BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, a Division of PacifiCorp, Respondent.	DOCKET UE-170717 **JOINT NARRATIVE IN SUPPORT OF SETTLEMENT STIPULATION**

I. INTRODUCTION

1 This Joint Narrative in Support of Settlement Stipulation (Narrative) is submitted in accordance with WAC 480-07-740(2) by the settling parties to this proceeding, *i.e.*, Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp; Staff of the Washington Utilities and Transportation Commission (Staff); and Boise White Paper, L.L.C. (Boise) (collectively referred to as the "Parties" and individually as a "Party").[1] This Narrative summarizes and explains the terms of the Settlement Stipulation (Stipulation), and is not intended to modify any terms of the Stipulation.

II. NATURE AND SCOPE OF THE PROCEEDING AND THE DISPUTE

A. Procedural Background

2 The PCAM is a rate mechanism designed to recover or refund significant, unexpected variations in power costs. The PCAM calculates the monthly variance between Pacific Power's net power costs (NPC) embedded in rates and Pacific Power's actual NPC and calculates deferral of these variances in a PCAM balancing account.

[1] Not all parties to Docket UE-170717 are part of the settlement. The Public Counsel Unit of the Attorney General's Office does not oppose the settlement, but is not signing on to the stipulation in this case.

Annually, the total of any credit or surcharge for the accrued NPC variances is determined after application of a deadband and tiered sharing bands.[2]

3 The Commission approved the PCAM for Pacific Power in 2015.[3] Pursuant to the Commission's order, Pacific Power must make annual filings to report its calculation of the deferred amounts for the prior year.[4] Staff and other parties have the opportunity to review these annual filings and to ask the Commission to conduct appropriate process if they dispute the deferral balances reported by the Company.[5]

4 On June 1, 2017, Pacific Power filed its 2016 PCAM report including supporting testimony. In its report the Company specified that for the 12-month period ended December 2016, the cumulative PCAM differential was a credit of approximately $5.6 million before application of the deadband and sharing bands. After application of the deadband and asymmetrical sharing bands, the filing resulted in a credit of approximately $1.2 million, including interest.

5 On October 2, 2017, both Staff and Boise filed requests with the Commission to commence an adjudicative proceeding. The Commission held a prehearing conference on October 23, 2017, and adopted a procedural schedule on October 26, 2017. The Parties held their first settlement conference on December 7, 2018. The procedural schedule was revised on December 22, 2017, at the request of the parties, and set an evidentiary hearing for May 1, 2018.

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[2] *Wash. Util. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-140762, Settlement Stipulation at 4-5 (May 8, 2015)
[3] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co*., Docket UE-140762, Order 09 (May 26, 2015) (PCAM Order).
[4] *See* PCAM Order at 8, ¶ 20.
[5] *Id.*

6 On January 25, 2018, Staff and Boise filed response testimony in this proceeding to Pacific Power's original filing. Staff and Boise's filed testimony contested the inclusion of costs related to the Joy Longwall Recovery and Abandonment. The background behind these events is provided in more detail below. In addition, Staff raised concerns surrounding the documentation of management decisions related to the incident.

7 Pacific Power filed rebuttal testimony on March 8, 2018. On March 16, 2018, the parties held a second settlement conference. On April 10, 2018, the parties notified the administrative law judge that a settlement in principle had been reached. On April 20, 2018, the Commission issued an order setting May 4, 2018, for filing this settlement and supporting evidence, and setting a hearing before the Commission on June 29, 2018. Consistent with WAC 480-07-730, the Parties memorialize their agreement in this Stipulation, which constitutes a full settlement of the issues in this proceeding.

B. Background on the Joy Longwall Recovery and Abandonment

8 During mining operations on or about December 23, 2015, on the 14th Right Longwall Panel of the Jim Bridger coal mine, there was an abrupt thinning of the coal seam near the middle of the longwall face. The Joy Longwall operators attempted to navigate through this area and exposed the soft claystone material. In this area of the mine, the floor consisted of a variable thickness of sandy shale with extremely soft gray shale underneath. When the shearer cut through the hard sandstone floor material near the center of the face, the pan (the base upon which the shearer body moves to mine the coal seam) and several shields sank and tipped forward toward the face, resulting in inadequate clearance for the shearer to pass by the misaligned shields. However, the shearer (the part of the longwall that cuts into the coal seam) was unable to operate

because it was colliding with other parts of the Joy Longwall. The lack of clearance limited the longwall crew's ability to reestablish a hard, competent floor.

9 The Company incurred recovery costs in an effort to return the Joy Longwall to operations over a period of nine months. Efforts to pull the Joy Longwall out of the soft claystone material and reestablish competent roof conditions included pumping foams, chemicals, and grout in the area above the Joy Longwall, installing supports beneath the Joy Longwall, freezing the soft claystone material, and injecting bonding agents into the floor and roof. Ultimately, working conditions became unsafe and a decision to terminate Joy Longwall recovery efforts was made in early October 2016.

III. SCOPE OF THE STIPULATION AND ITS KEY ASPECTS

10 This stipulation is a resolution of all the contested issues in this docket. It covers three key aspects: an increased deferral in the refund direction for customers, retention of decision-making documents, and continued reporting on the status of the underground mine at Bridger Coal Company (BCC).

11 Under this stipulation, the parties have agreed to a black box settlement that provides an additional $3.5 million to customers in addition to the credit of $1.2 million that had been identified in Pacific Power's original filing. This results in a total credit to customers of $4.7 million. This amount was agreed to by the Settling Parties as a reasonable compromise among the litigation positions of the parties and to reflect an appropriate resolution of the issues in this case.

12 Pacific Power also agrees to retain decision-making emails when a record of that decision-making analysis does not exist elsewhere. The stipulation provides that decision-making analysis includes the following information: a record of when a decision is made, the executives involved, and a summary of the pertinent information under consideration at the time of that decision. Decision-making analysis will be provided on request to Staff in proceedings examining the prudence of specific company actions.

13 Pacific Power also agrees to update Staff on the progress of implementing the corrective action items for the underground mine at Bridger Coal Company listed in the FINAL Report of Investigation on pages 10 to 11 under the heading "Methods to Prevent a Reoccurrence" attached as Confidential Attachment A to the Stipulation. This provision allows Pacific Power to demonstrate to Staff that all the appropriate corrective actions have been taken, and that BCC is being run with Idaho Power Company in a prudent manner.

IV. STATEMENTS OF THE PARTIES THAT THE STIPULATION SATISFIES THEIR INTERESTS AND THE PUBLIC INTEREST

14 The Stipulation represents a compromise of the positions of the Parties. This Stipulation provides concrete benefits to customers including an additional $3.5 million credit to customers. In addition, the Stipulation enables the Parties to avoid the expense, inconvenience, uncertainty, and delay inherent with a litigated outcome. For these reasons, and those contained in the individual statements of the Parties below, the Stipulation as a whole is in the public interest.

A. Statement of Staff

15 Staff supports the proposed settlement because it strikes an equitable balance among several competing objectives: allowing the Company recovery of prudently incurred power costs, increasing the ratepayer deferral account in recognition of contested expenses, ensuring the adequate retention and management of records, and providing updates on measures that the Company is undertaking at the Jim Bridger Mine to prevent a similar incident.

1) Prudence of Power Costs – The contested issues in the present case concerned a single set of expenses from a much larger set of transactions that produced overall power costs. By increasing the deferral amount, ratepayers are insulated from the direct expenses related to the problems with the Joy Longwall. The PCAM's deferral is resolved and the public can move forward knowing that this issue is done with. Although Staff believes there were additional ramifications to net power costs as a result of the operational decisions by Pacific Power, engaging in after-the-fact analysis of different economic decisions is an elaborate endeavor with an inherently uncertain outcome. This settlement achieves certainty, in that it credits a set and significant amount ($3.5 million) to ratepayers. Given the Parties' disagreement in their respective prefiled testimonies as to the effect of the Joy Longwall incident on power costs, Staff believes the amount of the additional credit is a reasonable compromise that is fair to ratepayers as well as to other stakeholders.

2) Records Retention and Review of Management Decisions – The best outcome of any problem is a solution that reduces or eliminates the chances of it happening again. In Staff's opinion, a key component of this case was the handling of important management records by the Company. Through its agreements in this settlement, the Company has reaffirmed its commitment to transparency of information. Staff is particularly pleased with the requirements that certain, specified decision-making emails be kept for at least three years and the specific

definitions of decision-making documents necessary for a prudence review. In this way, the interests of all of the parties are served with clear expectations for future cases as well as methods to prevent circumstances like those in this case from reoccurring.

3) Post Action Reporting – Following the actions of the Company as it implements the "Methods to Prevent a Reoccurrence" allows for direct understanding of the operational changes at the Jim Bridger Mine. Staff is pleased that the Company has already identified a need to examine the situation that occurred and to update its policies accordingly. With this follow-up ensuring each of these actions take place, the Company has committed to improving its operations and reducing the chances of a repeat incident.

16 As a packaged total, Staff supports the agreement. The public interest is served by the increased deferral, document retention policies, and follow-up reporting present in this settlement. As in all settlements, a certain level of give and take must be expected and the balance that has been struck here adequately recognizes the interests of all the stakeholders.

B. Statement of Pacific Power

17 Pacific Power's testimony states that the costs associated with the Joy Longwall recovery and abandonment were prudently incurred because they were due to an unanticipated combination of factors contributing to the event. Pacific Power's testimony further demonstrates that its response to the event was reasonable given the information available and, when read in their entirety, the numerous after-the-fact analyses indicate a difficult situation for operations. The Company's testimony also describes how decision-making documents are preserved consistent with an appropriate document retention policy.

18 The settlement in this case represents a compromise between the Parties. Pacific Power believes that the Stipulation appropriately balances the interests of the company's ability to efficiently and effectively run its business while providing for the type of regulatory review necessary to determine the prudency of Pacific Power's operations. It is important to maintain the balance between efficiency and prudent operations and to allow Pacific Power to provide quality service and quickly respond to the needs of its customers.

19 As agreed to in this Stipulation, Pacific Power credits $4.7 million to the PCAM balancing account. Customer rates are not changed until the balancing account exceeds ±$17 million. This Stipulation is the culmination of months of testimony and investigation by the Parties. This Stipulation resolves the issues in this case in a manner that reflects a compromise among all the Parties. By resolving all the issues in this case to the satisfaction of the Parties and passing on the benefits to customers, this Stipulation is in the public interest. For these reasons, Pacific Power supports the Stipulation and requests Commission approval.

C. Statement of Boise

20 Boise joins the Stipulation because it agrees that it represents a reasonable compromise of the contested issues in this case. Boise sponsored testimony proposing a total refund to customers through the PCAM of approximately $9.8 million. This was based on Boise's position that Pacific Power acted imprudently in operating the Joy Longwall at the Bridger Coal Company mine, which required the Company to incur costs related to the longwall's attempted recovery and eventual abandonment, and contributed to higher power costs for customers due to lower coal production from the BCC underground mine. In agreeing to the Stipulation, Boise determined that the approximate $4.7 million credit to customers in the PCAM balancing account constituted a reasonable portion of the funds Boise testified could be credited to customers, taking into account the avoided expense and uncertainty of litigation.

V. LEGAL POINTS THAT BEAR ON PROPOSED SETTLEMENT

21 In WAC 480-07-700, the Commission states its support for parties' informal efforts to resolve disputes without the need for contested hearings when doing so is lawful and consistent with the public interest. The Parties have resolved all of the issues in dispute between them, and their resolution complies with Commission rules and, as explained above, is consistent with the public interest.

VI. CONCLUSION

22 The resolution of issues complies with Commission rules and, as explained above, satisfies the Parties' interests and is consistent with the public interest. The Parties request that the Commission approve the Stipulation in its entirety.

Respectfully submitted this 4th day of May, 2018.

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Dated: May 4, 2018

PACIFIC POWER & LIGHT COMPANY

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