

Confidential per Protective Order in Docket UE-180778

Exh. JT-3CT

Dockets UE-191024, UE-190750,

UE-190929, UE-190981,

UE-180778 (*Consolidated*)

Witness: Michael G. Wilding

Jason L. Ball

Corey Dahl

Robert Earle

Lance D. Kaufman

Shawn M. Collins

Alex Kronauer

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PACIFIC POWER & LIGHT COMPANY,

Respondent.

DOCKETS UE-191024,

UE-190750, UE-190929,

UE-190981, UE-180778

(*Consolidated*)

REDACTED TESTIMONY OF

Michael G. Wilding

Jason L. Ball

Corey Dahl

Robert Earle

Lance D. Kaufman

Shawn M. Collins

Alex Kronauer

Supplemental Joint Testimony in Support of Settlement Stipulation

November 6, 2020

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ATTACHED EXHIBITS

Exhibit No. JT-4 Washington-Allocated Net Power Costs – October 15, 2020 Update

Exhibit No. JT-5 Net Power Costs October 15, 2020 Update

Confidential Exhibit No. JT-6C Power Cost Adjustment Mechanism Estimated Deferral

Balance – August 31, 2020

Exhibit No. JT-7 Power Cost Adjustment Mechanism Template

1 **Q. Please state your names, titles, and the party you represent in this matter.**

2 A. Our names, titles, and representation are as follows:

- 3 • Michael G. Wilding, Director, Net Power Costs and Regulatory Policy,
- 4 PacifiCorp (PacifiCorp or the Company)
- 5 • Jason Ball, Deputy Assistant Director, Energy Regulation Section, Staff
- 6 • Corey Dahl, Regulatory Analyst, Public Counsel
- 7 • Dr. Robert Earle, Principle for Alea IE, consulting for Public Counsel
- 8 • Lance D. Kaufman, Principle Economist for Aegis Insight, consulting for
- 9 Packaging Corporation of America (PCA)
- 10 • Shawn M. Collins, Director, The Energy Project (TEP)
- 11 • Alex Kronauer, Senior Manager, Energy Services, Walmart
- 12

13 **Q. Do PacifiCorp, Staff, Public Counsel, PCA, TEP, and Walmart (collectively the**
14 **Parties) represent all the parties in this proceeding?**

15 A. Yes.

16 **Q. Are you the same individuals representing the same parties who previously filed**
17 **Joint Testimony in support of the settlement stipulation filed on July 17, 2020**
18 **(Stipulation) in this proceeding?**

19 A. Yes.

20 **PURPOSE AND SUMMARY OF TESTIMONY**

21 **Q. What is the purpose of your supplemental testimony?**

22 A. This testimony explains the Company's October 15th update (October Update) to net
23 power costs (NPC), as provided in the Stipulation. In this testimony, we describe the
24 NPC allocated to Washington customers based on the Washington Inter-Jurisdictional
25 Allocation Methodology (WIJAM).¹ This testimony explains the contract, fuel, and
26 official forward prices curve (OFPC) updates to the NPC baseline that was estimated

¹ Unless otherwise specified, references to NPC throughout our testimony are expressed on a Washington-allocated basis.

1 in the Stipulation. The October Update reflected a \$17.5 million increase to baseline
2 NPC over the approximately \$102 million that was estimated in the Stipulation.

3 The Stipulation specified that an increase in baseline NPC “as a result of the
4 October Update will be offset by the balance in the deferral account for the PCAM.”²
5 As of December 31, 2019, the Power Cost Adjustment Mechanism (PCAM) deferral
6 account balance was \$9.5 million.³ Since the October Update NPC increase is greater
7 than the current balance of the PCAM deferral account, in order to make up for the
8 shortfall between the NPC baseline from the October Update and the estimated
9 baseline established in the Stipulation, the Parties propose to reflect this difference in
10 the PCAM deferral account. Reflecting the incremental NPC increase due to the
11 October Update in the PCAM deferral account will preserve both the proposed rates
12 agreed to in the Stipulation and the resulting rate decrease for customers.

13 NET POWER COST UPDATE

14 **Q. Please explain the how the baseline NPC was updated under the Stipulation.**

15 A. The October Update was calculated in the same manner as the baseline NPC that was
16 used in PacifiCorp’s April 1, 2020 supplemental testimony (April Update) and to
17 derive the revenue requirement in the Stipulation. The October Update was based on
18 the most recent OFPC available (the September 2020 OFPC). This update also
19 included a black box adjustment reducing NPC by \$1,357,952.⁴

² Stipulation at ¶20.

³ *In the Matter of PacifiCorp, d/b/a Pac. Power & Light Co., 2019 Power Cost Adjustment Mechanism*, Docket UE-200507, Order 01 at ¶13 (Aug. 27, 2020).

⁴ Stipulation at ¶20.

1 **Q. Please summarize the major changes in NPC resulting from the October Update.**

2 A. Figure 1 illustrates the change in the forecast NPC as the result of the October Update

3 by category compared to the NPC in the April Update filed in this case.

Figure 1
Net Power Cost Reconciliation

	Washington Allocated (\$ millions)
April 2020 Update (WA)	\$112.2
Increase/(Decrease) to NPC:	
Wholesale Sales Revenue	(\$1.7)
Purchased Power Expense	\$19.9
Coal Fuel Expense	(\$4.3)
Natural Gas Fuel Expense	(\$2.5)
Wheeling and Other Expense	<u>(\$1.4)</u>
Total Increase/(Decrease) to NPC	\$10.0
October 2020 Update (WA)	\$122.2

4 The changes in the components of Washington-allocated NPC from the April
5 Update are largely driven by an increase in the forward market prices for electricity
6 and natural gas. Lower wholesale sales revenue and higher purchase power expense
7 resulted in higher Washington-allocated NPC. This increase is partially offset by
8 lower coal fuel expense, lower natural gas fuel expense due to reduced volumes and
9 wheeling expenses. The Washington-allocated NPC are attached to this testimony as
10 Exhibit JT-4, which is the October 15, 2020 version of Exhibit MGW-5 filed with the
11 April Update.

12 **Q. Please explain the changes included in the Company's October Update.**

13 A. The October Update includes the following changes (the NPC impacts are based on
14 the April Update):

REDACTED

- 1 • **Gas Pipeline Expense Changes**—Transportation costs to supply natural gas to the
2 Hermiston plant were updated. This update increased the Washington-allocated NPC
3 by approximately \$12,000.
- 4 • **Energy Imbalance Market (EIM) Inter-Regional Transfer Benefits and**
5 **Greenhouse Gas (GHG) Benefits**—PacifiCorp’s estimated EIM benefits for 2021
6 have been updated to include the most recent information through August 2020. On a
7 total-company basis, the expected inter-regional transfer benefits are [REDACTED] million
8 and the GHG benefits are forecasted at [REDACTED] million. This update increased the
9 Washington-allocated NPC by approximately \$1.2 million.
- 10 • **Black Box Adjustment**—Per the Stipulation, this update includes a black box
11 adjustment reducing NPC by \$1,357,952.
- 12 • **Coal Costs**—The Company has updated coal fuel costs to reflect changes in prices
13 and volumes since the April Update. The update decreased NPC by approximately
14 \$2.1 million on a Washington-allocated basis.
- 15 • **OFPC and Short-Term Firm Transactions**—The Company updated NPC from the
16 December 31, 2019 OFPC, to the September 30, 2020 OFPC. On average, market
17 prices for electricity at the Mid-Columbia (Mid-C) and Four Corners (4C) markets
18 increased by approximately seven percent. Similarly, market prices for natural gas
19 increased, on average, by approximately 25 percent. Short-term sales and purchase
20 transactions for electricity and natural gas were also updated through
21 September 2020. These updates increased the Washington-allocated NPC by
22 approximately \$12.3 million.

23 Figure 2 shows the change in wholesale electricity prices (average market

1 price at the Mid-C and 4C trading hubs) by month and by heavy load hours (HLH)
2 and light load hours (LLH). Figure 3 shows the change in natural gas prices on
3 average at the Sumas and Stanfield trading hubs by month, which are the source of
4 natural gas for the Company's gas plants.

Figure 2

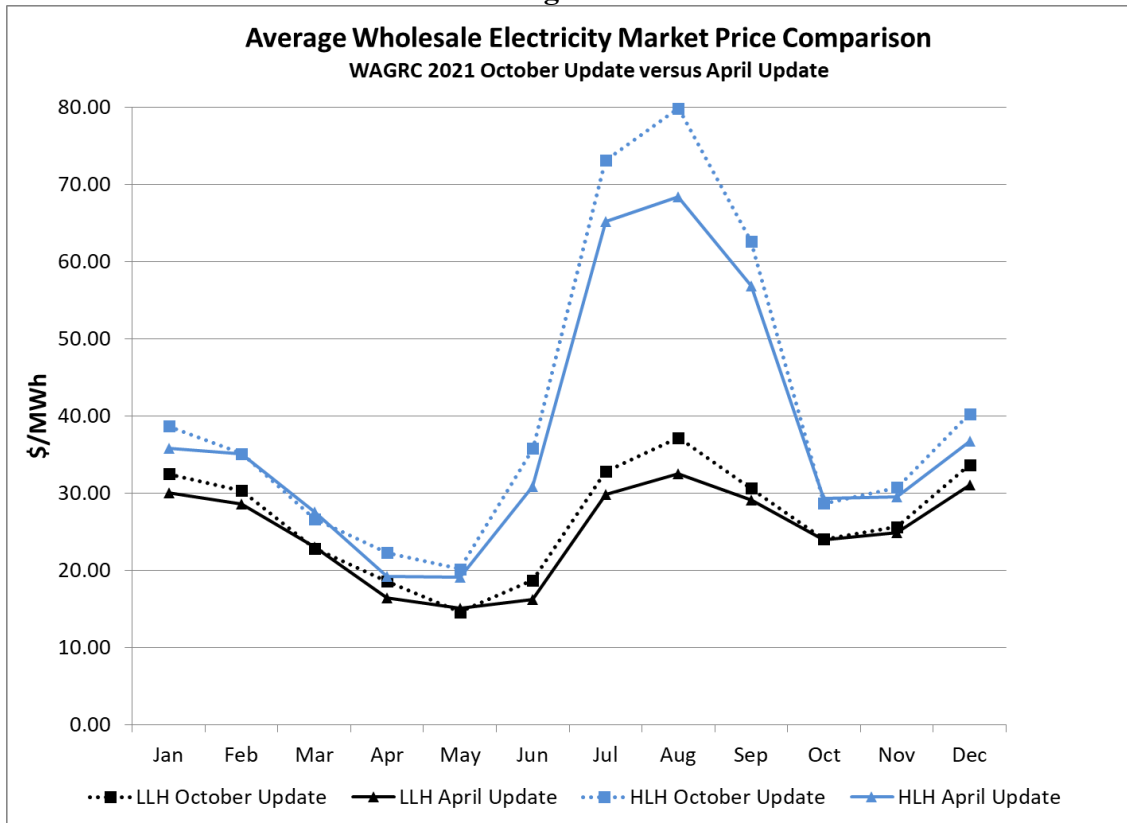
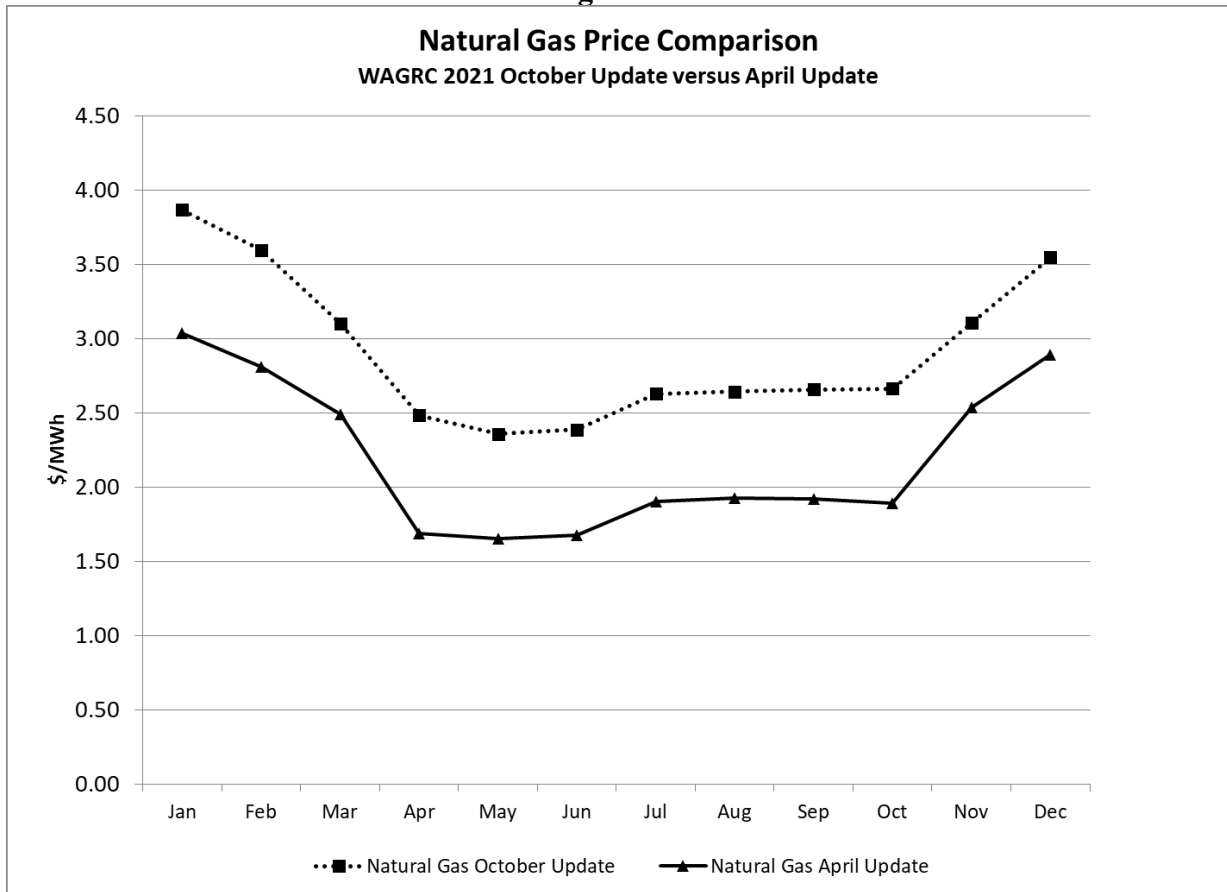


Figure 3



1 **Q. Does the October Update include the line loss savings of 11.5 average megawatt**
2 **(aMW) and reliability cost savings of 36.5 aMW for the Energy Vision 2020**
3 **additions?**

4 A. No. The settlement agreed to include these items in the October NPC Update if
5 beneficial to Washington customers. These adjustments resulted in a combined
6 increase to NPC of approximately \$126,000 and were therefore excluded from the
7 October Update.

8 **AMENDING THE STIPULATION**

9 **Q. Please explain the rate decrease contemplated in the Stipulation.**

10 A. Under the Stipulation, PacifiCorp is authorized to implement rate changes designed to

1 decrease its annual revenues from Washington customers by \$0.21 million
2 (or -0.06 percent). This amount also includes an approximate \$1.48 million revenue
3 requirement reduction resulting from modifications to PacifiCorp's depreciation rates,
4 as agreed to in the separate stipulation filed in Docket UE-180778. Under
5 Schedule 197, the Stipulation provides for a five-year amortization of the remaining
6 tax credit balances related to the deferred Tax Cuts and Jobs Act (TCJA) benefits,⁵
7 resulting in an \$11.94 million tax credit annually.⁶ Accounting for the expiration on
8 January 1, 2021, of the approximate \$8 million currently being passed back to
9 customers through Schedule 197, the amortization of the remaining tax credit balance
10 results in a total decrease of \$4.15 million for customers (1.18 percent rate decrease)
11 in 2021 and no rate change in 2022 and 2023, subject to the results of the updates and
12 additional proceedings agreed to in this Stipulation. These rate changes will be
13 effective with service on and after January 1, 2021. The suspension period in this
14 case ends on December 31, 2020.

15 PacifiCorp has accepted a 3-year rate plan from 2021 to 2023. The Company
16 has agreed to not file a general rate case that would be effective before
17 January 1, 2024, with certain specific exceptions identified in the Stipulation. The
18 intent of this Stipulation and the rate plan is to provide rate stability, avoid a base rate
19 increase in 2021, and mitigate the rate impact in years 2022 and 2023. This filing
20 does not modify the ultimate bill impact included in the Settlement Agreement.

⁵ The "deferred Tax Cuts and Jobs Act (TCJA) benefits" refers to federal income taxes collected from ratepayers at the 35 percent corporate tax rate, but during the period time in which the 21 percent corporate rate was in effect. The 35 percent corporate tax was embedded in PacifiCorp's Washington rates prior to this case, though PacifiCorp has deferred all over-collected amounts for return to ratepayers.

⁶ Schedule 197 currently credits approximately \$8 million to customers. This credit expires on January 1, 2021.

1 **Q. Are the Parties proposing any change to the rate decrease agreed to in the**
2 **original Stipulation?**

3 A. No.

4 **Q. Please explain how the Stipulation addresses NPC.**

5 A. The Stipulation required PacifiCorp to file the October Update, to be calculated in the
6 same manner as the baseline NPC that was used to derive the revenue requirement in
7 this case. The Stipulation estimated that update would be \$102 million.

8 **Q. Please explain how the Stipulation proposed to treat deviations from the NPC**
9 **baseline that was estimated in July.**

10 A. Deviations in the positive direction (increase in rates) from the amount estimated in
11 this settlement (\$102 million) as a result of the October Update would be offset by
12 balances returned from the deferral account for the PCAM over the next three years.

13 **Q. What is the difference between the NPC baseline per the October Update and**
14 **what was included in the Stipulation?**

15 A. The difference was approximately \$17.5 million. The Washington-allocated forecast
16 NPC per the October Update is \$122,200,265, which is multiplied by the production
17 factor of 97.81 percent to adjust the forecast NPC to the historical test period to arrive
18 at the NPC baseline of \$119,524,079. The updated NPC baseline of approximately
19 \$119.5 million less the NPC baseline estimated in the Stipulation of \$102 million is
20 approximately \$17.5 million.

REDACTED

1 **Q. Why do the Parties feel that the process originally outlined in the Stipulation**
2 **should be modified?**

3 A. As explained above, the NPC update results in an increase to baseline NPC of
4 approximately \$17.5 million. This is larger than the December 31, 2019 PCAM
5 deferral balance of \$-9.5 million.⁷ Under the Stipulation, any increase beyond the
6 PCAM balance would be allocated to customers on January 1, 2021. This would
7 have resulted in a \$7.8 million increase in revenue requirement from this update.
8 When compared to the rates indicated in the Stipulation, this would have resulted in a
9 rate increase for customers on January 1, 2021, instead of a rate decrease. The
10 magnitude of the increase in the NPC baseline was unexpected and PacifiCorp
11 reached out to Parties once the magnitude of the increase was known. Through those
12 discussions, the Parties agreed that preserving the benefits of the rate decrease for
13 customers was important and developed the following proposal for the Commission
14 to ensure the rates described in the Stipulation are preserved.

15 **Q. Please explain how the Parties now propose to treat the \$17.5 million variance in**
16 **the NPC baseline between the Stipulation and the October Update.**

17 A. The Parties propose to reflect the entire \$17.5 million in the PCAM deferral account.

18 **Q. What is the estimated PCAM balance as of August 31, 2020?**

19 A. The estimated PCAM balance through August 2020 is approximately [REDACTED].⁸

⁷ *In the Matter of PacifiCorp, d/b/a Pac. Power & Light Co., 2019 Power Cost Adjustment Mechanism, Docket UE-200507, Order 01 at ¶13 (Aug. 27, 2020).*

⁸ *See Confidential Exhibit JT-6C (This figure is inclusive of the PCAM balance of \$-9.5 million that was identified above).*

1 **Q. What effect will this change have on the rates that were agreed to by the Parties**
2 **and proposed in the Stipulation?**

3 A. This change will ensure that there is no change to the rates for customers that were
4 reflected in the Stipulation. Customers will still see the approximately 1.18 percent
5 decrease that was reflected in the Stipulation and supporting documents.

6 **Q. How will the incremental increase in NPC baseline be reflected in the PCAM**
7 **deferral account?**

8 A. The Parties propose to add a step to the calculation of the PCAM deferral balance to
9 include the deferred portion of the NPC baseline: the Deferred NPC Baseline
10 Adjustment (DNBA). The DNBA is equal to the \$/MWh difference between the
11 October Update (NPC Baseline) and NPC baseline in the Stipulation (NPC in Rates)
12 multiplied by the actual sales.

13 *Deferred NPC Baseline Adjustment*

14
$$= (NPC\ Baseline_{\$/MWh} - NPC\ in\ Base\ Rates_{\$/MWh}) \times Actual\ Sales_{MWh}$$

15 The DNBA will be calculated and added to the PCAM balance monthly. This amount
16 would not be run through the dead and sharing bands but added in after the bands are
17 applied. Interest would continue to accrue monthly consistent with the past operation
18 of the PCAM.

19 **Q. Why are the Parties proposing an additional step to the calculation of the PCAM**
20 **deferral balance?**

21 A. This step is added to make up for the fact that baseline power costs included in rates
22 are not changed from the Settlement and therefore do not reflect the actual recovery
23 of costs during the rate year. If this step were not included, the deferral balance could

1 end up being too high (or too low) depending on the amount of actual sales during the
2 rate-year.

3 **Q. Are there other advantages to the proposed method?**

4 A. Yes. The proposed method requires minimal changes to the calculation of the PCAM
5 balance supporting transparency of the method to recover the DNBA from the
6 PCAM.

7 **Q. Have you prepared an exhibit that shows the operation of this adjustment and the
8 possible impacts on the PCAM?**

9 A. Yes. Exhibit JT-7 provides a template of the PCAM calculation. The new steps to
10 facilitate this agreement are highlighted in yellow.

11 **Q. Does the DNBA affect the rate plan or power cost only rate case (PCORC)
12 proposed in the settlement?**

13 A. No. Once the baseline NPC is reset through that PCORC, there will no longer be a
14 need for the DNBA and it will not have any further effect on the PCAM.

15 **Q. Does the DNBA affect the review of power costs in the PCAM or the
16 Commission's determination of prudence?**

17 A. No. The DNBA is simply an additional step to the PCAM deferral until rates are
18 changed in the PCORC. The review of the PCAM deferral for calendar year 2021 will
19 occur sometime in 2022, consistent with its current operation. There is no effect from
20 the DNBA on the process for reviewing actual power costs during calendar 2021 for
21 prudence.

1 **Q. Does this change require an amendment to this Stipulation?**

2 A Yes. This change requires the following minor adjustment to paragraph 21 of the

3 Stipulation:

4 “If necessary and to the extent possible, deviations in the positive
5 direction (increase in rates) from the NPC baseline estimated in this
6 settlement as a result of the October Update will ~~be offset by the~~
7 ~~balance~~ be reflected in the deferral account for the PCAM.”

8 **Q. Were any other changes made to the Stipulation?**

9 A. Yes. Certain typographical errors that were noted in the docket on July 31, 2020,
10 through filed correspondence with the Administrative Law Judge, were corrected in
11 this revised version of the stipulation.

12 **Q. Why is this process and amendment to the Stipulation in the public interest?**

13 A. The Parties agree that preserving the rate decrease enabled by the Stipulation is
14 important and preserving that outcome for customers is in the public interest. This
15 proposal accomplishes that outcome with minimal changes to other elements of the
16 Stipulation.

17 **CONCLUSION**

18 **Q. Do you continue to recommend the approval of the Stipulation?**

19 A. Yes. The Parties continue to recommend the approval of the Stipulation including the
20 amendment described in this testimony.

21 **Q. Does this conclude your supplemental testimony?**

22 A. Yes.