BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant

v.

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

Respondent

DOCKETS UE-230172 AND UE-210852 (CONSOLIDATED)

CROSS-ANSWERING TESTIMONY OF ROBERT L. EARLE
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT

EXHIBIT RLE-7T

October 27, 2023

CROSS-ANSWERING TESTIMONY OF ROBERT L. EARLE

EXHIBIT RLE-7T

DOCKETS UE-230172 AND UE-210852 (CONSOLIDATED)

TABLE OF CONTENTS

I. INTRODUCTION / SUMMARY

Q. Please state your name and business address.

A. My name is Robert Earle. My business address is 1388 Haight St. #49, San Francisco, CA, 94117.

Q. Are you the same Robert L. Earle who previously filed testimony in this proceeding?

A. Yes. On September 14, 2023, I filed Response Testimony on behalf of the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel) which was designated as Exhibit RLE-1CT.

Q. What is the purpose of your testimony?

A. In this testimony, I provide an opposing response to the proposal of Commission Staff (Staff) Witness John D. Wilson concerning the dead band and sharing bands in the Power Cost Adjustment Mechanism (PCAM). The Washington Utilities and Transportation Commission (Commission) should retain the current dead band and sharing bands.

II. DEAD BAND AND SHARING BANDS

Q. Please describe the history of the Power Cost Adjustment Mechanism.

A. The PCAM was designed to consider differences between Forecasted Net Power Costs (NPC) and Actual NPC while "protect[ing] the Company from extra-normal power cost variability [and] giving Pacific Power adequate incentive to manage carefully its full power portfolio."[1] The PCAM was established through a

[1] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light,* Docket UE-140762 (*consol.*), Order 08: Final Order, at ii (Mar. 25, 2015).

settlement in the 2014 general rate case (GRC). Previously, the Commission rejected PacifiCorp's (the Company's) PCAM proposals because they failed to follow the Commission's direction:[2]

> [T]he Company's proposal here is even more at odds with the direction the Commission has given PacifiCorp than its proposals in prior cases that have been rejected. Contrary to express Commission direction, and in contrast to the power cost adjustment mechanisms approved in other PacifiCorp jurisdictions, the Company's proposal here includes neither dead bands nor sharing bands. These are critically important elements that provide an incentive for the Company to manage carefully its power costs and that protect ratepayers in the event of extraordinary power cost excursions that are beyond the Company's ability to control.

Q. What does PacifiCorp propose regarding the PCAM dead bands and sharing bands in this case?

A. PacifiCorp proposes to "eliminate the deadband and sharing bands from the PCAM due to the difficulty in accurately forecasting net power costs (NPC) and the Company's pending participation in an independent system operator type organized market."[3] This is directly at odds with the Commission's Order in the 2014 GRC and, as Staff has said, "transfer[s] 100 percent of power cost variance risk onto ratepayers."[4] As explained in my Response Testimony, the Commission should reject PacifiCorp's proposal to eliminate the dead band and sharing bands in this case.[5]

---

[2] *Id.* ¶ 107 (citing WUTC v. PacifiCorp, Docket UE-130043, Order 05).
[3] Direct Test. of Jack Painter, Exh. JP-1T at 1:18–21.
[4] Direct Test. of Chris R. McGuire, Exh. CRM-1T at 60:2.
[5] Direct Test. of Robert L Earle, Exh. RLE-1T at 2:17–9:7.

Q. What does Staff propose regarding the PCAM in this case?

A. Staff proposes to transfer 90 percent of power cost variance risk onto ratepayers and, thus, recommends that the Commission adopt a "90/10 customer/Company risk sharing mechanism."[6] This is a radical shift from the current dead band and sharing bands in place.

Q. How does Staff justify its proposal to change the current dead band and sharing band structure?

A. Staff characterizes the current PCAM structure as "unnecessarily complicated" and that it could provide a "windfall for either PacifiCorp or its customers, depending on what future trends the difference between Actual NPC and Forecast NPC may be."[7] Staff further argues that, "Because of the trends in renewable energy and the forthcoming participation in EDAM, I believe it is reasonable to reduce the Company's exposure to risk commensurate with a lower responsibility for controlling NPC."[8]

Q. Do you agree with Staff's reasoning?

A. No, I do not. Taking Staff's reasons in turn, the PCAM structure is hardly complicated with five levels of sharing (the dead band and two sharing bands on either side). Compared with the calculation of forecast NPC which takes elaborate calculations through Aurora, the calculation of EIM benefits, etc., it is

[6] Direct Test. of John D. Wilson, Exh. JDW-1CT at 36:14–15.
[7] *Id*. at 35:13–15.
[8] *Id*. at 36:16–19. EDAM is the Extended Day Ahead Market.

straightforward and can be implemented in a simple table, as Staff's testimony demonstrates.[9]

Staff's concerns about a "windfall" appear to be centered mostly on the dead band[10] and, thus, Staff appears to misunderstand the purpose of the dead band. As stated in the Joint Narrative in Support of Settlement Stipulation in Docket UE-140762, "the dead band is designed to capture Pacific Power's normal NPC variability."[11] So, rather than giving either the Company or ratepayers a windfall, the dead band is designed to account for normal variability between forecasted and actual NPC. One can argue as to whether the current dead band is too large or too small, but its elimination is a violation of longstanding Commission policy.

Finally, Staff argues that because of increased renewables and participation in EDAM, the Company's risk exposure should be reduced. As discussed in my Response Testimony, participation in EDAM does not materially lessen the Company's responsibility for managing power costs. Moreover, the flip side of reducing the Company's risk exposure is to increase ratepayer risk. This is an inequitable outcome with 90 percent of the risk borne by customers. The Company has long complained about its inability to manage power costs, going

[9] Wilson, Exh. JDW-1CT at 20, Table 2.
[10] *Id*. at 36:7–11. Though Staff mentions windfalls in the context of the dead band and sharing bands elsewhere (Wilson, Exh. JDW-1CT at 22:1–6), because Staff's proposal has a sharing band, there would inevitably be "windfalls" under Staff's proposal as well.
[11] Joint Narrative in Supp. of Settlement Stip., ¶ 19, *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light*, Docket UE-140762 (filed May 8, 2015).

back at least 10 years.[12] There is no justification for having the Company bear a mere 10 percent of the risk. Doing so eviscerates the incentive for the Company to carefully manage costs.

Q. Do you have other concerns with Staff's proposal?

A. Yes, I do. First, the Commission rejected the exact same proposal in Docket UE-050684, stating that a "90/10 sharing band and the absence of a deadband do not adequately balance risk and benefits between shareholders and ratepayers."[13] In that same proceeding, Staff also rejected 90/10 sharing band and the absence of a dead band.[14] In its testimony in this proceeding, Staff does not address the Commission (and Staff's) rejection of its current position which is in contravention of established Commission precedent.

Second, if the Commission were to adopt Staff's proposal, using Staff's logic, ratepayers would face surcharges with strong probability in future years. Staff says, "there is a strong probability that in future years Actual NPC will exceed Forecast NPC, resulting in rate surcharges."[15] Without a dead band, if Staff is correct, ratepayers will face rate surcharges continuously. A PCAM set up

---

[12] Direct Test. of Gregory N. Duvall, Exh. GND-1CT at 15–17, *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light*, Docket UE-130043 (filed Jan. 11, 2013). The Company has long complained about its inability to manage its power costs, well before this Docket, so its current claims of its inability to manage power costs should be taken with a grain of salt.

[13] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light,* Docket UE-050684, Order 04: Final Order, ¶ 99 (Apr. 17, 2006).

[14] *Id.* ¶ 84.

> Staff and ICNU also assert the lack of a deadband and the 90/10 sharing mechanism would not provide incentives to minimize power costs. … Staff also asserts the PCAM should not be used to protect shareholders from volatile power costs due to load growth or participation in the wholesale market..

[15] Wilson, Exh. JDW-1CT at 27:3–7. Wilson, Exh. JDW-1CT at 33:9–10.

in advance with anticipated surcharges to ratepayers is imbalanced and unfair to consumers.

Q. How do you respond to Staff saying that Table 1 in Painter shows that "the PCAM mechanism has resulted in substantially more customer 'losses' than Company 'losses' is correct." [16]

A. This does not mean that Washington customers would have been better off with a PCAM that did not contain dead band or sharing bands or that they would have been better off under Staff's proposal.[17]

Two calculations are involved in assessing claims that Washington customers would have been better off under either PacifiCorp's or Staff's proposal. The first concerns PacifiCorp's proposal to eliminate dead bands and sharing bands summarized in Staff's Table 6.[18] The second, impacts of Staff's proposal, is also shown in Staff's Table 6. The problem with both calculations is that they assume that the NPC variance[19] (the difference between actual and forecast NPC) stays the same no matter what the risk sharing mechanism is: the current system of dead bands and sharing bands, elimination of dead bands and sharing bands, or Staff's proposal. This, however, is an unrealistic assumption. The incentives provided by the current risk sharing mechanism are designed to incentivize the Company to make choices such that the actual NPC is as small as possible. If there were no changes to Company behavior under different

[16] *Id.* at 22:4–9, 31:14–16.
[17] *Id.* at 39, Table 6.
[18] *Id*.
[19] *Id.* at 33, Table 5. (See the Refund/(Recovery) amounts).

incentives, putting 100 percent of the risk on the Company (as opposed to Staff's 10 percent) would not change the NPC variance, and customers would be even better off.

A proper calculation of the different outcomes under various risk sharing mechanisms would take into account the effects of the risk sharing mechanisms on NPC variance. The Commission should reject these any conclusions from these calculations as being dispositive.

Finally, any conclusions that one might make about how customers might have benefited in the past from Staff's or the Company's proposal and therefore the Commission should adopt either Staff's or the Company's proposal, are rebutted by Staff's forecast of surcharges going forward, as discussed above.

Q. What do you recommend to the Commission?

A. The Commission should reject both Staff's and the Company's proposals concerning the dead band and sharing bands. Rather, the Commission should retain PacifiCorp's current dead bands and sharing bands.

Q. Does this conclude your testimony?

A. Yes.