter of 2021).

### **Conclusion**

Staff recommends the Commission issue an order: (1) Approving Pacific Power's PCAM annual report for 2020 along with the \$23.1 million accumulated customer deferral balance as of December 31, 2020; (2) Requiring Pacific Power to refund half of the approved PCAM balance totaling \$11.6 million, over one-year, effective November 1, 2021, through October 31, 2022;<sup>19</sup> and (3) Requiring Pacific Power to provide continuous quarterly PCAM balances beginning on December 15, 2021.

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<sup>17</sup> Staff proposes the \$11.6 million refund be passed back to customers via Pacific Power's Tariff Schedule 97 with an effective date of November 1, 2021, through October 31, 2022. An \$11.6 million refund would result in a 3.3 percent rate decrease overall. An average residential customer using 1,200 kwh per month will see a monthly bill decrease of \$3.47.

<sup>18</sup> The Company estimates that for the remainder of 2021 (July through December) it will incur an additional \$8 to \$10 million in negative variances (surcharge direction) associated with the June through August 2021 heatwave. While the Company is not opposed to Staff's proposal for a refund, they are concerned that even with a June 2021 PCAM Deferral Balance of near zero (\$355,961) there exists a very real possibility of hitting the surcharge trigger in 2022.

<sup>19</sup> The October 31, 2022, expiration date for the proposed refund under Schedule 97 is two months after the end of the review period for Pacific Power's 2021 PCAM deferral year. Staff and Parties will review the 2021 end of year deferral balances at that time and advise the Commission accordingly.