

Exh. JP-2T
Docket UE-230172
Witness: Jack Painter

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP dba
PACIFIC POWER & LIGHT COMPANY

Respondent.

Docket UE-230172
(Consolidated)

In the Matter of

ALLIANCE OF WESTERN ENERGY
CONSUMERS'

Petition for Order Approving Deferral of
Increased Fly Ash Revenues

Docket UE-210852
(Consolidated)

PACIFICORP

REBUTTAL TESTIMONY OF JACK PAINTER

October 2023

TABLE OF CONTENTS

I. PURPOSE AND SUMMARY OF TESTIMONY 1

II. STAFF PROPOSED PCAM CHANGES..... 1

III. SIERRA CLUB RECOMMENDATION 9

IV. PUBLIC COUNSEL RECOMMENDATION 11

V. AWEC RECOMMENDATION 16

VI. HARM TO WASHINGTON CUSTOMERs..... 18

VII. CONCLUSION..... 19

ATTACHED EXHIBITS

- Exhibit No. JP-3—Review of Power Cost Adjustment Mechanism Implementation in Other States
- Exhibit No. JP-4—Public Counsel’s Response to PacifiCorp Data Requests 013-023

1 **Q. Are you the same Jack Painter who previously submitted direct testimony in this**
2 **proceeding on behalf of PacifiCorp d/b/a Pacific Power & Light Company**
3 **(PacifiCorp or the Company)?**

4 A. Yes.

5 **I. PURPOSE AND SUMMARY OF TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. My rebuttal testimony responds to the proposed power cost adjustment mechanism
8 (PCAM) changes by Washington Utilities and Transportation Commission
9 (Commission) Staff (Staff) witness John D. Wilson and recommendations by the
10 Public Counsel Unit of the Washington State Office of the Attorney General (Public
11 Counsel) witness Robert L. Earle, Sierra Club witness Ronald J. Binz, and Alliance of
12 Western Energy Coalition (AWEC) witness Bradley G. Mullins for no changes to the
13 structure of the PCAM.¹

14 **II. STAFF PROPOSED PCAM CHANGES**

15 **Q. What has Staff proposed as changes to the current structure of the PCAM?**

16 A. Staff has proposed changes to the unnecessarily complicated five-level PCAM
17 structure by eliminating the deadband, simplifying the asymmetrical sharing bands to
18 a single sharing band, and modifying the PCAM rate change trigger and treatment for
19 rate changes and balancing account carryover.

20 **Q. What has Staff proposed as the change to the \$4 million symmetrical deadband**
21 **in the PCAM?**

22 A. Staff has proposed eliminating the PCAM deadband because it results in the

¹ Unless personal pronouns are specified by a witness in their testimony, in my rebuttal testimony I use “they/them” when using a pronoun to refer to a witness.

1 Company having the opportunity to retain 100 percent of a windfall that is unrelated
2 to its operations, which is not an equitable sharing of risk between customers and the
3 Company.²

4 **Q. Does the Company agree with this recommendation by WUTC Staff?**

5 A. Yes. The Company has shown in this filing that the PCAM deadband has resulted in
6 an unbalanced outcome for both customers and the Company, and eliminating the
7 deadband is the appropriate method to ensure customers are not harmed by net power
8 cost (NPC) variances unrelated to Company operations.

9 **Q. What has Staff proposed as changes to the asymmetrical sharing bands in the
10 PCAM?**

11 A. Staff has proposed to simplify the sharing bands to a single 90 percent customer / 10
12 percent Company risk sharing band due to trends the Company has shown in the
13 variability of renewable energy and the forthcoming participation in the Extended
14 Day-Ahead Market (EDAM). This reduces the risk commensurate with a lower
15 ability for controlling NPC, while continuing to provide the Company with a
16 reasonable incentive to manage or control power costs.

17 **Q. Does the Company agree with this recommendation by Staff?**

18 A. Partially. The Company's objective is to either fully refund to or collect from
19 customers its prudently incurred NPC; no more, no less. Complete elimination of the
20 asymmetrical sharing bands ensures this, but the Company does agree that
21 simplifying the sharing band to a single 90/10 sharing structure is much more aligned
22 with its original proposal due to its EDAM implementation plus the variability of

² Wilson, Exh. JDW-1CT at 35:13-17.

1 renewable resources and market prices which are outside of the Company's control.
2 Overall, the Company supports Staff's recommendation of simplifying the
3 asymmetrical sharing bands to single 90/10 sharing band, but still contends that the
4 fairest outcome for customers is to completely remove the sharing band in the PCAM.

5 **Q. Do you agree with Staff that modifications to the PCAM should only occur after**
6 **the Company's participation in EDAM?**

7 A. No, due to issues relating to accurately forecasting NPC discussed in my direct
8 testimony. Staff has explained in prior dockets that the inclusion of dead and sharing
9 bands in the PCAM mechanism requires a well-forecasted baseline for it to function
10 properly.³ If the baseline is forecasted too high, customers will end up overpaying for
11 power costs, while the Company will receive a net benefit due to the existence of the
12 bands and vice versa.

13 Witness Wilson explains that the *current* PCAM structure does not equitably
14 share risks between customers and the Company.⁴ Witness Wilson has also agrees
15 that "the PCAM mechanism has resulted in substantially more customer 'losses' than
16 Company 'losses'" for the 2016-2021 deferral years due to the existence of dead and
17 sharing bands.⁵ Furthermore, my direct testimony provides evidence and witness
18 Wilson agrees that NPC variability will continue to increase as renewable generation
19 grows.⁶ Accordingly, not delaying the PCAM modifications will ensure that neither

³ *WUTC v. Avista Corp.*, Docket No. UE-170485, Gomez Exh. DCG-1CT, Pages 4:5-8:6 (October 27, 2017) ("Moreover, the proper functioning of the ERM bands requires a well-forecast baseline, especially if the baseline is adjusted annually.").

⁴ Wilson, Exh. JDW-1CT at 31:9-11.

⁵ Wilson, Exh. JDW-1CT at 31:14-16 ("While his analysis does not account for the effect of interest (carrying charges) and some settlement agreements, the finding that the PCAM mechanism has resulted in substantially more customer 'losses' than Company 'losses' is correct.").

⁶ Wilson, Exh. JDW-1CT at 27:1-3.

1 customers nor the Company continue to unreasonably benefit or be burdened due to
2 NPC forecasting inaccuracies, and that only prudently incurred power costs are
3 embedded in rates.

4 **Q. Are other Washington utilities experiencing forecasting inaccuracies within their**
5 **power cost adjustment mechanism?**

6 A. Yes. Puget Sound Energy (PSE) and Avista Corporation (Avista) are also experiencing
7 forecasting inaccuracies in their power cost adjustment mechanisms. These
8 inaccuracies are not specific to PacifiCorp but are industry wide. As discussed in my
9 direct testimony, these forecasting challenges stem, in part, from the inherent
10 difficulties in predicting weather patterns and renewable generation. It is important to
11 note that these findings directly contradict the implications made in witness Earle's
12 testimony, which suggests that the variances are attributed to PacifiCorp's specific
13 hedging strategies or the duration of its purchase power agreements.⁷ To provide
14 further context, Table 1 and 2 below illustrates the imbalance in the Power Cost
15 Adjustment (PCA) mechanism and the Energy Recovery Mechanism (ERM) for the
16 past three years:

⁷ Earle, Exh. RLE-1CT at 7:9-12. ("What is at issue here is not whether there is volatility in various markets, but whether PacifiCorp is doing enough to address volatility.").

Table 1 - Puget Sound Energy PCA Imbalance

2022	-\$110.1 million ⁸
2021	-\$68.0 million ⁹
2020	-\$76.1 million ¹⁰

Table 2 – Avista Corporation ERM Imbalance

2022	-\$38 million ¹¹
2021	-\$16.4 million ¹²
2020	+ \$17.5 million ¹³

- 1 **Q. What has Staff proposed as changes to the triggering threshold and amortization**
2 **of deferral balances?**
- 3 A. Currently, the PCAM rate triggering threshold is \$17 million, which Staff has
4 concluded results in large customer refunds or surcharges significantly impacting rate
5 variability which is inconsistent with the goals of the PCAM. Staff proposes to reduce

⁸ *In the matter of Puget Sound Energy*, Docket No. UE-230318, Free, Exh. SEF-1T at 7 (“Actual power cost were higher than the average baseline power costs included in rates during the 2022 PCA period by 100.1 million.”).

⁹ *In the matter of Puget Sound Energy*, Docket No. UE-220308, Free, Exh. SEF-1T at 7 (“Actual power cost were higher than the average baseline power costs included in rates during the 2022 PCA period by 68.0 million.”).

¹⁰ *In the matter of Puget Sound Energy*, Docket No. UE-210300, Free, Exh. SEF-1T at 7 (“Actual power cost were higher than the average baseline power costs included in rates during the 2022 PCA period by 76.1 million.”).

¹¹ *In the matter of Avista Corporation*, Docket No. UE-230214, Kinney, Exh. SJK-1T at 7 (“During 2022, actual net power costs were higher than the authorized net power costs for the Washington jurisdiction by \$37,951,124”).

¹² *In the matter of Avista Corporation*, Docket No. UE-220232, Schultz, Exh. KJS-1T at 4 (“For the 2021 calendar year, actual net power costs were greater than authorized net power costs for the Washington jurisdiction by \$16,360,791”).

¹³ *In the matter of Avista Corporation*, Docket No. UE-210216, Schultz, Exh. KJS-1T at 4 (“For the 2020 calendar year, actual net power costs were lower than authorized net power costs for the Washington jurisdiction by \$17,476,519”).

1 the rate trigger threshold from \$17 million to \$7 million with half of the balance
2 either refunded to customers or collected by the Company over a 12-month period in
3 the following year while the other half remains in the balancing account to provide an
4 opportunity for charges or credits to be netted to provide better rate stability.

5 **Q. Does the Company agree with the recommendation to lower the trigger**
6 **threshold to \$7 million by Staff?**

7 A. While the Company did not make any recommended changes to the PCAM rate
8 triggering threshold in this proceeding, it agrees that Staff’s proposal of lowering the
9 threshold is reasonable. It is my understanding that PSE currently has a \$20 million
10 trigger threshold for its PCA mechanism. Considering that PSE is a much larger electric
11 utility in Washington, it would be reasonable to lower PacifiCorp’s threshold from \$17
12 million to \$7 million.¹⁴

13 **Q. Does the Company agree with the recommendation by Staff that only half of the**
14 **cumulative deferral should be refunded or surcharged to customers when the**
15 **trigger threshold is exceeded?**

16 A. Not necessarily. Such a requirement is too rigid and does not allow the Commission
17 and parties to propose alternative amortization methods that may be in the best interest
18 of customers, taking into account factors like rate stability and intergenerational equity.
19 For example, the Commission has previously timed power cost mechanism refunds of
20 the *entire* deferral balance to offset general rate case increases.¹⁵ The Company’s

¹⁴ *In the matter of the petition of Puget Sound Energy*, Docket No. UE-220308, Order 01 at ¶3 (Oct. 27, 2022) (“The PCA cumulative deferral amount must reach \$20 million before triggering either a mandatory refund or discretionary surcharge under PSE’s Schedule 95”).

¹⁵ *See WUTC v. Avista Corporation*, Docket No. UE-190222, Order 02 at ¶6 (May 30, 2019) (“[C]onsolidation will create greater rate stability for customers because the rate impact, if any, of Avista’s general rate case will align with the commencement of the return of the ERM balance, thereby avoiding additional and frequent rate fluctuations.”).

1 PCAM deferral balance has also been used to mitigate customer rates impacts in the
2 form of the deferred net power cost baseline adjustment (DNBA) in the last general
3 rate case.¹⁶ The Commission has also approved the Company’s request to amortize the
4 entire deferral balance over multiple years to promote rate stability when it is a
5 surcharge.¹⁷

6 Additionally, refunding or surcharging customers only half the balance could
7 potentially promote intergenerational inequity by deferring costs or benefits incurred by
8 prior customers to future customers. PacifiCorp recommends that stakeholders retain
9 the flexibility to propose different amortization methods during the annual PCAM
10 filings.

11 **Q. Do you agree with AWEC that either PacifiCorp's or Staff's PCAM proposals**
12 **would be considered “effectively withdrawing” from a 2014 general rate case**
13 **stipulation?**

14 A. No. AWEC suggests that any proposed modification to the PCAM in any future case
15 would be a violation of a prior 2014 general rate case stipulation.¹⁸ However, it is
16 important to note that referenced stipulation resolved the matters within that specific
17 case and did not include any prohibition on future modifications or that the PCAM
18 structure would last into perpetuity. In fact, stipulation explicitly stated, “[b]y executing
19 this Stipulation, no party shall be deemed to have agreed that any provision of this
20 Stipulation is appropriate for resolving issues in any other proceeding.”¹⁹ This explains

¹⁶ *WUTC v. PacifiCorp*, Docket Nos. UE-191024 et. al., Final Order 09/07/12 at ¶76-89 (December 14, 2020).

¹⁷ See e.g., *In the Matter of PacifiCorp*, Docket No. UE-220441, Compliance Acknowledgement Letter (December 28, 2022).

¹⁸ Mullins, Exh. BGM-1CT at 67:17-68:2.

¹⁹ *WUTC v. PacifiCorp*, Docket No. UE-140762, Settlement Stipulation at ¶27 (May 8, 2015).

1 why the PCAM has already been modified in prior annual reviews to extend the 12-
2 month amortization period contemplated in the stipulation referenced by AWEC.²⁰ The
3 Company’s PCAM deferral balance has also been used to mitigate customer rates
4 impacts in the form of the deferred net power cost baseline adjustment (DNBA) in the
5 last general rate case, docket UE-191024 (2020 Rate Case).²¹ Furthermore, it is my
6 understanding that PSE’s PCA mechanism was approved via a stipulation and has since
7 been modified by parties to the original stipulation, including Staff and Public
8 Counsel.²²

9 **Q. Can you provide further context on the stipulation referenced by AWEC?**

10 A. It is my understanding that the Commission directed PacifiCorp to file a settled
11 PCAM proposal, and if the Company failed to do so by a specific date, the
12 Commission would order a mechanism consistent with Staff’s proposal, rather than
13 what was proposed by the Company in that proceeding.²³ Accordingly, the referenced
14 Stipulation was made in compliance with very specific Commission directive.

²⁰ *WUTC v. PacifiCorp*, Docket No. UE-140762, Settlement Stipulation at ¶18 (May 8, 2015) (“If the balancing account is greater than \$17 million as of December 31 in any given year, it will be collected or credited in rates over a 12-month period.”) (emphasis added); See e.g., *In the Matter of PacifiCorp*, Docket No. UE-220441, Compliance Acknowledgement Letter (December 28, 2022).

²¹ *WUTC v. PacifiCorp*, Docket Nos. UE-191024 et. al. Final Order 09/07/12 at ¶76-89 (December 14, 2019).

²² *WUTC v. Puget Sound Energy*, Docket No. UE-011570, Twelfth Supplemental Order (June 20, 2002); *WUTC v. Puget Sound Energy*, Docket No. UE-130583, Order 07 (Aug. 7, 2015); *In the matter of petition of Puget Sound Energy*, Docket No. UE-220308, Order 01 at ¶ 3 (Oct. 27, 2022) (“The 2015 PCA Settlement excluded fixed power costs from the power cost baseline starting January 2017, modified the annual dead band and sharing bands, and set the trigger for rate refunds or surcharges at a cumulative deferral balance of \$20 million.”).

²³ *WUTC v. PacifiCorp*, Docket No. UE-140762, Order 08 at ¶126 (March 25, 2015) (“We will require Pacific Power to file tariff sheets necessary and adequate to implement a Power Cost Adjustment Mechanism no later than May 31, 2015. If no full-party agreement can be reached by that time, or the Company declines by that date to file a full PCAM consistent with prior Commission orders, we will approve expeditiously a mechanism generally along the lines Staff proposes in this docket.”).

1 **III. SIERRA CLUB RECOMMENDATION**

2 **Q. What has Sierra Club recommended in regard to the Company’s proposed**
3 **changes to the current structure of the PCAM?**

4 A. Sierra Club recommends there should not be any changes to the current structure of
5 the PCAM.²⁴

6 **Q. Does the Company agree with Sierra Club?**

7 A. No.

8 **Q. What are Sierra Club’s main arguments for not making changes to the PCAM?**

9 A. First, Sierra Club partially agrees with the Company that NPC is difficult to forecast,
10 but not necessarily with all of reasons that the Company has argued, specifically
11 arguing that the main driver in forecast deviation is natural gas fuel prices. Second,
12 Sierra Club argues that the merits of sharing mechanisms are fairer to customers
13 because customers would not have to bear all the risk of fluctuations in fuel costs.
14 Lastly, Sierra Club argues that absent a sharing mechanism, a “moral hazard” exists
15 using customers “as a backstop”.²⁵

16 **Q. Does the Company agree that natural gas prices have an impact on the difficulty**
17 **of forecast NPC?**

18 A. Yes, and this illustrates the Company’s point exactly. While the Company and Sierra
19 Club both agree that NPC are difficult to forecast, regardless of the reasons why, the
20 issue remains. Prices, market conditions, weather, resource mix, load changes, or any
21 other NPC variable for that matter will continue to cause forecasts to be inaccurate.

22 As explained earlier, a properly functioning mechanism requires a well forecasted

²⁴ Binz, Exh. RJB-1T at 21:3-26:21.

²⁵ *Id.*

1 baseline, if such mechanism includes either dead or sharing bands.

2 **Q. Does the Company agree that sharing mechanisms are “fairer” to customers?**

3 A. No, the Company does not agree that sharing mechanisms are inherently fairer to
4 customers. As discussed earlier, NPC forecasts are becoming less accurate, leading to
5 increased variations in NPC within the PCAM. It is evident that windfalls through dead
6 bands and discounts on power costs through sharing bands can unfairly harm customers
7 or the Company. It has been shown that Washington customers would have benefited if
8 the PCAM did not include dead or sharing bands during the 2016-2021 deferral period.
9 This means that customers overpaid for power costs during this time due to inaccurate
10 forecasts, which was not mentioned in Sierra Club’s testimony. The Company believes
11 that fairness lies in customers only paying for prudently incurred power costs. Any
12 variation between Forecast NPC and Actual NPC should be credited or charged at their
13 actual costs, ensuring that customers are not burdened with unnecessary expenses.

14 **Q. Does the Company agree that a “moral hazard” will exist with the elimination of
15 a sharing mechanism?**

16 A. No. Sierra Club argues that the Company would use customers “as a backstop” and
17 cites that dollar-for-dollar cost recovery would cause the Company to not
18 appropriately account for the risk of its generation resource mix, specifically natural
19 gas volatility. This contradicts both the regulatory process for ratemaking and how
20 the Company operates. Several state commissions do not require their mechanisms to
21 have dead or sharing bands, like PacifiCorp’s Energy Balancing Account (EBA) in
22 Utah and Energy Cost Adjustment Clause (ECAC) in California. This is because
23 prudence reviews exist every step of the way in the rate making process for resource

1 acquisition, hedging, net power costs forecasts (GRC), and actual net power costs (the
2 PCAM), as examples. The prudency review process in Washington in the PCAM
3 allows the Commission and parties to examine the Company’s operations, and has
4 resulted in a NPC disallowances or settled reductions in the past.²⁶ Lastly, the
5 Company operates its system using an optimization model for the least cost economic
6 dispatch of its resources, is participating in the Energy Imbalance Market, and will be
7 participating in the EDAM, ensuring that the Company cannot just let customers act
8 “as a backstop” for price variability.

9 **IV. PUBLIC COUNSEL RECOMMENDATION**

10 **Q. What has Public Counsel recommended in regard to the Company’s proposed**
11 **changes to the current structure of the PCAM?**

12 A. Public Counsel recommends there should not be any changes to the current structure
13 of the PCAM.

14 **Q. Does the Company agree with Public Counsel?**

15 A. No.

16 **Q. What are Public Counsel’s main arguments for not making changes to the**
17 **PCAM?**

18 A. Public Counsel mainly argues that participation in the EDAM is not a sufficient
19 reason to make changes to the PCAM deadband and sharing bands because the
20 Company can still be incentivized to make NPC reductions, that the asymmetry of

²⁶ *In the Matter of Investigation*, Docket No. UE-190882, Final Order 05 at ¶ 119 (March 20, 2020) (“Pacific Power & Light Company is not authorized to recover from Washington ratepayers \$457,000”); *In the Matter of Investigation of Pacific Power & Light Co.*, Docket No. UE-170717, Order 03 at ¶15 (July 23, 2018) (“The Parties agree to a black box adjustment that will result in the deferral of an additional \$3.5 million, for a total credit to customers of \$4,708,218.”).

1 information is in favor of the Company, and also that the Company does not optimize
2 on behalf of Washington customers.²⁷

3 **Q. Does the Company agree with Public Counsel’s arguments about participation in**
4 **the EDAM?**

5 A. No. Public Counsel suggests that the Company can further optimize its performance,
6 particularly in areas where it already optimizes, such as hydro resources being used at
7 times of highest value. While it is true that hydro resources can be optimized at a basic
8 level, implying that modifying the PCAM would lead to the Company no longer
9 optimizing its hydro resources for maximum value, or its entire system, and instead
10 choosing higher-priced alternatives, is entirely incorrect. As mentioned earlier, the
11 Company operates its system using an optimization model that focuses on achieving
12 the least cost economic dispatch of its resources. This ensures that resources are utilized
13 efficiently and cost-effectively.

14 Public Counsel also argues that the Company can be incentivized to reduce its
15 net power costs through the optimization of scheduled maintenance outages. However,
16 it is important to note that the Company already engages in such optimization practices.
17 The Company actively considers maintenance outage scheduling to minimize costs and
18 disruptions, regardless of the structure of any power cost mechanism in its six-state
19 service territory. To the extent that a party wants to challenge any maintenance
20 schedule, this can be done in the PCAM annual review where the Company has the
21 burden of proof to demonstrate prudence.

²⁷ Earle, Exh. RLE-1CT at 2:18-9:7.

1 **Q. Does the Company agree with Public Counsel’s arguments about not optimizing**
2 **for Washington customers specifically as a reason for not making changes to the**
3 **PCAM?**

4 A. No. PacifiCorp is a multi-state utility serving nearly 2 million customers across six
5 states. Notably, PacifiCorp manages two balancing authority areas as a unified
6 integrated system, adhering to the criteria and requirements set forth by the Western
7 Electricity Coordinating Council and the North American Electric Reliability
8 Corporation. PacifiCorp’s systems directly benefit customers by enhancing reliability
9 and cost-efficiency through the utilization and optimization of the diverse resources
10 within its extensive multi-state generation and transmission network. The Company
11 firmly believes that the most effective approach to harness these benefits is through a
12 unified six-state optimization that utilizes a least cost economic dispatch model
13 benefitting all of its customers. The structure of the PCAM will not impact the
14 Company’s six-state optimization, nor the optimization of the Energy Imbalance
15 Market or EDAM.

16 **Q. Has Public Counsel made any arguments about prudence reviews?**

17 A. Yes. Public Counsel infers that prudence reviews can be burdensome for the
18 Commission and intervenors.²⁸ However, it is important to emphasize that prudence
19 reviews are a crucial aspect of the ratemaking process. Dead and sharing bands are *not*
20 intended as a vehicle for intervenors to avoid conducting prudence reviews. As
21 mentioned earlier, the prudence review process has proven effective, particularly in the
22 case of the PCAM, where a disallowance ruling was issued regarding the prudence of

²⁸ Earle, Exh. RLE-1CT at 8:8-9:4.

1 replacement power costs.²⁹ In fact, Public Counsel participated in this proceeding
2 which not only resulted in a power cost disallowance for PacifiCorp, but also PSE and
3 Avista. Furthermore, in the 2016 PCAM, the parties reached a settlement agreement
4 which resulted the Company not being able to recover certain costs associated with
5 costs at its Jim Bridger plant.³⁰

6 The PCAM does not include any forecasted capital or operational costs, but is
7 rather a backwards-looking review of actual incurred power costs. As been shown in
8 prior PCAM proceedings, information on actual power costs are available through
9 discovery for analysis by all parties for prudence recommendations. This
10 demonstrates that the prudency review process can work as intended and ensures that
11 costs can be thoroughly examined. In other words, parties involved in the PCAM have
12 the opportunity to question individual costs during the review process, and if the
13 Company fails to provide adequate evidence of prudence, such costs may be
14 disallowed, as was seen in the 2018 PCAM.

15 **Q. Does information asymmetry in the PCAM warrant maintaining the deadband**
16 **and sharing bands?**

17 A. No. Public Counsel witness Earle relies on a National Association of Regulatory
18 Utility Commissioners (NARUC) publication by Kenneth Costello regarding multi-
19 year rate plans to describe information asymmetry.³¹ Specifically, that publication
20 describes the information asymmetry in the context of forecasted costs. PacifiCorp

²⁹ *In the Matter of Investigation of Pacific Power & Light Co.*, Docket No. UE-190882, Final Order 05 at ¶ 119 (“Pacific Power & Light Company is not authorized to recover from Washington ratepayers \$457,000 incurred to acquire replacement power costs results from the 2018 Colstrip outage *because it failed to show these costs were prudently incurred.*”).

³⁰ *In the Matter of Investigation of Pacific Power & Light Co.*, Docket No. UE-170717, Order 03 (July 23, 2018).

³¹ Earle, Exh. RLE-1CT at fn.13.

1 does not agree that this is an appropriate comparison because the PCAM does not
2 include any forecasted capital or operational costs, but is rather a backwards-looking
3 review of actual incurred power costs. Information on actual power costs are
4 available through discovery for analysis by all parties.

5 Furthermore, any information asymmetry that may exist would be constant
6 whether the variance between forecast NPC and actual NPC is positive or negative.
7 That is to say, the information asymmetry is symmetrical relative to the sharing band.
8 The Company does not believe that a symmetrical relationship should drive an
9 asymmetrical design and does not believe it is reasonable to maintain asymmetry in
10 the design of sharing bands for NPC. Additionally, it is my understanding that
11 Washington is the only state with a power cost mechanism across the nation that has
12 an asymmetrical sharing band design. This data is provided as Exhibit No. JP-3.

13 **Q. Has the Company submitted any additional evidence regarding power cost**
14 **mechanisms for other utilities?**

15 A. Yes. In referenced to Exhibit No. AEB-13, Witness Bulkley explains that only eight
16 states have power cost mechanisms with sharing bands and that 88.24 percent of
17 companies in their proxy group are allowed to pass through NPC without dead or
18 sharing bands:

19 As shown in Exhibit No. AEB-13, the full recovery of fuel and
20 power costs is consistent with the recovery mechanisms that are
21 relied upon by the majority of the proxy group operating
22 companies. According to S&P Capital IQ Pro, there are only eight
23 states (i.e., Arizona, Idaho, Missouri, Montana, Oregon, Vermont,
24 Washington and Wyoming) that have fuel cost recovery
25 mechanisms with sharing bands. The remaining 42 states either
26 have restructured and the electric utilities do not own generation
27 or have fuel cost recovery mechanisms with a true-up between
28 actual and forecasted fuel costs. Finally, 88.24 percent of the

1 operating companies held by my proxy group are allowed to pass
2 through fuel costs and purchased power costs directly to
3 customers, without deadbands and sharing bands.³²

4 **Q. Has Public Counsel expressed a position regarding Staff witness Wilson's**
5 **testimony?**

6 A. No, not as of October 26, 2023. After Administrative Law Judge Howard's motion to
7 compel ruling on October 12, 2023, PacifiCorp issued data requests to Public Counsel
8 requesting witness Earle's thoughts on Staff witness Wilson's response testimony on
9 the PCAM. The data requests were intended to help inform my rebuttal testimony;
10 however, Public Counsel declined to provide substantive responses to the data requests
11 in advance of its cross-answering testimony, so I could not address their position.³³

12 **V. AWEC RECOMMENDATION**

13 **Q. What has AWEC recommended in regard to the Company's proposed changes**
14 **to the current structure of the PCAM?**

15 A. AWEC recommends there should not be any changes to the current structure of the
16 PCAM.

17 **Q. Does the Company agree with AWEC?**

18 A. No.

19 **Q. What are AWEC's main arguments for not making changes to the PCAM?**

20 A. AWEC's main arguments are that the PCAM is rooted in precedent and there have
21 not been substantial changes to warrant modifications to the PCAM deadband and

³² Bulkey, Exh. AEB-1T at 56:6-16.

³³ Painter, Exh. JP-4 (Public Counsel's Responses to PacifiCorp Data Request Nos. 013-023).

1 sharing bands, that the volatility of price forecasts overstates NPC, and that the
2 PCAM is functioned as intended.³⁴

3 **Q. Is AWEC correct that there have not been substantial changes to warrant**
4 **modifications to the PCAM deadband and sharing bands?**

5 A. No. Substantial changes have occurred that warrant changes to the PCAM. First, the
6 Company's resource mix has changed significantly. From 2016 to 2022, wind and
7 solar resources have doubled on the Company's system, which creates more
8 variability. This leads to additional risk when those renewable resources are
9 unavailable due to weather conditions, which are outside of the Company's control.
10 PacifiCorp's participation in the Energy Imbalance Market and commitment to join
11 the EDAM is another significant change; one that drives NPC considerably lower.

12 **Q. Do you agree with AWEC's argument that the volatility of price forecasts**
13 **overstates NPC?**

14 A. No. AWEC argues that price volatility leads to higher forward price curves, which in
15 turn causes NPC to be overstated. However, this argument oversimplifies the situation.
16 The PCAM takes into account the variance between forecast NPC and actual NPC. If
17 actual market prices deviate from the forward price curves, it is likely that variances in
18 NPC will exist. Therefore, the accuracy of the price forecasts is the primary factor
19 influencing NPC variances, not just the volatility itself. Additionally, if NPC is indeed
20 overstated as AWEC suggests, it is unclear why the dead and sharing bands should be
21 retained, as this would prevent customers from receiving the full variance as a surcredit.

³⁴ Mullins, Exh. BGM-1CT at 64:4-71:17.

1 **Q. Is AWEC's argument that the PCAM is functioning as intended correct?**

2 A. Certainly not. AWEC argues that the NPC over- and under-recovery over time is not
3 a systemic problem because power costs will sometimes be higher and sometimes be
4 lower, but this completely ignores the fact that the PCAM deadband has negatively
5 impacted customers. While NPC variances may even out over time, if there is
6 persistent directional bias in an over or under recovery in the PCAM, then either
7 customers or the Company will have the same bias in harm created by the deadband
8 and sharing band.

9 AWEC also does not provide any explanation as to why removing the deadband
10 and sharing bands would discourages collaborative efforts to establish a more accurate
11 baseline. Instead, retaining these bands can create improper incentives for parties to
12 conversely advocate for an inaccurate forecast. A more streamlined PCAM structure
13 would incentivize parties to prioritize a more accurate forecast and rate stability, which
14 ultimately serves the best interests of customers.

15 VI. HARM TO WASHINGTON CUSTOMERS

16 **Q. Has Sierra Club, Public Counsel, or AWEC acknowledged the evidence the**
17 **Company has provided in this proceeding that the PCAM deadband and sharing**
18 **bands have caused more harm to Washington customers over the history of the**
19 **PCAM and is not acting as intended?**

20 A. No, not at all. Between 2016 and 2020, the Company over-collected NPC in the
21 PCAM. The result of this over-collection has resulted in a loss of \$27.6 million to
22 Washington customers through the deadband and sharing bands. It would take five
23 straight years of over-recovery by the Company for just the deadband losses to be

1 offset. This is highly problematic because the current design of the PCAM requires
2 equal amounts of time of over- and under-recovery to average out. Neither
3 Washington customers nor the Company should have to endure this lengthy process
4 for PCAM deadband and sharing band losses to break even.

5 **Q. Has Staff responded differently to the harm Washington customers have**
6 **realized over the history of the PCAM?**

7 A. Yes, and Staff has also recommended changes to eliminate the PCAM deadband, to
8 simplify the complicated asymmetrical sharing bands, and lower the rate change
9 triggering threshold.

10 VII. CONCLUSION

11 **Q. Please summarize your recommendations to the Commission.**

12 A. First, the fundamental issue with the PCAM deadband and sharing bands is that it is
13 not acting as intended to equitably share risk between Washington customers and the
14 Company. Secondly, the PCAM is also supposed to incent the Company to
15 effectively manage or reduce power costs. In the six states the company operates,
16 Utah and California have no deadband or sharing bands, and Idaho and Wyoming do
17 not have a deadband, but regardless the Company still operates with a least cost
18 economic dispatch model and its decisions can be reviewed and/or challenged by
19 parties in the annual PCAM filings. Overall, the Company supports WUTC Staff's
20 recommendations to eliminate the deadband, simplify the sharing band, and lower the
21 rate triggering threshold.

22 **Q. Does this conclude your rebuttal testimony?**

23 A. Yes.