

Exh. EL-1T
Docket UE-19____
Witness: Etta Lockey

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP dba
PACIFIC POWER & LIGHT COMPANY

Respondent.

Docket UE-19____

PACIFICORP

DIRECT TESTIMONY OF ETTA LOCKEY

December 2019

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- Exhibit No. EL-2—PacifiCorp’s Washington Rates Compared to National Averages
- Exhibit No. EL-3—2020 PacifiCorp Inter-Jurisdictional Allocation Protocol

1 **I. INTRODUCTION OF WITNESS AND QUALIFICATIONS**

2 **Q. Please state your name, business address, and present position with PacifiCorp.**

3 A. My name is Etta Lockey and my business address is 825 NE Multnomah Street, Suite
4 2000, Portland, Oregon 97232. I am currently employed as Vice President,
5 Regulation. I am testifying for PacifiCorp dba Pacific Power & Light Company
6 (PacifiCorp or the Company).

7 **Q. Please describe your education and professional experience.**

8 A. I have a Bachelor of Arts degree in Political Science from the University of Oregon
9 and a Juris Doctorate from the Northwestern School of Law of Lewis and Clark
10 College. I started at PacifiCorp as an attorney in 2013 and assumed my current role
11 as Vice President, Regulation in 2017.

12 **II. PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of your direct testimony in this case?**

14 A. I provide an overview of PacifiCorp’s current filing and support the Company’s
15 policy positions throughout this filing. Among other things, I give context for this
16 rate filing, which comes at a pivotal time for PacifiCorp. The Company is responding
17 proactively to rapidly changing market conditions, including through implementation
18 of our Energy Vision 2020 plan, which embodies our commitment to a future that
19 benefits our customers, our communities, and the environment with low-cost
20 renewable generating resources. PacifiCorp is also responding to changing energy
21 policies in the west, such as the Clean Energy Transformation Act (CETA),¹ by
22 transitioning Washington to a new inter-jurisdictional cost allocation methodology

¹ Senate Bill 5116, 66th Leg., 2019 Reg. Sess. (Wa. 2019).

1 that allows Washington to take advantage of PacifiCorp's integrated system of
2 generation and transmission.

3 In this general rate case filing, the Company is requesting an overall *decrease*
4 in rates of approximately \$4.0 million, or 1.1 percent. The case includes the benefits
5 of the change to a new inter-jurisdictional allocation methodology that immediately
6 provides Washington customers with greater access to non-emitting resources and
7 PacifiCorp's full transmission system, and accelerated depreciation of coal-fired
8 resources in Washington customer rates to 2023. The total revenue requirement
9 request is a \$3.1 million increase; however, offsetting this increase is the Company's
10 proposal, set forth in the testimony of Ms. Shelley E. McCoy, to amortize remaining
11 deferred tax benefits associated with the Tax Cuts and Jobs Act (TCJA), which
12 reflects a decrease to rates of approximately \$7.1 million. The net result is a decrease
13 to rates of \$4.0 million in this case.²

14 The request in this case demonstrates PacifiCorp's prudent and efficient
15 management of its costs that has allowed the Company to avoid filing a general rate
16 case since 2015, all while adhering to the core principle of providing sustainable
17 energy solutions in the form of safe, reliable, and affordable service for customers.

18 **Q. How is your testimony structured?**

19 A. Section III of my testimony provides an overview of PacifiCorp's last rate case
20 filings. Section IV provides an overview of this rate case filing, including a

² In Order 01 in Docket No. UE-171219, the Commission authorized the Company to pass through to customers the deferred TCJA benefits of the lower corporate tax rate, effective January 1, 2019. This credit to customers will expire on January 1, 2021, which is the requested effective date of this general rate case. The all-in effect of the Company's request in this general rate case filing, combined with the effects of the previously-authorized expiration of the separate tariff are addressed in the testimony of Mr. Robert M. Meredith.

1 discussion of key drivers. Section V presents: the 2020 PacifiCorp Inter-
2 Jurisdictional Allocation Protocol (2020 Protocol) and its interaction with the
3 Washington Inter-Jurisdictional Allocation Methodology (WIJAM); provides an
4 overview of the process that led to the 2020 Protocol, and a description of the
5 agreement itself; and discusses the WIJAM Memorandum of Understanding (MOU)
6 entered into with Staff of the Washington Utilities and Transportation Commission
7 (Commission), the Public Counsel, Unit of the Washington Attorney General's Office
8 (Public Counsel), and the Packaging Corporation of America (PCA), which is
9 explained in detail by Mr. Michael G. Wilding. Section VI discusses changes in
10 Washington's state energy policy, including the recently enacted CETA legislation
11 and the Company's compliance. Finally, Section VII discusses the appropriate
12 treatment of Renewable Energy Credits (RECs) to meet PacifiCorp's Renewable
13 Portfolio Standard (RPS) compliance obligations in 2017 and beyond, as requested by
14 the Commission.³

15 **Q. Please summarize the recommendations you make in your direct testimony.**

16 A. I recommend that the Commission:

- 17 • Authorize an overall rate revenue requirement of \$369.7 million, an increase of
18 \$3.1 million or approximately 0.9 percent, for the reasons set forth in my
19 testimony and the testimony of the other Company witnesses;
- 20 • Approve as prudent the Company's request to include the incremental additions to
21 the Company's rate base, including Energy Vision 2020, for a total rate base of

³ See *In the matter of Pac. Power & Light Co. for an accounting order authorizing the deferral of costs associated with unbundled renewable energy certificates*, Docket No. UE-161067 (Feb. 9, 2017).

1 approximately \$1.02 billion, as discussed in the testimony of various witnesses in
2 this general rate case;

- 3 • Approve the return on equity (ROE) of 10.2 percent as supported by Ms. Ann E.
4 Bulkley;
- 5 • Approve the capital structure of 52.55 percent equity, 47.44 percent long term
6 debt, and 0.01 percent preferred stock as supported by Ms. Nikki L. Kobliha;
- 7 • Approve the 2020 Protocol;
- 8 • Approve the use of the WIJAM as supported by the testimony of Mr. Wilding,
9 including the accelerated depreciation of the Company's Colstrip and Jim Bridger
10 generating units;
- 11 • Approve the use of a separate tariff rider to return approximately \$50.6 million of
12 deferred tax benefits to customers over a 10-year period as discussed in the
13 testimony of Ms. McCoy, making the overall impact of the request in this case a
14 \$4.0 million *decrease*;
- 15 • Approve the innovative and equitable cost of service and rate design proposals set
16 forth in the testimony of Mr. Robert M. Meredith;
- 17 • Approve the changes to Schedule 300 and the proposals for certain bill credits set
18 forth in the testimony of Ms. Melissa S. Nottingham; and
- 19 • Approve as prudent and include in rates costs associated with the Company's
20 wildfire mitigation efforts and costs to repair damaged equipment following the
21 Delta wildfire, as supported in the testimony of Mr. Allen L. Berreth.

22 **Q. Are you also sponsoring any exhibits to your testimony?**

23 A. Yes, I am sponsoring the following exhibits:

- 1 • Exhibit No. EL-2 is a comparison of PacifiCorp’s Washington rates to national
- 2 averages.
- 3 • Exhibit No. EL-3 presents the 2020 Protocol.

4 III. PREVIOUS RATE CASE HISTORY

5 **Q. Please discuss PacifiCorp’s most recent general rate cases and their outcome.**

6 A. Since 2014, PacifiCorp’s efficient management of costs has allowed the Company to
7 file only one full general rate case and one limited issue rate case. On May 1, 2014,
8 the Company filed its last full general rate case, docket UE-140762 (2014 Rate Case),
9 requesting an increase in revenues from Washington operations resulting in an overall
10 price change of 8.5 percent or \$27.2 million. Following a fully litigated proceeding,
11 the Commission authorized a \$9.6 million increase.⁴

12 On November 25, 2015, PacifiCorp filed the 2015 limited-issue rate case,
13 docket UE-152253 (2015 Rate Case), requesting an increase of \$20.3 million over
14 two years. In the two-year rate plan, the Company requested an increase of
15 \$10.0 million in electric rates, or 2.99 percent, effective May 1, 2016, and a
16 \$10.3 million increase in electric rates, or 2.99 percent, effective May 1, 2017. Again,
17 following a fully litigated proceeding, the Commission approved a two-year rate plan
18 authorizing an increase in rates in 2016 of \$5.7 million and an increase in 2017 of
19 \$8.0 million.⁵

⁴ *WUTC v. Pac. Power & Light Co.*, Docket No. UE-140762, Order 08 ¶ 307 (Mar. 25, 2015).

⁵ *WUTC v. Pac. Power & Light Co.*, Docket No. UE-152253, Order 15 ¶ 42 (Sep. 30, 2016).

1 **Q. What has been the Company's Washington overall retail average rate change**
2 **since March 2015?**

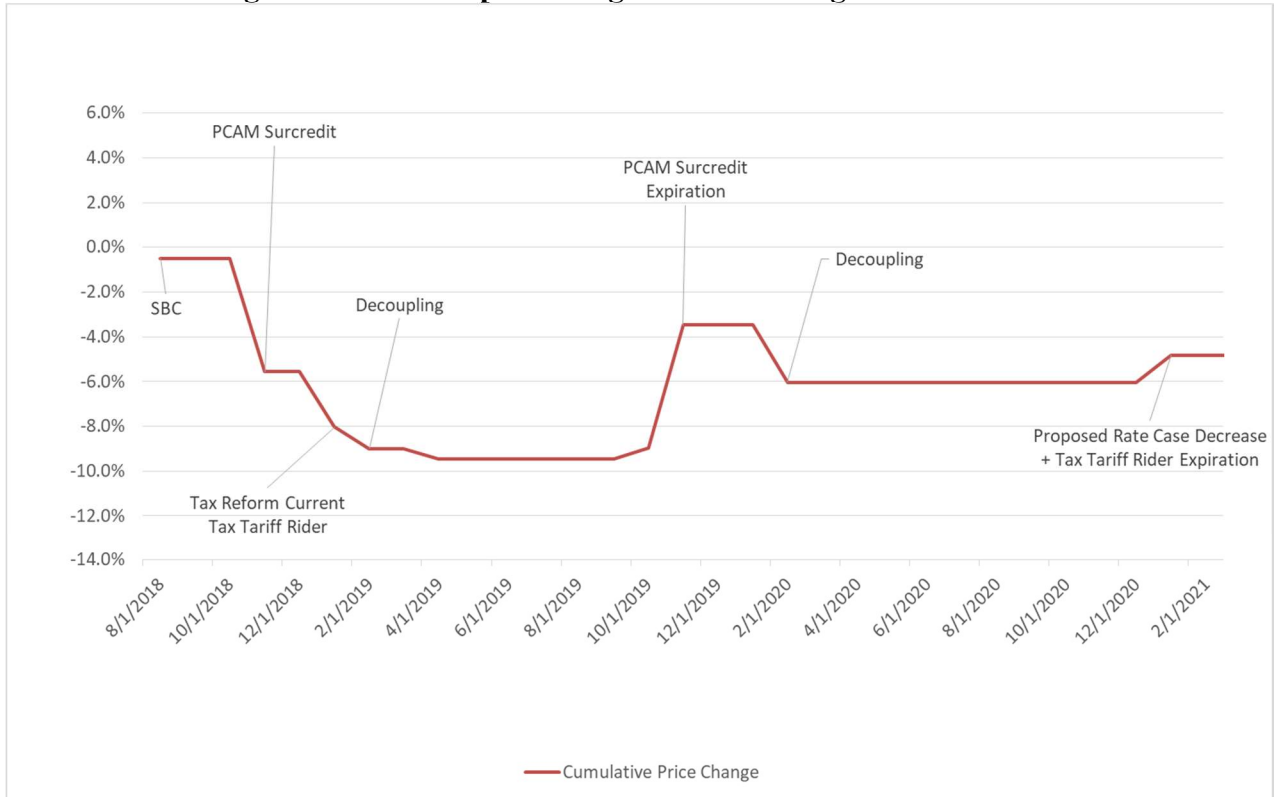
3 A. Since the conclusion of the Company's 2014 Rate Case with rates effective March 31,
4 2015, the Company's Washington customers have seen a modest overall retail
5 average rate increase of only 1.2 percent, from 8.07 cents per kilowatt hour (kWh) to
6 8.17 cents per kWh. This is less than inflation over this same time period.⁶

7 **Q. Has the change in PacifiCorp's overall Washington rates fluctuated over the**
8 **course of the last four years?**

9 A. Yes. As shown in Figure 1 below, factors other than rate cases have also impacted
10 PacifiCorp's rates. Since March 2015, the Company's Washington customers
11 experienced a slight increase in rates associated with the 2015 Rate Case, mostly
12 offset with decreases associated with the implementation of the decoupling
13 mechanism approved in the 2015 Rate Case and the application of the benefits from
14 the TCJA.

⁶ *CPI Inflation Calculator*, BUREAU OF LABOR STATISTICS, https://www.bls.gov/data/inflation_calculator.htm
(comparing January 2015 to January 2019).

Figure 1: PacifiCorp Washington Price Change – Overall



1 **Q. How does the overall retail average rate compare to the national average?**

2 A. PacifiCorp’s efficient operations and focus on rate stability for customers have
3 resulted in the Company’s average price being approximately 23 percent lower than
4 the national average for the 12 months ending December 31, 2018, reported by the
5 Edison Electric Institute Winter 2019 Typical Bills and Average Rates Report of
6 10.83 cents per kWh. Attached to my testimony as Exhibit No. EL-2 is a chart
7 comparing PacifiCorp’s Washington rates to national averages.

8 **IV. OVERVIEW OF RATE CASE**

9 **Q. Why is PacifiCorp filing a general rate case at this time?**

10 A. Despite the overall rate decrease requested in this general rate case, there are several
11 important drivers for the need for a general rate case filing at this time. This case is
12 an opportunity for the Company to align inter-jurisdictional cost allocation with

1 CETA through the WIJAM MOU. In this case the Company will also: (1) address
2 the return of remaining TCJA benefits to customers; (2) provide updates to critical
3 rate components such as net power costs (NPC) and depreciation; and (3) update and
4 modernize cost of service and rate design.

5 **Q. Please explain each of these components further.**

6 A. With this general rate case, PacifiCorp proposes the first significant change to the
7 inter-jurisdictional cost allocation methodology used by the Commission in over a
8 decade. As discussed more fully in the testimony of Mr. Wilding, the WIJAM MOU
9 provides immediate year-one benefits to Washington customers of approximately
10 \$27 million, while also positioning PacifiCorp to achieve compliance with CETA on a
11 risk-adjusted, least-cost basis. As indicated by the immediate benefits of the WIJAM
12 MOU, PacifiCorp's Washington customers will now be able to take advantage of the
13 benefits of PacifiCorp's integrated system, including full access to PacifiCorp's
14 1,039.9 megawatts (MW) of repowered wind facilities and approximately 1,500 MW⁷
15 of new wind resources and associated transmission located in Wyoming, one of the
16 "richest" wind resource states in the United States.⁸ Collectively, the repowered wind
17 facilities and the new wind and associated transmission represent a significant
18 investment by the Company in an energy future that reduces emissions and power
19 costs for customers.

20 This general rate case filing will also address the impacts of the TCJA.

⁷ Energy Vision 2020 includes 1,150 MW of new wind resources. Additionally, the Company has invested in an approximately 350 MW of new wind resources not part of the Energy Vision 2020 project.

⁸ See *Wind Energy in Wyoming*, AMERICAN WIND ENERGY ASSOCIATION, available at <https://www.awea.org/Awea/media/Resources/StateFactSheets/Wyoming.pdf>.

1 PacifiCorp's Washington customers have already experienced a decrease in rates
2 through PacifiCorp's pass-through of the change in the corporate income tax rate
3 established by the TCJA. Additional tax reform benefits, however, are available to
4 customers, as discussed in the testimony of Mr. Ryan Fuller. As proposed by the
5 Company in the testimony of Ms. McCoy, these additional tax reform benefits will
6 decrease customer rates by \$7.1 million annually for 10 years, more than offsetting
7 the requested \$3.1 revenue requirement increase.

8 In addition to addressing the impacts of the TCJA, this rate case will allow the
9 Company to reset baseline NPC, which were last set in the 2014 Rate Case. The
10 Washington forecasted NPC in this proceeding are approximately \$19.9 million lower
11 than costs currently reflected in base rates, as further discussed by Mr. Wilding.

12 PacifiCorp proposes to update its depreciation rates in this case, consistent
13 with the Depreciation Study filed October 2018. In this case, PacifiCorp also
14 proposes accelerated depreciation for the Colstrip and Jim Bridger generating units
15 associated with the WIJAM MOU, as discussed by Mr. Wilding.

16 Finally, while PacifiCorp's Washington customers have benefited from the
17 Company's prudent and efficient operation in the form of low rates, much has
18 changed in the energy landscape since the Company's last full general rate case. This
19 general rate case serves as an important opportunity for the Company to update and
20 modernize its rate design to respond to changes in the energy industry, such as
21 increased interest in transportation electrification. These proposals are discussed in
22 the testimony of Mr. Meredith.

1 **Q. What test period is the Company proposing in this rate proceeding?**

2 A. The test period the Company is proposing is a historical test year for the 12 months
3 ended June 30, 2019, with pro forma adjustments up to the rate effective date. The
4 testimony of Ms. McCoy discusses the development of the test year.

5 **Q. What rate of return is PacifiCorp requesting in this case?**

6 A. The Company is requesting approval of an overall rate of return of 7.69 percent.
7 The overall rate of return is comprised of 10.2 percent ROE as supported by
8 Ms. Bulkley. As explained by Ms. Koblaha, PacifiCorp is requesting approval of a
9 capital structure that is comprised of 52.55 percent equity, 47.44 percent long-term
10 debt, and 0.01 percent of preferred stock. Ms. McCoy applies the overall rate of
11 return to the Company's cost of service.

12 **Q. What are the major components of Energy Vision 2020 that Washington
13 customers will now benefit from because of the WIJAM?**

14 A. Energy Vision 2020 consists of two major components, both of which are included in
15 this case: (1) wind repowering; and (2) investments in new wind and transmission.
16 PacifiCorp identified and presented its Energy Vision 2020 strategy in its 2017
17 Integrated Resource Plan (2017 IRP), which was acknowledged by the Commission.⁹

18 **Q. Please describe PacifiCorp's wind repowering project.**

19 A. As explained in the testimony of Mr. Timothy J. Hemstreet, wind repowering
20 involves upgrading PacifiCorp's existing wind facilities to increase the amount of
21 zero fuel-cost energy they produce. By complying with federal tax requirements for

⁹ *PacifiCorp's 2017 Electric Integrated Resource Plan*, Docket No. UE-160353, Letter from Mark Johnson (May 7, 2018) (Letter acknowledging PacifiCorp's IRP meets the requirements of Washington law and regulations).

1 wind repowering and completing the work by the end of 2020, PacifiCorp is also able
2 to renew the federal Production Tax Credits (PTCs) on all repowered wind facilities
3 for another ten years. The wind repowering project includes all of PacifiCorp's
4 13 wind facilities, representing 1,039.9 MW of installed wind capacity. All of the
5 wind facilities will be in service before the rate effective date requested in this general
6 rate case.

7 **Q. Does the wind repowering project provide quantifiable benefits to customers?**

8 A. Yes. As described in the testimony of Mr. Hemstreet and Mr. Rick T. Link, the wind
9 repowering project produces net customer benefits across a range of price-policy
10 scenarios.

11 **Q. Please describe Energy Vision 2020's new wind investments.**

12 A. By the end of 2020, PacifiCorp will add 1,150 MW of new wind resources in
13 Wyoming. These resources are three facilities built by the Company, the 500 MW TB
14 Flats I and II facilities and the 250 MW Ekola Flats project, and one facility that is a
15 combined build-own transfer and purchase power agreement, the 400 MW Cedar
16 Springs facility. As Mr. Chad A. Teply explains, because "safe harbor" wind turbines
17 purchased in 2016 will be used to construct these facilities, each will be eligible for
18 full PTCs if they are in service by the end of 2020. As explained by Mr. Link, these
19 facilities were carefully selected to maximize value to customers in the 2017R request
20 for proposals (2017R RFP), which was monitored by independent evaluators from
21 both Oregon and Utah.

22 **Q. Please describe Energy Vision 2020's new transmission investments.**

23 A. PacifiCorp is also building a new, 140-mile Gateway West transmission segment—the

1 500 kV Aeolus-to-Bridger/Anticline transmission line, plus network upgrades—in
2 Wyoming to enable the new Energy Vision 2020 wind generation. As explained by
3 Mr. Richard A. Vail, regional and Company transmission plans called for building the
4 Aeolus-to-Bridger/Anticline line by 2024, but by accelerating the construction date,
5 the Company can use PTC benefits from wind facilities to offset costs.

6 **Q. What is the status of the construction of the new wind and transmission**
7 **facilities?**

8 A. The new wind and transmission facilities are scheduled to be in service in the last
9 quarter of 2020, before the rate effective date in this case. This will ensure that the
10 new wind facilities qualify for PTCs. Mr. Teply and Mr. Vail provide more
11 information on the construction timeline.

12 **Q. Do the combined wind and transmission investments provide quantifiable net**
13 **benefits to customers?**

14 A. Yes. As Mr. Link explains in his testimony, the investments are a unique opportunity
15 for customers to add needed and valuable renewable generation and transmission
16 resources and reduce overall costs in the process.

17 **Q. How has PacifiCorp reflected capital expenditures in this case?**

18 A. As discussed above and further explained by Ms. McCoy, the test period in this case
19 is 12 months ended June 2019, with pro forma adjustments up to December 31, 2020,
20 just before the rate effective date of January 1, 2021. PacifiCorp's filing includes a
21 pro forma adjustment for all capital balances through to December 31, 2020, and
22 calculates rate base using end-of-period balances as of December 31, 2020. This
23 aligns with the depreciation schedules proposed in PacifiCorp's pending depreciation

1 filing, docket UE 180778, which propose new depreciation rates as of December 31,
2 2020.

3 **Q. Did PacifiCorp include the Energy Vision 2020 resources, including wind**
4 **repowering and new wind and transmission, as pro forma adjustments in this**
5 **case?**

6 A. Yes. All of the Energy Vision 2020 resources must be in service by December 31,
7 2020, which is the day before the requested rate effective date in this general rate
8 case, to satisfy PTC eligibility requirements.

9 **Q. Has the Commission applied a flexible standard in determining the**
10 **appropriateness of pro forma additions?**

11 A. Yes. While the Commission has historically required utilities to show exceptional
12 circumstances to justify pro forma adjustments beyond a few months after the test
13 period, Senate Bill 5116¹⁰ recently amended RCW 80.04.250 to allow a more flexible
14 standard. Under RCW 80.04.250(2), the Commission can now allow a utility to
15 include in rates property acquired or constructed by or during the rate effective period
16 “to the extent that the commission finds that such inclusion is in the public interest
17 and will yield fair, just, reasonable, and sufficient rates.” Although PacifiCorp is only
18 requesting pro forma adjustments for investments made up until the rate effective
19 date, under RCW 80.04.250(3) the Commission may provide changes to rates for up
20 to 48 months after the rate effective date.

¹⁰ Senate Bill 5116, 66th Leg., 2019 Reg. Sess. (Wa. 2019).

1 **Q. Does CETA recognize the need for regulatory support to utilities as they seek to**
2 **transform their energy supply systems?**

3 A. Yes. CETA notes that, to achieve the state’s policy to transform its electricity system,
4 utilities must be fully empowered, through regulatory tools and incentives, to achieve
5 the goals of this policy.¹¹ PacifiCorp’s Energy Vision 2020 projects are a major step
6 toward the transformation envisioned by CETA.

7 **Q. Is it in the public interest to allow PacifiCorp to include a pro forma adjustment**
8 **for its capital balances, including all Energy Vision 2020 resources, through**
9 **December 31, 2020?**

10 A. Yes. PacifiCorp’s Energy Vision 2020 projects are large-scale renewable energy
11 investments that the 2017 IRP identified as part of the preferred portfolio of resources
12 to serve customers on a risk-adjusted, least-cost basis. In addition, these resources
13 facilitate PacifiCorp’s long-term compliance with CETA and, in the near-term, reduce
14 RPS compliance costs. Because most of the new capital costs in this case are related
15 to Energy Vision 2020 and because PacifiCorp proposes new depreciation schedules
16 as of December 31, 2020, it makes sense to measure all capital balances from this
17 date. If PacifiCorp is not allowed to include the Energy Vision 2020 resources in this
18 case, it would need to file deferred accounting petitions to cover these costs.

¹¹ RCW 19.405.010.

1 **VI. THE 2020 PROTOCOL**

2 **Purpose of Testimony**

3 **Q. What is the purpose of this section of your direct testimony?**

4 A. In this section of my direct testimony, I describe and support the 2020 Protocol,
5 which is attached to my testimony as Exhibit No. EL-3, agreed to among PacifiCorp
6 and the signatories to the 2020 Protocol (referred to individually as a party or
7 collectively as the parties). The 2020 Protocol describes the inter-jurisdictional cost
8 allocation methodology that will be used through 2023,¹² with certain exceptions if
9 issues identified in the 2020 Protocol are resolved earlier. My testimony provides an
10 overview of the process undertaken that led the 2020 Protocol, and a description of
11 the agreement itself.

12 Mr. Wilding provides details on changes in the 2020 Protocol that impact net
13 power costs, including the Nodal Pricing Model, explains the treatment of qualifying
14 facilities (QF), and supports the WIJAM MOU. Mr. Wilding specifically addresses
15 the following appendices of the 2020 Protocol:

- 16 • Appendix D—The Memorandum of Understanding among the
17 parties supporting the Company’s pursuit of the implementation of
18 a Nodal Pricing Model; and
- 19 • Appendix F—The Memorandum of Understanding between the
20 Company and the Washington parties.

¹² The 2020 Protocol includes the WIJAM MOU. As set forth in the 2020 Protocol, Washington will use the WIJAM.

1 **History of the Multi-State Process**

2 **Q. Why is inter-jurisdictional cost allocation necessary for PacifiCorp?**

3 A. PacifiCorp recovers the costs of providing retail electric service to customers through
4 retail rates established in regulatory proceedings in each state. To ensure states
5 receive the appropriate allocation of costs and benefits from PacifiCorp's integrated
6 system, the collaborative Multi-State Process (MSP) has been used to address
7 allocation issues. This collaborative process has led to the development and adoption
8 of a series of inter-jurisdictional cost allocation methods over time.

9 **Q. What cost-allocation method is used in Washington?**

10 A. As more fully described in the testimony of Mr. Wilding, Washington adopted the
11 West Control Area Inter-Jurisdictional Allocation Methodology (WCA) in 2006.

12 **Q. Are you proposing a new inter-jurisdictional cost allocation methodology for
13 Washington in this general rate case?**

14 A. Yes. PacifiCorp, Staff, Public Counsel and PCA have entered into the WIJAM MOU
15 that describes a new inter-jurisdictional cost allocation methodology for Washington.
16 As more fully described in the testimony of Mr. Wilding, the WIJAM transitions
17 Washington to a system allocation of transmission, a system allocation of non-
18 emitting, non-QF resources, and accelerates depreciation on Jim Bridger and Colstrip
19 coal-fired resources to December 31, 2023.

20 **Q. Why is the Company now proposing a new inter-jurisdictional cost allocation
21 methodology?**

22 A. For decades, PacifiCorp has relied on cost allocation methods that dynamically
23 allocate costs to states. In general, a bedrock of these cost allocation protocols has

1 been the use of PacifiCorp’s system as a single whole. Except for distribution, states
2 were served from a common portfolio of assets, including generation assets, which
3 enabled PacifiCorp to cost-effectively plan for and operate as an integrated whole,
4 resulting in cost savings for all customers. The WCA applied this same principle, but
5 on a limited set of assets electrically interconnected to the PacifiCorp West balancing
6 authority area. However, state policies across PacifiCorp’s six-state service territory
7 are increasingly challenging this bedrock. For example, requirements to remove coal-
8 fired resource costs and benefits from rates in certain states will necessarily result in
9 some states being allocated the costs and benefits of coal-fired resources while other
10 states are not. Similarly, diverging state policies related to implementation of the
11 Public Utilities Regulatory Policy Act of 1978, retail choice, and private generation
12 increasingly present challenges to PacifiCorp’s long-standing practice of planning for
13 a single, integrated system.

14 **Q. How have the challenges of diverging state policies been addressed in MSP?**

15 A. Since 2016, PacifiCorp and parties to the MSP have analyzed several cost-allocation
16 proposals. Through a robust and collaborative process, the 2020 Protocol responds to
17 diverging state policies through, among other things, a gradual process of
18 transitioning California, Oregon, and Washington from allocation of costs and
19 benefits of coal-fired resources and a process to allow Idaho, Utah, and Wyoming to
20 take on additional allocation of costs and benefits from coal-fired resources. This
21 gradual process provides certainty to states that have policies requiring a transition
22 away from coal-fired resources without limiting the availability of those same

1 resources to states that wish to continue receiving costs and benefits from coal-fired
2 resources.

3 **MSP Development of the 2020 Protocol and WIJAM**

4 **Q. Who has participated in the MSP meetings?**

5 A. Over the past three years, as many as 35 organizations have participated in regular
6 MSP meetings, representing regulatory staff from each state commission in the
7 Company's service territory, consumer advocacy groups, multiple industrial and
8 environmental interest groups, state legislators, a coal supplier, and others. Meetings
9 were held every four to eight weeks since late 2016. The signatories to the 2020
10 Protocol can be found in Section 10 of the 2020 Protocol in Exhibit No. EL-3.
11 Additional meetings were also held with Staff and other Washington parties to discuss
12 Washington-specific issues and to develop the WIJAM.

13 **Q. Did the Company share principles to help guide the review of inter-jurisdictional
14 cost allocation alternatives?**

15 A. Yes, PacifiCorp developed a set of guiding principles to help evaluate development of
16 a transitional approach to cost allocations. The Company's guiding principles
17 established that a new cost-allocation protocol should:

- 18 • Provide a long-term, durable solution;
- 19 • Follow cost-causation principles;
- 20 • Minimize rate impacts at implementation;
- 21 • Allow for state autonomy for new resource portfolio selection;
- 22 • Maintain and optimize system-wide benefits and joint dispatch to
23 the extent possible;
- 24 • Enable compliance with state policies;

- 1 • Ensure credit-supportive financial outcome; and
- 2 • Provide the Company with a reasonable opportunity to recover its
- 3 costs.

4 **Q. Do the 2020 Protocol and WIJAM meet these requirements?**

5 A. Yes, the 2020 Protocol and the WIJAM meet the standards articulated in PacifiCorp’s
6 guiding principles.

7 **Q. The Company’s guiding principles reference maintaining and optimizing**
8 **system-wide benefits. What does “benefits” mean in the context of inter-**
9 **jurisdictional cost allocation?**

10 A. Benefits can refer to a variety of concepts. For generation resources, benefits may
11 refer to the energy produced, net power costs benefits, capacity benefits, or other
12 operational benefits the resource brings to the operation of PacifiCorp’s integrated
13 system. Renewable generation resources may also contribute benefits in the form of
14 compliance with renewable portfolio standards or other reductions in compliance
15 costs associated with environmental regulations. In the context of transmission or
16 distribution assets, benefits may refer to access to markets and the ability to transact
17 in the Energy Imbalance Market (EIM), voltage support, or other system or local
18 reliability benefits. These are simply examples of the types of benefits that are
19 referred to within the 2020 Protocol under the general term “benefits” this list is not
20 exhaustive and is intended only to illustrate the broad array of benefits at issue. The
21 specific benefits of the WIJAM and their quantification is discussed further in the
22 testimony of Mr. Wilding.

1 **The 2020 Protocol**

2 **Q. Please describe the 2020 Protocol.**

3 A. The 2020 Protocol represents a fundamental shift in how the Company proposes to
4 address inter-jurisdictional cost allocation, with the ultimate goal of moving away
5 from dynamic allocation factors and a common generation resource portfolio to a
6 cost-allocation protocol with fixed allocation factors for generation resources and
7 state-specific resource portfolios. To achieve this goal, the 2020 Protocol uses a
8 gradual transition approach that, for Washington, relies on the WIJAM. The 2020
9 Protocol describes certain cost-allocation issues that will be implemented during an
10 “interim period,” from January 1, 2020, until the earlier of resolution of all remaining
11 cost-allocation issues or December 31, 2023 (the Interim Period). Further the 2020
12 Protocol establishes: (1) cost allocation procedures that will be implemented during
13 the Interim Period (Implemented Issues); (2) cost allocation procedures that are
14 agreed to but that will not take effect until after the Interim Period (Resolved Issues);
15 and (3) cost allocation procedures that parties to the 2020 Protocol will continue to
16 work to resolve during the Interim Period (Framework Issues).

17 **Q. Please describe the interaction between the 2020 Protocol and the WIJAM.**

18 A. The specific cost-allocation protocols that will be used by PacifiCorp in Washington
19 are detailed in the WIJAM, which is included as Appendix F to the 2020 Protocol.
20 Many provisions of the 2020 Protocol are not directly applicable to Washington; there
21 are, however, two primary components of the 2020 Protocol that are applicable:

- 1 • Section 4.1 of the 2020 Protocol outlines a process by which state
2 commissions may issue Exit Orders¹³ which provide for specific
3 Exit Dates,¹⁴ on which the state issuing the Exit Order will no
4 longer receive any benefits or be subject to any new costs related
5 to that resource. Exit Orders may be established through the
6 approval of the 2020 Protocol, in depreciation dockets, general rate
7 cases, or other appropriate regulatory proceedings. Approval of
8 the 2020 Protocol by the Commission will be considered issuance
9 of an Exit Order for Jim Bridger and Colstrip with the following
10 Exit Dates: December 31, 2023 for Jim Bridger Unit 1 and no later
11 than December 31, 2025 for Jim Bridger Units 2-4 and Colstrip
12 Unit 4.
- 13 • The 2020 Protocol sets forth an agreed-upon set of unresolved cost
14 allocation issues, called Framework Issue that all states have
15 agreed to continue to work to resolve. These Framework Issues,
16 which are described in more detail later in my testimony, include
17 resource planning and new resource assignment, implementation of
18 a Nodal Pricing Model for allocation of NPC as described in the
19 testimony of Mr. Wilding, potential limited realignment of certain
20 resources, treatment of special contracts, and post-Interim Period
21 capital additions on coal-fired resources.

22 Pending resolution of the Framework Issues and approval of a post-Interim
23 Period cost allocation methodology (*i.e.*, a cost allocation methodology taking effect
24 no later than January 1, 2024, also referred to as the Post-Interim Period Method), the
25 Company may propose a new Post-Interim Period Method for use in all six states.
26 The 2020 Protocol identifies the following issues as Resolved Issues that will be
27 implemented as part of a Post-Interim Period Method: allocation of generation costs
28 and fixed assignment of new resources; transmission costs; distribution costs; system
29 overhead costs; administrative and general costs; other allocation issues; demand-side

¹³ Exit Order means an order entered by a state Commission approving the discontinuation of the use of an existing resource and exclusion of costs and benefits of that resource from customer rates by that state on a date certain. See Appendix A to the 2020 Protocol for the defined term as used in the 2020 Protocol.

¹⁴ Exit Date means the date on which PacifiCorp will discontinue the allocation and assignment of costs and benefits of a coal-fueled Interim Period Resource to the State issuing the Exit Order. See Appendix A to the 2020 Protocol for the defined term as used in the 2020 Protocol.

1 management; and, state-specific initiatives. These issues represent critical
2 components of a durable cost-allocation protocol and these Resolved Issues generally
3 continue the current cost allocation treatment of these cost components (with the
4 exception of fixed assignment of new resources).

5 **Q. Please explain the importance of Washington approving the 2020 Protocol.**

6 A. Within the 2020 Protocol, approval of Exit Orders triggers a set of actions by
7 PacifiCorp that allow states without Exit Orders to determine whether to accept
8 additional and incremental costs and benefits from coal-fired resources. This process
9 of potential reassignment of coal-fired resources is expected to be a multi-year
10 process and the 2020 Protocols identifies the need for Exit Orders to be issued with
11 enough time to allow the reassignment process to occur, ideally at least four years. In
12 addition, Washington's continued participation to resolve the Framework Issues is
13 critical to achieving a durable, long-term solution to inter-jurisdictional cost
14 allocation across all of PacifiCorp's six state service territory post-2023.

15 **Q. Is the WIJAM a durable cost-allocation methodology?**

16 A. Yes. The WIJAM is specifically designed to be a durable, long-term cost-allocation
17 methodology for Washington.

18 **Q. What is the importance of the post-2023 timeframe?**

19 A. The post-2023 timeframe is important for several reasons. Implementation of new
20 processes, including new processes for NPC (*i.e.*, the Nodal Pricing Model) and
21 resource planning, and new resource assignment, along with a potential limited
22 realignment of certain generation resources require the additional time between now
23 and no later than December 31, 2023, to resolve. Resolution by no later than

1 December 31, 2023, provides adequate time to resolve these critical issues while also
2 allowing time for PacifiCorp to have a resource planning process in place to plan for
3 Washington's compliance with Washington's resource requirement needs, including
4 CETA. In addition, for all other states participating in the 2020 Protocol, the 2020
5 Protocol expires no later than December 31, 2023.

6 Before the end of the Interim Period, assuming resolution of all Framework
7 Issues, a new Post-Interim Period Method of cost allocation, incorporating the
8 Implemented Issues, the Resolved Issues and the final resolution of the Framework
9 Issues, will be presented to the Commission, and other state commissions, for
10 approval. This is anticipated to occur no later than year-end 2023.

11 **Q. What happens if all of the Framework Issues are not resolved before the end of**
12 **2023?**

13 A. The WIJAM will continue and parties to the WIJAM have agreed to continue to
14 discuss an assignment method for new resources and a method to allocate fixed
15 shares of existing, non-emitting resources. PacifiCorp will file an alternative
16 proposed allocation method to take effect upon the conclusion of the Interim Period
17 for consideration by the commission in that jurisdiction. Parties will be free to take
18 any position on the Company's proposal or to propose an alternative method.
19 Second, if the Company determines that an agreement cannot be reached by parties
20 on the Framework Issues or the post-Interim Period approach, the Company will
21 similarly file an alternative proposed allocation method for consideration by the
22 Commission and parties will be free to take any position on the Company's proposal
23 or to propose an alternative method.

1 **Q. What are the Framework Issues identified in the 2020 Protocol that need to be**
2 **resolved for the Post-Interim Period Method?**

3 A. The following Framework Issues are identified in the 2020 Protocol for continued
4 discussion during the Interim Period.

- 5 • Resource planning and new resource assignment—long-term
6 resource planning on a total system basis while assessing state-
7 specific resource portfolio needs and the process for assignment of
8 shares of new resources by state.
- 9 • NPC and the Nodal Pricing Model—treatment of NPC and the
10 transition to the Nodal Pricing Model.
- 11 • Special contracts—cost allocation treatment for special contracts.
- 12 • Limited realignment—potential realignment of a limited portion of
13 existing coal-fueled generation and a limited number of natural gas
14 units.
- 15 • Post-Interim Capital Additions—a process for determining cost
16 allocation for capital investments made in existing resources where
17 states have different exit dates.

18 **Q. Why do the Framework Issues require additional time to resolve?**

19 A. Most of the Framework Issues represent a significant change to the way the Company
20 historically plans for its system and assigns costs and benefits. Since 2017, parties
21 have spent significant time discussing issues related to resource planning, new
22 resource assignments, allocation of NPC, and the implementation of a Nodal Pricing
23 Model. Despite these discussions, the complexity of these issues, combined with the
24 potential impacts on PacifiCorp’s actual operations, require additional time for the
25 Company and the parties to develop a mutually agreeable proposal. Each of the
26 Framework Issues are described in greater detail below.

1 **Resource Planning and New Resource Assignment**

2 **Q. How does the 2020 Protocol address resource planning and new resource**
3 **assignment?**

4 A. The 2020 Protocol recognizes the need for a new long-term resource planning process
5 for the post-Interim Period that will need to address how to continue risk-adjusted,
6 least-cost planning for the entirety of PacifiCorp's integrated system while also
7 identifying individual state load and resource balances and accommodating individual
8 state policies. In addition to a new long-term resource planning process, the post-
9 Interim Period will also require a process for the determination of states fixed share of
10 new resource acquisitions. The details of both new processes have been discussed at
11 length in MSP meetings over the last two years; however, additional time is necessary
12 to fully develop robust and durable proposals for processes that are fundamental to
13 PacifiCorp's operations.

14 **Net Power Costs and Nodal Pricing Method**

15 **Q. How does the 2020 Protocol address NPC in the post-Interim Period?**

16 A. During the post-Interim Period, states will no longer participate in a common
17 resource portfolio and as a result NPC will no longer be dynamically allocated.
18 The Nodal Pricing Model, as described in the Memorandum of Understanding signed
19 by parties in July 2019 and attached as Appendix D to the 2020 Protocol, is intended
20 to implement an intra-company nodal pricing regime that allows states to pursue
21 different portfolios, while maintaining the benefits of system dispatch as much as
22 practicable. This is a complex issue and there are still items to be resolved before the
23 Nodal Pricing Model can be used for ratemaking, and as such, the Nodal Pricing

1 Model is a Framework Issue in the 2020 Protocol. The testimony of Mr. Wilding
2 addresses the Nodal Pricing Model in greater detail.

3 **Limited Realignment**

4 **Q. Please explain Limited Realignment and how it applies in the Interim and post-**
5 **Interim Periods.**

6 A. Limited Realignment is a reassignment of a limited set of generation resources among
7 states effective no later than January 1, 2024. Limited Realignment will allow other
8 states to potentially assume the costs and benefits of coal-fired resources currently
9 allocated to Washington, facilitating compliance with CETA at least a full year earlier
10 than the December 31, 2025 compliance deadline to remove coal-fired resources from
11 rates. Limited Realignment may also allocate to Washington the costs and benefits of
12 the Chehalis natural gas generating resource located in Washington state. Full
13 allocation of the costs and benefits of Chehalis to Washington provides greater
14 flexibility to the Company as it pursues strategies for compliance with the CETA
15 requirements to be greenhouse gas neutral by 2030 and to serve retail load with non-
16 emitting resources by 2045.

17 **Q. Does the 2020 Protocol provide a specific Limited Realignment proposal or**
18 **timeframe for resolution of Limited Realignment?**

19 A. No. The details of the Limited Realignment will be discussed among the parties
20 during the Interim Period.

21 **Q. Is the Company's proposal to accelerate depreciation on Colstrip and Jim**
22 **Bridger to December 31, 2023, related to Limited Realignment?**

23 A. Yes. Accelerating depreciation on Colstrip and Jim Bridger to December 31, 2023,

1 facilitates a potential Limited Realignment by ensuring that generation resources that
2 are potentially subject to realignment (Jim Bridger and Colstrip) are fully depreciated
3 before realignment to other states. PacifiCorp has a unique opportunity in this
4 general rate case to accelerate depreciation on Jim Bridger and Colstrip without
5 significantly impacting customer rates; importantly, accelerating depreciation of Jim
6 Bridger and Colstrip does not mean that the Commission must remove Jim Bridger
7 and Colstrip from rates as of December 31, 2023, if the units are still operating and
8 there is no agreement on Limited Realignment.

9 **Q. Does the 2020 Protocol address post-Interim Period capital additions to coal-**
10 **fired resources with exit dates that are different than the depreciation lives in**
11 **other states?**

12 A. Yes, as part of the Framework Issues. The 2020 Protocol includes a straw proposal to
13 address how incremental capital investments would be treated in cost allocations for
14 existing coal-fired resources. The straw proposal, which parties have agreed to
15 evaluate but have not accepted, addresses the allocation of costs based on the timing
16 of incremental capital in relation to a state's exit date. The Framework Issues
17 workgroup will continue to work through the details of this straw proposal during the
18 Interim Period.

19 **Q. How does the 2020 Protocol address the allocation of gains or losses from the sale**
20 **of assets?**

21 A. Section 7 provides that the allocation of gains or losses from the sale of Company's
22 owned assets will be based on the assignment of the asset at the time of the sale,
23 unless the asset has been under that assignment for less than 12 months before the

1 sale, in which case any gains or losses would be allocated based on the previous
2 assignment shares.

3 **Q. What are the key governance provisions in the 2020 Protocol?**

4 A. First, the 2020 Protocol establishes two workgroups: the Framework Issues
5 Workgroup and the Multi-State Process Workgroup. The Framework Issues
6 Workgroup is made up of the signatories to the 2020 Protocol and will work to
7 resolve the Framework Issues and cooperate in crafting and filing the Post-Interim
8 Period Method. The MSP Workgroup will be convened as needed by any party to
9 resolve an allocation issue not specifically treated by the Framework Issues
10 Workgroup in its limited scope.

11 Second, under the 2020 Protocol, holding an annual Commissioner Forum is
12 optional and may be convened by the parties or commissions as deemed necessary.

13 Third, parties may only propose changes to the 2020 Protocol based on
14 changed circumstances. A party wishing to propose a change may bring a proposal to
15 the Company, which will be responsible for circulating the proposal among parties
16 and scheduling meetings as needed to resolve the issue or concern. Additionally, a
17 non-party stakeholder may likewise propose changes to or replacement of the 2020
18 Protocol; however, such proposals would first require a convening of the MSP
19 Workgroup to address such concerns.

20 Finally, Section 8.6 provides details regarding the interdependency among
21 commission approvals, establishing that any approval by a given commission is
22 contingent upon the 2020 Protocol being approved unaltered by other commissions.

1 **Q. Please summarize the Company’s recommendation with regard to the 2020**
2 **Protocol.**

3 A. The parties to the 2020 Protocol have spent considerable time and effort investigating
4 inter-jurisdictional cost allocation methodologies and approaches to respond to the
5 needs and interests of the stakeholders. The 2020 Protocol has been negotiated in
6 good faith as an integrated, interdependent agreement that balances the interests of
7 the parties. Accordingly, PacifiCorp respectfully requests that the Commission
8 approve the 2020 Protocol, as set forth in Exhibit No. EL-3.

9 **V. WASHINGTON STATE ENERGY POLICY**

10 **Q. What is the purpose of this section of your testimony?**

11 A. In this section of my testimony, I discuss CETA, which was passed in 2019 and is
12 currently in the rulemaking phase of regulatory implementation and how the
13 Company is positioning itself to comply with the requirements of the legislation.

14 **Q. Please describe CETA.**

15 A. CETA sets an ambitious, multi-decade energy policy agenda relating to the energy
16 transition of electric utilities to non-emitting resources in Washington. CETA
17 mandates that all coal-fired resources be out of customer rates by December 31, 2025,
18 retail sales of electricity must be greenhouse gas neutral by January 1, 2030, and
19 100 percent of retail sales of electricity must be from non-emitting sources by
20 January 1, 2045.

21 **Q. Does CETA include additional policy determinations?**

22 A. Yes. In support of the decarbonization of Washington’s electric grid, CETA contains
23 additional policy directives to invest in emission reductions, to explore the treatment

1 of carbon and electricity markets, to ensure an equitable distribution of energy and
2 non-energy benefits and reduction of burdens to vulnerable populations and highly
3 impacted communities, to convene a transmission corridors workgroup, to determine
4 the timing and method of long-term planning for utilities under the new law, and to
5 conduct a cumulative impact analysis to determine the health impact of burning fossil
6 fuels.

7 **Q. Does PacifiCorp's strategy align with the directives of CETA?**

8 A. Yes. PacifiCorp is actively investing in grid modernization. These risk-adjusted,
9 least-cost resources are, increasingly, from renewable generation, the result of
10 changing market conditions and federal tax credits. Similarly, PacifiCorp's work to
11 create the EIM with the California Independent System Operator (CAISO)
12 contributes to PacifiCorp's prices being well below the national average and
13 PacifiCorp is actively engaged in the CAISO process to explore potential expansion
14 of the EIM. These types of efforts bring tangible benefits to Washington customers,
15 while simultaneously aligning to the underlying policy goals of CETA.

16 **Q. How will PacifiCorp comply with the CETA legislation?**

17 A. The regulatory implementation of CETA is still in its early stages and PacifiCorp is
18 actively participating in the rulemaking processes and workshops. As
19 implementation details become known, PacifiCorp will continue to develop its CETA
20 compliance strategy in collaboration with stakeholders. However, the 2020 Protocol
21 and the WIJAM will facilitate PacifiCorp's compliance by removing coal-fired
22 resources from customer rates no later than December 31, 2025, and by providing

1 Washington customers greater access to PacifiCorp’s non-emitting, non-QF
2 generating resources.

3 **Q. Is the Company well positioned as it enters into this implementation of CETA?**

4 A. Yes. The Commission has already made decisions, such as accelerating depreciation
5 of certain coal-fired resources in PacifiCorp’s 2015 Rate Case that will help
6 PacifiCorp comply with CETA. In this general rate case, the Commission has the
7 opportunity to: further facilitate PacifiCorp’s compliance with CETA on a risk-
8 adjusted, least-cost basis through approval of the WIJAM; provide Washington
9 customers with increased benefits and cost savings associated with both existing and
10 new renewable resources on PacifiCorp’s system; and increase benefits associated
11 with access to a transmission grid providing numerous interconnection points with
12 other BAAs and market hubs for wholesale energy transactions.

13 **Q. Does CETA address Washington’s energy policy vulnerable populations and low-
14 income customers?**

15 A. Yes. PacifiCorp notes that Section 4, subsection 8 of the legislation directs that
16 “utilities will ensure that all customers are benefiting through the equitable
17 distribution of energy and non-energy benefits, and a reduction of burdens.” As
18 discussed by Mr. Meredith and Ms. Nottingham, the Company is making several
19 proposals that are consistent with the policy of reducing economic and risk-based
20 barriers for vulnerable populations, including changes to the tiered-rate structure, the
21 simplification of PacifiCorp’s Low-Income Bill Assistance Program, and reducing
22 barriers to bill payment.

1 **VII. RENEWABLE ENERGY CREDITS**

2 **Q. What is the purpose of this section of your direct testimony?**

3 A. The purpose of this section of my direct testimony is two-fold. First, I will address
4 the Commission requirement set forth in Order 01 in docket UE-161067, which was
5 the proceeding for the Company’s petition for an accounting order approving the
6 deferral of costs related to purchases of RECs needed to meet its RPS compliance
7 obligation in 2017 and beyond (2016 REC Purchase).¹⁵ Specifically, I address the
8 Commission’s directive that in its next general rate case, the Company include a
9 discussion related to the treatment of REC purchases. Second, I discuss the
10 Company’s most recent petition requesting authorization to defer for future
11 ratemaking treatment costs associated with purchases of unbundled RECs for the
12 Company’s 2020 RPS compliance obligations, which was docketed as docket
13 UE-190929 (2019 REC Purchase).¹⁶

14 **Q. Can you provide an overview of the Company’s petition that initiated docket**
15 **UE-161067?**

16 A. Yes. On September 9, 2016, the Company filed a petition requesting authorization to
17 defer for future ratemaking treatment costs associated with the 2016 REC Purchase
18 related to RPS compliance obligations in 2017 and beyond. The RPS was established
19 in the Washington Energy Independence Act of 2006 (EIA) and requires investor-
20 owned utilities to obtain a percentage of their electricity from renewable generation.

¹⁵ See *In the matter of Pac. Power & Light Co. for an accounting order authorizing the deferral of costs associated with unbundled renewable energy certificates*, Docket No. UE-161067 (Feb. 9, 2017).

¹⁶ See *In the matter of Pac. Power & Light Co. Petition for an Order Approving Deferral of Costs Related to Purchases of Renewable Energy Credit*, Docket No. UE-190929 (Nov. 8, 2019).

1 The EIA specifies that an “investor-owned utility is entitled to recover all prudently
2 incurred costs associated with compliance with this chapter.”¹⁷

3 The 2016 REC Purchase represented the purchase of RECs from seven
4 renewable energy projects, of which six were new facilities. The projects are
5 expected to deliver nearly six million RECs from 2016 through 2036, which have
6 been and will be used by PacifiCorp to meet its RPS targets in California, Oregon,
7 and Washington. The Washington-allocated cost of the 2016 REC Purchase is
8 approximately \$160,000 annually.¹⁸

9 **Q. Did the Commission approve the Company’s petition?**

10 A. Yes. In Order 01, dated February 9, 2019, the Commission approved the Company’s
11 request for an accounting order to defer for future ratemaking treatment costs
12 associated with 2016 REC Purchase. The purchase was reviewed for prudence as part
13 as Commission Staff’s review of PacifiCorp’s Schedule 95 compliance filing made
14 on April 14, 2017.¹⁹

15 **Q. Please describe the Commission directive in Order 01 in docket UE-161067 to be
16 addressed in this proceeding?**

17 A. In docket UE-161067, the Commission approved recovery of the Company’s cost of
18 the REC purchase through Schedule 95, Renewable Energy Revenue Adjustment,
19 until the Company’s next filed rate case. In the Company’s next filed rate case, the

¹⁷ RCW 19.285.050(2).

¹⁸ Exhibit No. SEM-3C.

¹⁹ See Docket No. UE-161067, Staff Report at 2 (Feb. 9, 2017).

1 Commission directed PacifiCorp to provide a discussion of how REC purchases
2 should be treated.²⁰

3 **Q. How does the Company propose that REC purchases necessary to meet RPS**
4 **compliance obligations be treated for cost recovery purposes?**

5 A. For cost recovery purposes, the Company should be allowed to defer costs associated
6 with REC purchases related to RPS compliance obligations made in between rate
7 cases consistent with Schedule 95, then in the next filed rate case or other appropriate
8 proceeding, the balance remaining for these costs should be incorporated into rates.
9 This strikes a balance of ensuring a risk-adjusted, least-cost approach to RPS
10 compliance for customers while allowing PacifiCorp an opportunity to recover its
11 costs associated with its RPS compliance obligations. When the Company does file a
12 general rate case, the remaining balance associated with long term contracts, such as
13 the 2016 REC Purchase, should be incorporated into rates. However, for a
14 transaction that represents a one-time cost, like the 2019 REC purchase that I discuss
15 further below, the amount should be deferred with an appropriate amortization
16 schedule in a future proceeding.

17 **Q. Is this proposal for treatment of REC purchases consistent with PacifiCorp's**
18 **treatment of the 2016 REC Purchase?**

19 A. Yes. As explained in the testimony of Ms. McCoy, the annual impact of the 2016
20 REC Purchase has been incorporated into base rates.²¹

²⁰ See Docket No. UE-161067, Order 01 at ¶ 6 (Feb. 9, 2017); Docket No. UE-161067, Staff Open Meeting Memo at 2 (Feb. 9, 2017).

²¹ See Exhibit SEM-1T.

1 **Q. Please describe the 2019 REC Purchase.**

2 A. On November 8, 2019, the Company filed a petition requesting authorization to defer
3 for future ratemaking treatment costs associated with the 2019 REC Purchase related
4 to its RPS compliance obligations in 2020. As the Company identified in its 2019 RPS
5 Report, “the company is positioned to use eligible renewable resources and RECs to
6 supply at least nine percent of its average Washington load to satisfy the 2019 renewable
7 energy target.”²² Similarly, in the 2019 IRP, the Company states it may make unbundled
8 REC purchases under 300,000 RECs per year to achieve compliance.²³ The Company
9 anticipates incurring a one-time cost of approximately \$300,000 for this purchase in
10 2019.²⁴

11 **Q. Please describe the need for the 2019 REC purchase.**

12 A. Due to increasing renewable portfolio standard requirements in Washington,
13 PacifiCorp has a need to procure additional RECs to meet its compliance needs in
14 2020. The Washington RPS target increases from 9 percent of the previous two
15 years’ retail sales in 2019 to 15 percent in 2020, almost doubling the 2019 REC
16 requirement in 2020, on a forecast basis. In 2019, for the first time, PacifiCorp
17 exhausted its prior year bank and began borrowing forward RECs for that year’s
18 compliance requirement. The REC position is expected to shift to a long position in
19 2021 under the proposed WIJAM, but there exists a short term need for 2020.

²² *Pacific Power & Light Company Washington Renewable Report*, Docket No. UE-190448, Annual Renewable Portfolio Standard Report at 3 (Aug. 23, 2019).

²³ *Pacific Power & Light Company 2019 Integrated Resource Plan*, Docket No. UE-180259, Volume I at 14-15 (Oct. 18, 2019).

²⁴ Docket No. UE-190929, PacifiCorp’s Petition (Nov. 8, 2019).

1 Q. Does this conclude your direct testimony?

2 A. Yes, it does.