

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

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

Respondent.

DOCKETS UE-191024, UE-190750,
UE-190929, UE-190981, UE-180778
(Consolidated)

FINAL ORDER 09 / 07 / 12

REJECTING TARIFF SHEETS;
APPROVING AND ADOPTING
SETTLEMENT STIPULATION;
APPROVING AND ADOPTING
SETTLEMENT STIPULATION
SUBJECT TO CONDITIONS;
AUTHORIZING AND REQUIRING
COMPLIANCE FILING

SUMMARY

Synopsis: *The Commission approves and adopts a full settlement in Docket UE-180778 (Settlement (UE-180778)) and a full settlement, subject to conditions, in the consolidated Dockets UE-191024 et. al. (collectively, Settlements), which together resolve all issues in dispute and are agreed to by PacifiCorp, d/b/a Pacific Power & Light Company (PacifiCorp or Company), and all other parties. The Settlements set new depreciation rates, establish a new revenue requirement, implement a three-year rate plan that will help ensure rate stability for customers, update PacifiCorp's cost of capital, address rate spread and rate design, create new pilot programs including those for time-of-use rates, provide minor modifications to PacifiCorp's decoupling mechanism, require the filing of a 2021 limited-issue rate filing to consider the prudence of certain major capital additions that have been included in rates subject to refund, update PacifiCorp's net power costs (NPC) and require the filing of a 2021 power cost only rate case (PCORC), adopt a new interjurisdictional cost allocation methodology, and introduce several programmatic changes including low-income programs and disconnection practices.*

The Parties agree to, and the Commission approves subject to conditions in this Order, an immediate overall revenue decrease of \$4.15 million (a 1.18 percent decrease), which incorporates both the approximately \$1.48 million reduction to the depreciation rates agreed to in Docket UE-180778 and the return of certain tax benefits (excess deferred income tax (EDIT)) to customers as a result of the Tax Cuts and Jobs Act of 2017 (TCJA), and a three-year rate plan that will provide rate stability to PacifiCorp's customers. The Commission also approves the Parties' agreement to update PacifiCorp's cost of capital to include a capital structure comprised of 50.88 percent debt (long-term), 0.02 percent preferred stock, and 49.10 percent common equity, with a return on equity of 9.50 percent and an overall rate of return of 7.17 percent.

The Commission also approves subject to the conditions in this Order the Parties' agreement to include in rates, subject to refund, certain major capital additions placed in service after May 1, 2020. And, consistent with the Commission's Used and Useful Policy Statement, the Commission approves the Parties' agreed process for review of these major capital additions through a 2021 limited-issue rate filing. As these certain major capital additions will be subject to refund, the costs of any found imprudent will be refunded to customers and the benefits of any associated production tax credits (PTCs) will be returned to the Company.

The Commission approves, subject to the conditions in this Order, the Parties' agreement regarding NPC, including the agreed requirement for the filing of a 2021 PCORC that will update the NPC baseline using a calendar year 2022 forecast and begin a transition towards new modeling for PacifiCorp's power costs. The Commission also approves the Parties' NPC agreement regarding costs related to the Energy Imbalance Market, PTCs, the NPC baseline and the Parties' proposed second step calculation to the power cost adjustment mechanism's deferral account, and major maintenance expenses for Colstrip Unit 4.

Further, the Commission approves subject to the conditions in this Order the Parties' agreement to adopt a new interjurisdictional cost allocation methodology – the Washington Inter-Jurisdictional Allocation Methodology, or WIJAM – and approve the 2020 Protocol, which is an agreement among the six states comprising PacifiCorp's service territory to collaborate in an attempt to develop a more comprehensive interjurisdictional cost allocation methodology. With the approval of the WIJAM and the 2020 Protocol, the Settlements provide for accelerated depreciation of PacifiCorp's share of Colstrip Unit 4 and the Jim Bridger Plant, which will enable PacifiCorp to

remove depreciation expenses for these coal-fired generation resources from Washington rates before the statutorily-required date of December 31, 2025.

The Commission approves subject to the conditions in this Order the Parties' agreed to rate spread and rate design, which will spread the \$4.15 million revenue requirement decrease to all rate schedules, other than street lighting, on an equal percentage of revenue basis. The Parties' agreement also preserves the Company's residential basic charge of \$7.75 rather than applying an increase, and implements new pilot programs such as the time of use (TOU) pilot programs for Schedules 19, 29, and 36, which will be included in the Company's continuing decoupling mechanism.

The Commission also approves subject to the conditions in this Order the Parties' agreement to create a new low-income bill assistance advisory group and assigns to the advisory group certain tasks relevant to determining appropriate bill assistance programs for PacifiCorp's low-income customers, and binds PacifiCorp to certain disconnection practices aimed at keeping customers connected, including the development of a Disconnection Reduction Plan.

Lastly, the Commission approves subject to the conditions in this Order the Parties' proposed treatment of a \$300,000 purchase of renewable energy credits in 2019; three minor modifications to PacifiCorp's decoupling mechanism, which is currently in the third year of its authorized five-year pilot program; PacifiCorp's investments related to the Idaho Asset Exchange; the Parties' agreement for the presentation of investor supplied working capital; and the Parties' agreement to permit PacifiCorp to use full income tax normalization with the exception of equity Allowance for Funds Used During Construction.

The Commission places two conditions on the Settlement in Dockets UE-191024 et. al. First, we require certain annual reporting related to the EDIT included in base rates until the deferred EDIT balances have fully amortized. Starting with the annual amount of Reserve South Georgia Method (RSGM) amortization embedded in rates that will become effective January 1, 2021, PacifiCorp must file an annual report apprising the Commission of the amount of protected EDIT returned to customers through base rates and the amount embedded in base rates in the preceding year. We include specific details for this annual report in the body of this Order. Second, we require certain reporting for the inclusion of the TOU pilot programs in the decoupling mechanism. The Commission requires PacifiCorp to include a report, along with its decoupling report, addressing the

TOU pilot programs and quantifying the decoupling mechanism's impact on rates in the data received from the pilot programs.

The Commission determines that the Settlement (Docket UE-180778), without condition, and the Settlement in Dockets UE-191024 et. al. are lawful, supported by an appropriate record, and consistent with the public interest in light of all information available to the Commission. Accordingly, the Commission determines that approval of the Settlement (UE-180778), without condition, and approval of the Settlement in Dockets UE-191024 et. al., subject to conditions, will establish rates, terms, and conditions for PacifiCorp's electric utility services that are fair, just, reasonable, and sufficient. The Commission, therefore, rejects the tariff sheets filed by PacifiCorp on December 13, 2019.

The Commission, authorizes and requires all parties to separately notify the Commission by December 29, 2020, by a letter to the Commission Secretary filed in these consolidated dockets, whether each accepts the conditions of approval set by this Order. The Commission, considering the full record, authorizes and requires PacifiCorp to file tariff sheets that comply with the terms of the Settlements and this Order.

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BACKGROUND

1 This case concerns a 2019 general rate case filing, a 2018 petition for a depreciation accounting order, a 2019 petition for deferral of costs, and two 2019 petitions for deferred accounting filed by PacifiCorp, d/b/a Pacific Power & Light Company, (PacifiCorp or Company).

A. PROCEDURAL HISTORY

2 On September 13, 2018, PacifiCorp filed with the Washington Utilities and Transportation Commission (Commission) a petition for an accounting order in Docket UE-180778, requesting the Commission enter an order authorizing a change in depreciation rates applicable to the Company's depreciable electric plant. The Commission suspended that petition and set it for adjudication.

3 On February 22, 2019, the Commission granted a request by the Company, unopposed by any party, in Docket UE-180778 to suspend the procedural schedule in that matter. The case was suspended until PacifiCorp filed a general rate case.

4 On September 6, 2019, PacifiCorp filed a petition for an order approving deferred accounting in Docket UE-190750 related to repowering the Leaning Juniper wind facility.

5 On November 8, 2019, PacifiCorp filed a petition for deferral of costs related to purchases of renewable energy credits in Docket UE-190929.

6 On November 22, 2019, PacifiCorp filed a petition for an order approving deferred accounting in Docket UE-190981 related to repowering the Marengo I, II, and Goodnoe Hills wind facilities.

7 On December 13, 2019, PacifiCorp filed with the Commission revisions to its currently effective tariff, WN U-75 for Electric Service in Docket UE-191024. The proposed tariff revisions would have increased revenues by \$3.1 million for its Washington operations, offset that increase by amortization of remaining deferred tax benefits associated with the Tax Cuts and Jobs Act of 2017 (TCJA) of approximately \$7.1 million, and resulted in an overall rate reduction of \$4.0 million, or approximately 1.1 percent.

8 On January 9, 2020, the Commission entered Order 01 in Docket UE-191024, suspending operation of the tariff revisions and setting the matter for adjudication.

- 9 On January 31, 2020, the Commission convened a prehearing conference at its headquarters in Lacey, Washington, before Administrative Law Judge Andrew J. O'Connell.
- 10 On February 3, 2020, the Commission entered Order 03/01/06 in Dockets UE-191024, UE-190750, UE-190929, UE-190981, and UE-180778, consolidating the dockets in response to an unopposed motion by Commission staff (Staff), granting petitions to intervene, and establishing a procedural schedule. Sierra Club, a party to Docket UE-180778, did not petition to intervene in the consolidated dockets.
- 11 On February 19, 2020, the Governor declared a state of emergency in Washington due to the COVID-19 pandemic.
- 12 On February 20, 2020, the Commission entered Order 04/02/07, Protective Order with Provisions Governing Highly Confidential Information.
- 13 On April 1, 2020, PacifiCorp filed with the Commission supplemental testimony and exhibits having the effect of eliminating the original \$4.0 million proposed overall decrease and resulting in an overall increase of \$11.0 million or 3.2 percent.
- 14 On April 24, 2020, the Commission entered Order 05/03/08 modifying the procedural schedule due to the COVID-19 pandemic and the Governor's declared state of emergency.
- 15 On May 29, 2020, Staff submitted a letter to Judge O'Connell in these consolidated dockets indicating that the parties had reached a settlement in principle regarding all issues except those presented in Docket UE-180778. The parties requested to file their settlement agreement and supporting documentation by July 17, 2020, and that the Commission suspend the remaining procedural schedule with the exception of the hearing date, August 24, 2020, for a possible settlement hearing.
- 16 On June 2, 2020, the Commission issued a notice suspending the procedural schedule in these consolidated matters, holding the hearing date of August 24, 2020, for a possible settlement hearing, and requiring the parties to file a settlement agreement and supporting documentation by July 17, 2020.
- 17 On July 17, 2020, PacifiCorp, on behalf of the parties, submitted to the Commission a settlement agreement pertaining only to the issues presented in Docket UE-180778 (Settlement (Docket UE-180778)), the terms of which were incorporated into another

settlement agreement addressing all other issues presented in the consolidated dockets (July 20, 2020, Settlement).¹ Commission employees were furloughed, and the Commission was closed on July 17, 2020. Consistent with WAC 480-07-130, the deadline for the Parties' filing ran until July 20, 2020. Accordingly, the Parties timely filed their settlement agreements with the Commission by July 20, 2020. Sierra Club neither joined nor opposed the settlement agreements.

- 18 On August 12, 2020, the Commission issued Order 07/05/10, granting Sierra Club's motion to withdraw as a party in these consolidated dockets. Sierra Club explained in its motion that it asserted no interest in PacifiCorp's general rate case and, after Washington enacted Engrossed Second Substitute Senate Bill 5116 in May of 2019, its concerns pertaining to Docket UE-180778 (the only docket of those consolidated to which Sierra Club had petitioned to intervene and been granted intervention) were resolved.
- 19 On August 24, 2020, the Commission held a virtual settlement hearing in these consolidated matters before Chair David Danner, Commissioners Ann Rendahl and Jay Balasbas, and Judge O'Connell.
- 20 On October 23, 2020, PacifiCorp filed with the Commission an update to its net power costs, which had been anticipated by the Parties' July 20, 2020, Settlement. The Parties anticipated the results of the update to its net power costs to fall within a range that would either result in a benefit to customers or would be offset by the power cost adjustment mechanism (PCAM) balance.²
- 21 On October 29, 2020, the Commission issued Order 08/06/11 in response to an unopposed petition by PacifiCorp, reopening the record in these consolidated proceedings until November 13, 2020, pursuant to WAC 480-07-830; allowing the Parties to modify the July 20, 2020, Settlement; requiring the Parties to file by November 6, 2020, joint testimony supporting the modification, and directing the Public Counsel Unit of the

¹ At the time of its filing, the Parties' agreement was a "multiparty settlement" because Sierra Club, a party only to Docket UE-180778, neither joined nor opposed either of the agreements filed with the Commission by the Parties. After Sierra Club's withdrawal from these consolidated proceedings, all remaining parties support the settlement stipulations. The Parties' settlement stipulations are each, therefore, appropriately considered a "full settlement" pursuant to WAC 480-07-730.

² See July 20, 2020, Settlement (UE-191024 *et. al.*) at 9, ¶ 21.

Washington State Attorney General's Office (Public Counsel) to file an exhibit containing any public comments received prior to the record's closure.

- 22 On November 6, 2020, the Parties jointly filed with the Commission a Revised and Amended Settlement Stipulation (Settlement) (collectively with Settlement (UE-180778), Settlements) as well as joint testimony and exhibits supporting the Parties' modification to the July 20, 2020, Settlement.³
- 23 On November 13, 2020, the Commission issued a notice that, among other things, extended the date for closure of the record in these consolidated matters until the Commission closed the record by formal notice.
- 24 On November 25, 2020, the Commission issued a notice that the record in these consolidated dockets would close on Wednesday, December 2, 2020.
- 25 The Commission held a virtual public comment hearing on August 5, 2020. Over the course of these consolidated proceedings, including the virtual public comment hearing, the Commission and Public Counsel received public comments via telephone, email, letter, and through the Commission's online web portal. In total, 14 public comments from Washington customers regarding the proposed tariff revisions were received. All 14 comments opposed PacifiCorp's tariff revisions.⁴ As it regards the Settlements reached by the Parties, the Commission and Public Counsel did not receive any public comments from PacifiCorp's Washington customers.⁵ Most comments addressed PacifiCorp's initial \$3.1 million increase for its Washington operations, without consideration of the Company's offsetting initial proposals that would have resulted in a \$4.0 million decrease, or PacifiCorp's supplemental testimony and exhibits that requested an \$11.0 million increase for its Washington operations. Also, the public comments focused

³ The Commission refers to the combination of settlement stipulations presented by the Parties as the "Settlements" throughout this order. When we use "Settlement" in the singular, we refer to the revised and amended stipulation submitted in Dockets UE-191024 *et. al.* If there are instances that require the distinction of the stipulation addressing only the issues in Docket UE-180778, we refer to it as "Settlement (UE-180778)," and where appropriate specify for clarity that the stipulation in the consolidated dockets is the "Settlement in Dockets UE-191024 *et. al.*" In instances where it is important for the Commission to distinguish the revised and amended settlement stipulation from the agreement originally filed by the Parties in Dockets UE-191024 *et. al.*, the Commission refers to the initially filed agreement as the "July 20, 2020, Settlement."

⁴ Public Comments, Exh. BE-2r; Public Comments, Exh. BE-8.

⁵ Public Comments, Exh. BE-2r; Public Comments, Exh. BE-8.

on the difficulties of living on a fixed-income, the impact of an increase to the basic charge of \$7.75, the difficulties experienced by PacifiCorp's customers during the ongoing COVID-19 pandemic, and the need for adjustments to help customers.

- 26 Matthew McVee, Carla Scarsella, and Ajay Kumar, Legal Counsel for PacifiCorp and Katherine McDowell, McDowell, Rackner & Gibson PC, Portland, Oregon, represent PacifiCorp. Jennifer Cameron-Rulkowski, Jeff Roberson, Nash I. Callaghan, Joe M. Dallas, and Daniel J. Teimouri, Assistant Attorneys General, Lacey, Washington, represent Staff.⁶ Nina M. Suetake, Ann Paisner, and Lisa W. Gafken, Assistant Attorneys General, Seattle, Washington, represent Public Counsel. Tyler Pepple, Curt R. Ledford, Corinne O. Milinovich, Davison Van Cleve, P.C., Portland, Oregon, represent Packaging Corporation of America (PCA). Simon J. ffitch, Attorney at Law, Bainbridge Island, Washington, represents The Energy Project. Vicki M. Baldwin, Parsons Behle & Latimer, Salt Lake City, Utah, and Alex Kronauer, Senior Manager, Energy Services, Walmart Stores, Inc., Bentonville, Arkansas, represent Walmart, Inc. (Walmart).

B. ISSUES

- 27 The Commission is presented with a full settlement of all contested issues in all of the consolidated dockets via two separate settlement stipulations: the Settlement (UE-180778) addressing only issues arising in Docket UE-180778, and the Settlement in Dockets UE-191024 *et. al.*, which resolves all other issues in the consolidated dockets. While the Settlements are separable by the fact that Settlement (UE-180778) stands alone, the Settlement in the consolidated dockets incorporates the revenue requirement effect of Settlement (UE-180778) into its terms. We determine, however, that it is appropriate to consider both in this Order because the Settlements arise from proceedings sharing issues of law and fact, and no party opposes either settlement. The Settlements are supported by all parties and propose to resolve all issues in dispute, as follows:

- Depreciation rates in Docket UE-180778;
- Revenue requirement, including deferred tax benefits;
- Rate plan;

⁶ In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

- Cost of capital, including capital structure, cost of debt, return on equity, and overall rate of return;
- Pro forma major capital additions;
- Net power costs;
- WIJAM and the 2020 Protocol;
- Rate spread and rate design;
- Low-income programs;
- Disconnection practices; and
- Miscellaneous provisions.

DISCUSSION AND DECISION

28 The Commission’s statutory duty is to establish rates, terms, and conditions for electric service that are “fair, just, reasonable and sufficient.” In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the financial needs of the utility to cover its expenses and attract capital on reasonable terms.

A. SETTLEMENT STIPULATIONS⁷

29 The Commission approves settlements “when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission.”⁸ The Commission may approve the Settlements, with or without conditions, or reject them.

⁷ The Settlement (UE-180778) and all attachments are included as Appendix A to this Order. Appendix A is incorporated into, and made part of, this Order by this reference. The Settlement in Dockets UE-191024 *et. al.* and all attachments are included as Appendix B to this Order. Appendix B is incorporated into, and made part of, this Order by this reference. In this Order, we briefly summarize each Settlement’s proposed commitments. To the extent any arguable inconsistency exists between our summary and the terms of the Settlements, the terms of each Settlement (Appendix A or Appendix B) control, except for the instances identified in this Order where the Parties have updated or clarified in response to the Commission’s bench requests, in which case the clarifications in the identified bench request control.

⁸ WAC 480-07-750(1).

30 The Parties reached agreement on all issues in dispute in these consolidated dockets. Although uncontested, our statutory obligation to regulate in the public interest requires us to evaluate whether the parties' resolution of issues complies with applicable legal requirements, is supported by an appropriate record, and is consistent with the public interest based on all of the information available to the Commission. The witnesses proffered by the Parties to testify in support the Settlements at the Commission's August 24, 2020, hearing provided thorough and thoughtful explanations of the Settlements' terms. The record in this case, including the Company's initial filed testimony, the written testimony supporting the Settlements, the testimony from the hearing, and the Parties' responses to bench requests, provides us sufficient evidence to support our decisions on the Settlements' provisions. Ultimately as explained in this Order, we approve the Settlement (UE-180778) without condition and the Settlement in Dockets UE-191024 *et. al.* subject to conditions. We address each provision of the Settlements, and the conditions we place on the Settlement in Dockets UE-191024 *et. al.* for approval, below.

1. DEPRECIATION RATES IN DOCKET UE-180778

31 The Parties agree to certain changes to PacifiCorp's depreciation study originally filed in September 2018. The Parties identify those changes in Attachment 1 to the Settlement (UE-180778), show the effect of the changes compared to PacifiCorp's original filing in Attachment 2 to the Settlement (UE-180778), and present the consolidated depreciation rates as agreed by the Parties in Attachment 3 to the Settlement (UE-180778).⁹ The Parties agree that the depreciation rates for all other accounts will be consistent with PacifiCorp's initial filing and the terms of the Settlement in Dockets UE-191024 *et. al.*¹⁰ The agreed changes to PacifiCorp's original depreciation study results in a reduction of approximately \$1.48 million to the depreciation rates charged to Washington customers.¹¹ This amount is included in the Parties' agreed revenue requirement.

⁹ Settlement (UE-180778) at 3, ¶ 8. The Parties agree to changes in the following accounts: Hydro Account 331 Hydro Structure; Simple Cycle Gas Account 343 for Gadsby Peak; Transmission Accounts 350.2, 352, 353, 354, 355, 356, 357, 358, 359; Washington Distribution Accounts 360.2, 361, 362, 364, 365, 366, 367, 368, 369.1, 369.2, 370, 371, 373; Washington General Plant Account 390, 392.01, 392.05, 392.09, 392.03, 396.07; and, Wyoming General Account 390. *Id.* at 3-4, ¶ 9.

¹⁰ Settlement (UE-180778) at 5, ¶ 14.

¹¹ Settlement (UE-180778) at 3, ¶ 8.

- 32 PacifiCorp expects to file a new depreciation study in 2025.¹² PacifiCorp agrees to use a 25-year life span and corresponding depreciation rates as presented in the Settlement (UE-180778) for any new solar and battery storage assets that it may develop or acquire before filing its next depreciation study.¹³
- 33 Additionally, for solar and battery storage assets that PacifiCorp owns by the time of its next depreciation study, the Company agrees to “analyze and provide robust support for [their] proposed lives and net salvage values.”¹⁴ PacifiCorp agrees it will collect depreciation study data for Account 390 entries in Oregon and Utah based on separate situs and system-allocated groups, and will also provide an analysis of these entries “to provide more transparency into the derivation of the life and net salvage characteristics considered when determining” Account 390 rates.¹⁵ Public Counsel and PCA witness Kaufman explains that this analysis will inform the Commission’s future consideration of whether it is appropriate to group and depreciate certain assets using separate rates.¹⁶

Commission Determination

- 34 The Commission has authority to determine proper and adequate depreciation rates for the Company’s assets.¹⁷ Here, the Parties have agreed to changes in the depreciation rates originally filed by PacifiCorp and have agreed to future actions that the Company will take when conducting its next depreciation study. PacifiCorp’s updates to its depreciation study since its initial filing in September 2018 have, as directed by the Commission, incorporated the impacts of the Clean Energy Transformation Act (CETA) and the Company’s Integrated Resource Plan (IRP) while also incorporating the results of a multi-state agreement for the use of depreciation rates for system assets.¹⁸

¹² Settlement (UE-180778) at 4, ¶ 10.

¹³ Settlement (UE-180778) at 4, ¶ 10, Table 3.

¹⁴ Settlement (UE-180778) at 4, ¶ 11.

¹⁵ Settlement (UE-180778) at 4-5, ¶¶ 12-13.

¹⁶ See Joint Testimony, Exh. JT-1 (UE-180778) at 9:5-11.

¹⁷ RCW 80.04.350.

¹⁸ Joint Testimony, Exh. JT-1 (UE-180778) at 4:4-5:2; *In re Petition of Pacific Power & Light Co. for an Order Approving a Change in Depreciation Rates Applicable to Electric Property*, Docket UE-180778 (*subsequently consolidated with Dockets UE-191024, UE-190750, UE-190929, UE-190981*), Order 04, 3-4, ¶¶ 14-18 (Sep. 11, 2019).

- 35 We acknowledge the foresight of the Parties considering how additional solar and battery storage assets acquired by the Company will be considered in the Company's next depreciation study and how the Company will initially set the life span and depreciation rate for any such new assets until its next depreciation study. Staff witness Ball testifies that the analysis PacifiCorp agrees to incorporate into its next depreciation study is "critically important" and "necessary to fulfill requirements for clean energy procurement under the Clean Energy Transformation Act."¹⁹ We agree.
- 36 CETA requires the transition of electric utilities away from powering electric generation with greenhouse gas-emitting fuel sources and towards greenhouse gas neutrality in 2030 and 100 percent clean energy in 2045. The Parties' agreement to analyze and begin incorporating new solar and battery storage assets in PacifiCorp's future depreciation studies is appropriate as all electric utilities should be planning for how to comply with CETA's requirements. This analysis and the other analyses agreed by the Parties in PacifiCorp's next depreciation study will contribute to future Commission oversight of proper depreciation rates and allocations.
- 37 Staff witness Ball further explains that the Parties' agreement as to PacifiCorp's depreciation rates is in the public interest because those rates "provide the Company with adequate cost-recovery while securing analysis of newer assets needed to meet CETA's 2030 requirements."²⁰ We agree and determine that the terms and depreciation rates agreed by the Parties are proper and adequate and that the agreed reduction of approximately \$1.48 million will contribute to a revenue requirement that is fair, just, reasonable, and sufficient.

2. REVENUE REQUIREMENT

- 38 The Parties agree that PacifiCorp's annual revenues from Washington customers should be decreased by \$210,000, a 0.06 percent rate decrease. This includes a revenue requirement decrease of \$5.61 million offset by a transmission adjustment increase of \$5.4 million and another reduction of approximately \$1.48 million resulting from modifications to the Company's depreciation rates as agreed in the Settlement (UE-180778). The Parties agree to a five-year amortization of remaining tax credit balances under Schedule 197 resulting in \$11.94 million annually. Thus, in 2021, customers will see a total decrease in rates of \$4.15 million (a 1.18 percent rate decrease)

¹⁹ Joint Testimony, Exh. JT-1 (UE-180778) at 8:11-14.

²⁰ Joint Testimony, Exh. JT-1 (UE-180778) at 8:14-19.

due to that \$11.94 million being offset by the expiration of approximately \$8 million in other passbacks to customers through Schedule 197. In 2022 and 2023, there will be no rate change unless a change results from the updates and additional proceedings anticipated and permitted by the Settlement.²¹

- 39 The Settlement's revenue requirement includes amortization of tax benefits from the TCJA: Schedule 197 returns TCJA benefits, including 2020 deferred current tax benefits, unprotected excess deferred income tax (EDIT), and protected EDIT through the end of 2020.²² The collection of the 35 percent corporate tax was previously embedded in PacifiCorp's Washington rates.²³ Changing from the prior collection at 35 percent to the TCJA's 21 percent corporate tax rate has resulted in benefits being owed to customers.²⁴
- 40 The Parties propose to return to customers a total of approximately \$50.5 million in tax benefits through Schedule 197 over the next five years beginning January 1, 2021, instead of over the next three years as proposed by PacifiCorp in its supplemental filing.²⁵ Included in the \$50.5 million is \$9.5 million in benefits from current taxes, \$25.9 million in unprotected EDIT, and \$15.1 million in deferred protected EDIT amortization.²⁶
- 41 The Parties also agree to the return of protected EDIT to customers in the amount of approximately \$70.6 million through base rates.²⁷ PacifiCorp uses the Reverse South Georgia Method (RSGM) for this amount of protected EDIT.²⁸ PacifiCorp has categorized the protected EDIT into 66 categories consistent with the Company's depreciation study.²⁹ Each category has an unique remaining regulatory life, ranging from

²¹ Settlement (UE-191024 *et. al.*) at 4, ¶ 9.

²² Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 11:14-18; Wilding, TR at 105:19-24.

²³ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 10, n. 5.

²⁴ *Id.*

²⁵ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 11:14-12:1; Lockey, Exh. EL-4T at 3:17-4:15; McCoy, Exh. SEM-6T at 4:1-10; McCoy, Exh. SEM-9; Fuller, Exh. RF-2.

²⁶ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 11:14-12:1; Fuller, Exh. RF-2.

²⁷ Joint Testimony, Exh. JT-2; Exh. BE-5.

²⁸ *See* Joint Testimony, Exh. JT-2; Exh. BE-5.

²⁹ Exh. BE-5.

3 to 53.2 years, over which the protected EDIT will amortize and the benefits will be returned to customers.³⁰

Commission Determination

- 42 On February 29, 2020, the Governor issued a Declaration of Emergency, noting the health and economic impacts to Washington citizens resulting from the outbreak of COVID-19. Since then, residents of Washington – and the entire country – have felt the keen impact of the pandemic on their health and economic well-being. These are not normal circumstances for PacifiCorp’s Washington customers. The Parties’ proposed revenue requirement affords customers a welcome decrease in electricity rates and the expectation, through their agreement to a three-year rate plan, to the continued stability of those rates. We agree that a decrease to customers’ rates is adequately supported in these consolidated proceedings and is in the public interest. However, we find it necessary to condition our approval of the Settlement’s revenue requirement on certain reporting requirements, as explained below.
- 43 While we have directed other utilities to use other methods for the return of protected EDIT to customers,³¹ the RSGM is consistent with normalization rules and conducive to the return of EDIT benefits to customers consistent with our directions to other Washington utilities.³² In its initial filing, PacifiCorp’s witness Fuller explained that PacifiCorp’s book and underlying records lack the necessary vintage account data for the Average Rate Assumption Method (ARAM) that the Commission has directed for use by other Washington utilities.³³ Regardless, Fuller testifies that PacifiCorp has been able to extract certain unprotected EDIT from its tax fixed asset system so that it can be returned to customers over a time period approved by the Commission commencing

³⁰ Exh. BE-5.

³¹ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, UG-190992 (*Consolidated*), Order 08/05/03/03 (Jul. 8, 2020) and Order 09/06/04/04 (Jul. 31, 2020); *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a Avista Utils.*, Dockets UE-170485, UG-170486, UE-171221, UG-171222 (*Consolidated*), Order 07/02/02 (Apr. 26, 2018); *Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corp.*, Docket UG-170929 (Jul. 20, 2018).

³² PacifiCorp witness Fuller testifies that there are some uncertainties that require the Internal Revenue Service to issue guidance on the EDIT normalization requirements, which could include guidance on the use of the RSGM. Fuller, Exh. RF-1T at 6:19-7:12.

³³ Fuller, Exh. RF-1T at 4:21-6:17.

immediately.³⁴ We therefore find that PacifiCorp's use of RSGM should be approved. Additionally, while we are mostly satisfied by the Settlement's proposal to return the EDIT benefits to customers, we find that the Settlement lacks sufficient tracking and transparency of the return of the EDIT benefits to customers. We find that it is important for PacifiCorp to update the Commission regularly with the amounts of EDIT being returned to customers. To address this concern, we determine that it is necessary to require certain annual reports from PacifiCorp as a condition our approval of the Settlement.

44 **Condition.** We condition our approval of the Settlement on certain annual reporting related to the EDIT included in base rates until the deferred EDIT balances have fully amortized. Starting with the annual amount of RSGM amortization embedded in rates that will become effective January 1, 2021, PacifiCorp must file with the Commission an annual report to apprise the Commission of the amount of protected EDIT returned to customers through base rates and the amount embedded in base rates in the preceding year. PacifiCorp's filing must report to the Commission the returned amount of protected EDIT, overall, as well as each customer class's share of the overall return. The report must also identify, explain, and propose resolution for any variance between the overall amount returned through base rates and the amount embedded in base rates authorized by this Order. PacifiCorp must also report year-end balances starting with PacifiCorp's responses in Exhibit BE-5 as of January 1 of the upcoming years. The first annual report will be due on January 31, 2022, which should afford PacifiCorp sufficient opportunity to prepare a report for filing with the Commission.

45 We have considered the full record before us in evaluating whether the proposed revenue requirement is compliant with applicable legal requirements, supported by an appropriate record, and consistent with the public interest based on all the information available to the Commission. We find that the Settlement's revenue requirement, with conditions, is fair, just, reasonable, and sufficient. A rate decrease to PacifiCorp's customers is a justified reprieve under the difficult and trying times presented during the COVID-19 pandemic and the Parties' agreement still meets the Company's need for revenue sufficiency. The Settlement provides some rate stability over a three-year rate plan, though it affords for the possibility that rates may change as the result of certain agreed to

³⁴ Fuller, Exh. RF-1T at 4:14-16.

proceedings such as a 2021 power cost only rate case and a 2021 limited issue rate filing. We find that the evidence in the record supports the Parties' agreement to provide immediate relief to customers in the form of a \$4.15 million decrease to rates and is in the public interest. Accordingly, we determine that the Settlement's revenue requirement decrease, with conditions, is fair, just, reasonable, and sufficient.

3. RATE PLAN

- 46 The Parties explain that the Settlement's intent is to provide rate stability to PacifiCorp's ratepayers through a rate decrease in 2021 and no change to base rates in 2022 or 2023.³⁵ To that aim, the Settlement establishes a three-year rate plan, beginning January 1, 2021, and ending December 31, 2023, that will effect no change to base rates unless such a change results from the ancillary proceedings provided for in the Settlement.³⁶ PacifiCorp agrees, as part of its agreement to this three-year rate plan, not to file a general rate case with a rate effective date before January 1, 2024.³⁷
- 47 The Parties agree that the base rates, as explained in paragraph 38, include production-related plant in service during the latter half of 2020. The Settlement protects the rights of the Parties during the rate plan period to request, support, or oppose any petition for deferred accounting for unanticipated costs, revenues, or as related to Washington's emission performance standard in RCW 80.80.060(6).³⁸

Commission Determination

- 48 We have encouraged all parties in prior proceedings to review carefully the Commission's recently issued Policy Statement on changes to the used and useful statute, RCW 80.04.250, and have strongly urged all parties to consider multi-year rate plans.³⁹

³⁵ Settlement (UE-191024 *et. al.*) at 5, ¶ 12. The Settlement anticipates no change to base rates in 2022 or 2023 unless such change results from the other proceedings allowed by the Settlement.

³⁶ Settlement (UE-191024 *et. al.*) at 5, ¶ 11. The Settlement requires PacifiCorp to file a power cost only rate case in 2021 to update its net power cost baseline to reflect the day-ahead dispatch, which is expected to occur beginning January 2021. *Id.*

³⁷ *Id.*

³⁸ Settlement (UE-191024 *et. al.*) at 5, ¶ 12.

³⁹ *In re Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful After Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date (Jan. 31, 2020); *Wash. Utils. & Transp.*

Here, the Parties' agreed rate plan will last three years, with PacifiCorp agreeing not to file a rate case resulting in a modification to rates prior to January 1, 2024. We find that the rate plan agreed to by the Parties is consistent with the Commission's Policy Statement regarding the used and useful statute and multi-year rate plans. The Parties' proposal will result in an immediate decrease to rates for customers during the COVID-19 pandemic and predictable rates over the next three years. The proposal also adds predictability for the Company, which can now plan knowing what revenue to expect from rates over the next three years. The Parties' proposal thus strikes an appropriate balance between the interests of the customers and the interests of the Company and is influential in our consideration of the proposed three-year rate plan. We determine that the Parties' agreed three-year rate plan is in the public interest, will provide rate stability and predictability for customers and the Company, and should be approved.

4. COST OF CAPITAL

49 In Docket UE-152253, the Commission authorized a capital structure for PacifiCorp that included 49.10 percent equity, 50.88 percent debt (50.69 percent long-term debt and 0.19 percent short-term debt), and 0.02 percent preferred stock with an ROE of 9.5 percent.⁴⁰ PacifiCorp's currently-approved cost of capital is shown in Table 1, below.

Comm'n v. Avista Corp. d/b/a Avista Utils., Dockets UE-190334, UG-190335, UE-190222 (*Consolidated*), 12-13, ¶ 33 (Mar. 25, 2020).

⁴⁰ *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253, Final Order 12, 51, 54-56, ¶¶ 143, 156, 163 (Sep. 1, 2016); *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140762, *et. al.*, Final Order 08, 77-78, ¶ 183 (Mar. 25, 2015).

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Table 1. Currently Authorized Cost of Capital

	Capital Structure	Cost	Overall Rate of Return
Total Debt	50.88%		
Long-Term Debt	50.69%	5.19%	
Short-Term Debt	0.19%	1.73%	
Preferred Stock	0.02%	6.75%	7.30%
Equity	49.10%	9.50%	

51 The Parties agree to maintain most of PacifiCorp’s cost of capital elements including the capital structure and return on equity (ROE) previously approved by the Commission in Docket UE-152253, but agree to update PacifiCorp’s debt to include only long-term debt and to decrease the cost of long-term debt to 4.92 percent.⁴¹ Application of the Parties’ agreement results in an authorized overall rate of return (ROR) of 7.17 percent, as reflected in Table 2, below.⁴²

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Table 2. Proposed Cost of Capital

	Capital Structure	Cost	Overall Rate of Return
Debt (Long-Term)	50.88%	4.92%	
Preferred Stock	0.02%	6.75%	7.17%
Equity	49.10%	9.50%	

Commission Determination

53 We find that the cost of capital proposed by the Parties should be approved, as explained below, and observe that it is consistent with recent cases before the Commission

⁴¹ Settlement (UE-191024 *et. al.*) at 5-6, ¶ 13; Exh. BE-10. The Commission accepts the clarification in Exhibit BE-10 that the Parties did not include short-term debt in their agreed cost of capital, but had agreed to include only 50.88 percent long-term debt at a cost of 4.92 percent.

⁴² Settlement (UE-191024 *et. al.*) at 5-6, ¶ 13; Exh. BE-10.

involving other Washington utilities as well as with PacifiCorp's historical cost of capital.⁴³

54 A company's cost of capital has an impact on the calculated revenue requirement. For example, increases or decreases to ROR and ROE have a corresponding effect on a company's revenue requirement. Holding all other adjustments constant, an increase or decrease in these factors can result in significant increases or decreases to the revenue requirement.

55 In this case, PacifiCorp initially proposed to decrease its cost of long-term debt from 5.19 percent to 4.92 percent, increase its ROE from 9.5 percent to 10.2 percent, and increase its ROR from 7.30 percent to 7.69 percent.⁴⁴ Additionally, PacifiCorp proposed modifying its capital structure based upon its actual capital structure as of September 30, 2019, and forecasted through December 31, 2020, using a five-quarter average, to remove short-term debt, reduce long-term debt from 50.69 percent to 47.44 percent, reduce preferred stock from 0.02 percent to 0.01 percent, and increase common equity from 49.10 percent to 52.55 percent.⁴⁵ PacifiCorp witness Kobliha addresses in testimony the Company's proposal to exclude short-term debt, explaining that short-term debt is important but its amount fluctuates dramatically and the Company experiences periods where it has little or no outstanding short-term debt.⁴⁶ Kobliha also observes that

⁴³ *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253, Final Order 12, 51, 54-56, ¶¶ 143, 156, 163 (Sep. 1, 2016); *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140762, *et. al.*, Final Order 08, 77-78, ¶ 183 (Mar. 25, 2015). *See, e.g.*, *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226 (*Consolidated*), Final Order 08/05/03 (Jul. 8, 2020) (ROR of 7.39 percent for Puget Sound Energy); *Wash. Utils. & Transp. Comm'n v. Avista Corp., d/b/a Avista Utils.*, Dockets UE-190334, UG-190335, UE-190222 (*Consolidated*), Final Order 09 (Mar. 25, 2020) (ROR of 7.21 percent for Avista Corp. d/b/a Avista Utils.); *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket UG-190210, Order 05 (Feb. 3, 2020) (ROR of 7.31 percent for Cascade Natural Gas Corp.); and *Wash. Utils. & Transp. Comm'n v. Northwest Natural Gas, d/b/a NW Natural*, Docket UG-181053, Order 06 (Oct. 21, 2019) (ROR of 7.161 for NW Natural Gas d/b/a NW Natural).

⁴⁴ Kobliha, Exh. NLK-1T (UE-191024 *et. al.*) at 11:1-12:6, 21:11-19; Bulkley, Exh. AEB-1T at 76:1-12.

⁴⁵ Kobliha, Exh. NLK-1T (UE-191024 *et. al.*) at 17:1-18:13.

⁴⁶ *Id.* at 3:1-7.

including short-term debt in the Company's capital structure in the prior two rate cases "had no practical impact on the cost of capital rounded to two decimal places."⁴⁷

- 56 In the Settlement, the Parties agree to an overall ROR of 7.17 percent, which is: (1) consistent with rates of return the Commission has approved for other Washington utilities, (2) 53 basis points lower than the Company's original request, and (3) 13 basis points lower than PacifiCorp's ROR previously approved by the Commission in Docket UE-152253. Additionally, the Parties agreed to maintain most of the Company's current capital structure, approved by the Commission in Docket UE-152253, with 50.88 percent debt (long-term debt), 0.02 percent preferred stock, and 49.10 percent common equity. The only modification agreed by the parties is to update the Company's cost of long-term debt from 5.19 percent to 4.92 percent and exclude short-term debt from the capital structure. This results in an overall ROR of 7.17 percent. PacifiCorp witness Wilding explained at hearing that the cost of capital proposed by the Settlement "strikes a balance between rate stability for customers and provides the Company with the access to financing to support the continued capital investment that is necessary for PacifiCorp's transition to a cleaner energy future."⁴⁸ We agree.
- 57 The result of the Parties' agreement preserves, mostly, PacifiCorp's cost of capital as the Commission authorized in Docket UE-152253 and Docket UE-140762, *et. al.*⁴⁹ We conclude that the cost of capital proposed by the Settlement is adequately supported by the Parties; is a fair and reasonable outcome; contributes to a revenue requirement that is fair, just, reasonable, and sufficient, and should be approved.

⁴⁷ *Id.* at 3:7-9.

⁴⁸ Wilding, TR at 106:2-6.

⁴⁹ *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253, Final Order 12, 51, 54-56, ¶¶ 143, 156, 163 (Sep. 1, 2016); *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140762, *et. al.*, Final Order 08, 77-78, ¶ 183 (Mar. 25, 2015). The Parties mistakenly assert that the Commission authorized a capital structure in Docket UE-152253 including 50.88 percent long-term debt. Settlement (UE-191024 *et. al.*) at 5-6, ¶ 13, n. 8.

5. PRO FORMA MAJOR CAPITAL ADDITIONS AND LIMITED-ISSUE RATE FILING

58 The Parties agree to include in rates, subject to refund, the major capital additions below, as corrected by the Parties' response to Bench Request No. 4, that were placed in service after May 1, 2020:

- Ekola Wind Project;
- TB Flats Wind Project;
- Cedar Spring II Wind Project;
- Pryor Mountain Wind Project;
- Dunlap Wind Repowering Project;
- Foote Creek I Wind Repowering Project;
- Aeolus to Bridger/Anticline 500kv Transmission Line Sequence 4; and,
- Associated 230kv network upgrades.⁵⁰

59 The Parties agree that these capital additions should be included in rates but subject to refund in a 2021 limited-issue rate filing.⁵¹ The Parties agree to support an expedited procedural schedule for the limited-issue rate filing, with the adjudication concluding between six and seven months after PacifiCorp's filing.⁵² The limited-issue rate filing will require PacifiCorp to demonstrate the prudence and actual costs of the above-listed major capital additions and the Commission will set final rates based on its prudence review.⁵³ This could result in an increase or decrease to customer rates at that time, even before the conclusion of the Parties' agreed rate plan.⁵⁴

60 The Parties also agree that no capital additions other than those listed above will be incorporated into rates through 2023. According to the Settlement, however, PacifiCorp may include any in-service and unanticipated capital additions not already included in the

⁵⁰ Settlement (UE-191024 *et. al.*) at 6, ¶ 14. In Exhibit BE-4C, the Parties responded to the Bench Request No. 4 identifying the capital additions included in rate base and the associated revenue requirement amounts related to those additions, which will be subject to refund. The list above is a complete, corrected account of the capital additions the Parties agree to treat in the manner provided in the Settlement.

⁵¹ Settlement (UE-191024 *et. al.*) at 6, ¶ 14.

⁵² Settlement (UE-191024 *et. al.*) at 6, ¶ 15.

⁵³ *Id.*

⁵⁴ *See id.*

Parties' agreed revenue requirement in its 2021 limited-issue rate filing.⁵⁵ None of these, however, will be recovered in rates until PacifiCorp's next general rate case if the Commission finds them prudent during the 2021 limited-issue rate filing. Additionally, any prudent unanticipated capital additions will not be included in the calculation of PacifiCorp's baseline net power costs determined by the 2021 PCORC proposed in the Settlement unless PacifiCorp "is allowed to defer the revenue requirement associated with unanticipated capital additions until its next rate case."⁵⁶

Commission Determination

- 61 We find the Parties' agreement regarding pro forma major capital additions reasonable. While the Parties agree to include in rates all of the capital additions listed above, the amounts associated with those capital additions are subject to refund through the agreed limited-issue rate proceeding. The limited-issue rate proceeding the Parties propose is very limited in scope, including only: a prudency review of the above capital additions and whether they should continue to be recovered in rates or be refunded to customers; and, a prudency review of any unanticipated capital additions other than those identified above. Importantly, only the capital additions listed above may continue to be recovered in rates through the end of the agreed three-year rate plan, ending 2023. Therefore, even if found prudent, any unanticipated capital additions could not be recovered in rates until January 1, 2024, at the earliest.
- 62 Like the Parties' agreement to a three-year rate plan, this term of the Settlement is consistent with the Commission's Policy Statement on changes to the used and useful statute.⁵⁷ The Parties creatively have constructed a balance between the interests of the Company and those of its customers. The Company gains certainty as it is permitted to include in base rates capital additions that may otherwise fall outside of the period for inclusion in this case's revenue requirement. Customers, likewise, gain certainty that no capital additions beyond those listed in the Settlement will be recovered in rates until January 1, 2024, at the earliest, and also retain the right to review the listed capital additions for prudency with the ability to have costs determined to have been incurred imprudently returned within a year. The structure of this term is fair, just, and reasonable

⁵⁵ Settlement (UE-191024 *et. al.*) at 7, ¶ 16.

⁵⁶ Settlement (UE-191024 *et. al.*) at 7, ¶ 16.

⁵⁷ *In re Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful After Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date (Jan. 31, 2020).

to customers and the Company alike. Last, the Parties' agreement to propose a particular procedural schedule is acceptable, but it will not bind the Commission from taking the time necessary to fully consider the issues presented if the Commission determines more time is warranted than provided for in the Parties' proposal. Accordingly, we find the Parties' proposal is reasonable, in the public interest, and should be approved.

6. NET POWER COSTS

63 The Settlement proposes agreements by the parties on several distinct issues, including provisions for a power cost only rate case in 2021 (2021 PCORC) and, until the net power cost (NPC) baseline is revised in the 2021 PCORC, the Parties agree to additional provisions regarding the Energy Imbalance Market (EIM), production tax credits (PTCs), the net NPC baseline, and deferred accounting treatment for major maintenance expenses at Colstrip Unit 4 through 2020 and early 2021. We address each below.

i. 2021 PCORC

64 The Parties agree that PacifiCorp will file a PCORC by June 1, 2021.⁵⁸ The 2021 PCORC will update the NPC baseline, authorized by this Order, using a calendar year 2022 forecast based on a nodal pricing dispatch and reflecting the changes to day-ahead scheduling that PacifiCorp is implementing.⁵⁹ PacifiCorp agreed to implement a nodal pricing model as part of the 2020 PacifiCorp Inter-Jurisdictional Allocation Protocol (2020 Protocol) and the Washington Inter-Jurisdictional Allocation Methodology (WIJAM) for purposes of allocating costs among the six different states in its service territory.⁶⁰ The 2021 PCORC will affect customer rates only by the update to the NPC baseline, which could raise or lower rates compared to those authorized in this Order.⁶¹ The Parties agree to cooperate to propose a procedural schedule for the 2021 PCORC that would permit the Commission to issue an order before January 1, 2022, at which time the new NPC baseline would go in to effect.⁶² The scope of the 2021 PCORC will be limited to incorporating the change to the NPC baseline into base rates, reviewing prudence of costs associated with nodal dispatch and modeling nodal dispatch, and reviewing the

⁵⁸ Settlement (UE-191024 *et. al.*) at 7, ¶ 17; Exh. BE-7 at 1.

⁵⁹ Settlement (UE-191024 *et. al.*) at 7, ¶ 17; Exh. BE-7 at 1; Wilding, TR at 105:17-19.

⁶⁰ Wilding, TR at 113:23-114:3.

⁶¹ Settlement (UE-191024 *et. al.*) at 7, ¶ 17.

⁶² Exh. BE-7 at 2.

deferred accounting treatment for major maintenance expense at Colstrip Unit 4 for inclusion in PacifiCorp's next general rate case (which, according to the terms of the Settlement, will not seek to establish rates effective prior to January 1, 2024).⁶³

Commission Determination

65 We find that the Parties' agreement requiring the 2021 PCORC is reasonable. The Parties explain that the 2021 PCORC should "further resolve the ongoing disagreements about the modeling and calculation of power costs."⁶⁴ We approve the WIJAM and 2020 Protocol in this Order and thus understand, principally, there will be changes in PacifiCorp's NPC modeling that the Parties will address. Public Counsel's witness Earle emphasized their support for the change in modeling, stating their expectations that moving to nodal pricing using the AURORA modeling software in the PCORC would provide more accurate NPC estimations going forward.⁶⁵ The Commission is familiar with AURORA modeling, which has been used by other utilities in Washington for modeling purposes for many years, and the 2021 PCORC will provide an opportunity for the Parties and the Commission to focus on PacifiCorp's power cost calculations, modeling, and resulting baseline.

66 In response to Bench Request No. 7, the Parties identified the scope and limitations for the proposed 2021 PCORC. The 2021 PCORC will address resetting the NPC baseline, using a calendar year 2022 forecast based on the nodal pricing dispatch; incorporating the change to the NPC baseline into base rates, and reviewing the deferred accounting treatment for major maintenance expense at Colstrip Unit 4. Any expenses for major maintenance at Colstrip Unit 4 during 2020 and early 2021 that are deemed prudent would be included in PacifiCorp's next general rate case and would not be included in rates at the conclusion of the 2021 PCORC. Finally, the Parties' agreement to cooperate to propose a particular procedural schedule is acceptable and we encourage such collaboration. Accordingly, we find the Parties' proposal is reasonable and in the public interest, and should be approved.

⁶³ Settlement (UE-191024 *et. al.*) at 7, ¶ 17; Exh. BE-7 at 1.

⁶⁴ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 30:8-9.

⁶⁵ Earle, TR at 132:24-133:8.

ii. Energy Imbalance Market

67 Energy Imbalance Market (EIM) forecast costs have previously been included in NPC pending a resolution of the treatment of the costs and a resolution of modeling. The Parties agree to include EIM forecast costs and benefits in base NPC and allow actual EIM costs and benefits to flow through PacifiCorp's PCAM.⁶⁶ The Settlement also provides moving EIM costs not included in NPC (non-NPC EIM costs) to base rates as required by the Commission's final order in Docket UE-152253, PacifiCorp's 2015 rate case.⁶⁷ The Settlement does not bind the Parties to any specific approach, calculation, or method for determining or modeling EIM benefits.⁶⁸ Additionally, the Parties agree not to oppose an investigation into the modeling of EIM benefits by Staff or the Commission, generally.⁶⁹

Commission Determination

68 The preservation of rights to take any position on modeling of EIM benefits in the 2021 PCORC is important to the Parties because, as they explain in joint testimony, that modeling will impact the determination of rates after application of the PCAM's sharing and dead bands.⁷⁰ We find this appropriate due to the modeling changes that will be used in the 2021 PCORC for NPC, according to the Settlement. We also find that the Settlement's provision for moving non-NPC EIM costs to base rates is consistent with the Commission's prior direction in Docket UE-152253.⁷¹ Last, we find that including the EIM forecast costs in base NPC and flowing actual EIM costs and benefits through the PCAM are fair and reasonable. Accordingly, we determine that the Parties' agreement regarding EIM costs and benefits is in the public interest and should be approved.

⁶⁶ Settlement (UE-191024 *et. al.*) at 7, ¶ 18; *see* Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 44:9-16.

⁶⁷ Settlement (UE-191024 *et. al.*) at 7, ¶ 18.

⁶⁸ Settlement (UE-191024 *et. al.*) at 7-8, ¶ 18.

⁶⁹ Settlement (UE-191024 *et. al.*) at 7-8, ¶ 18.

⁷⁰ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 44:12-16.

⁷¹ *See Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co., a Division of PacifiCorp*, Docket No. UE-152253, Order 12, 8, ¶ 14 (Sept. 1, 2016).

iii. Production Tax Credits

69 The Parties agree not to flow PTCs through the PCAM. Instead, PTCs will receive separate accounting treatment and trued up annually in order to return them to customers in a manner that matches the costs in the PCAM without running through the PCAM triggering mechanism.⁷² Consistent with the Settlement’s agreement to include certain capital additions in rates subject to refund in the 2021 limited rate filing, PTCs associated with those capital additions may also be subject to refund to the Company as a result of the 2021 limited rate filing.⁷³

Commission Determination

70 In joint testimony, the Parties explain that returning PTCs to customers in this manner “will ensure that the benefits of the tax credits flow on a timely basis to customers rather than be subject to the PCAM triggering mechanism.”⁷⁴ We agree. Returning the PTCs through separate accounting and truing up the return annually also affords greater transparency to show the return to customers than when PTC benefits are returned, if triggered, by the PCAM deferral balance. We also approve of the Parties’ clarification that associated PTCs may be refunded to the Company (a surcharge to customers), if the Commission determines in the 2021 limited rate filing that costs of corresponding major capital additions that produced the PTCs may be refunded to customers. Accordingly, we determine that the Parties’ agreement for returning the benefits of PTCs to customers is appropriate and in the public interest, and should be approved.

iv. NPC Baseline

71 The revenue requirement proposed by the Settlement includes an NPC baseline of approximately \$102 million, a \$10.5 million reduction from the NPC baseline estimated in PacifiCorp’s supplemental filing.⁷⁵ The Settlement required PacifiCorp to file an update to the NPC baseline by October 15, 2020 (October Update), based upon the

⁷² Settlement (UE-191024 *et. al.*) at 8, ¶ 19.

⁷³ Settlement (UE-191024 *et. al.*) at 8, ¶ 19.

⁷⁴ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 44:18-20.

⁷⁵ Settlement (UE-191024 *et. al.*) at 8, ¶ 20.

agreed terms in the Settlement and using the Company's official forward price curve as of September 30, 2020.⁷⁶

- 72 When the Parties filed the July 20, 2020, Settlement, the Parties expected that the October Update would not deviate much from the baseline of \$102 million and that any increase to rates resulting from a higher NPC baseline could be offset "if necessary and to the extent possible" by the PCAM's deferral account balance.⁷⁷
- 73 The October Update forecasted an NPC baseline of approximately \$119.5 million, a projected \$17.5 million increase to the amount originally contemplated by the Parties.⁷⁸ As a result, the PCAM deferral account balance became insufficient to fully offset the October Update, an outcome the Parties did not originally anticipate. Accordingly, the October Update's projected NPC baseline would ultimately result in a rate increase, a previously unexpected outcome that was presciently raised for questioning at hearing by Commissioner Balasbas.⁷⁹
- 74 On November 6, 2020, the Parties filed with the Commission modifications to the July 20, 2020, Settlement, addressing the \$17.5 million increase in expected 2021 power costs in a manner that maintains the Parties' agreed \$4.15 million revenue requirement decrease. The Parties modified Paragraph 21, striking language that provided for the PCAM deferral account balance to "offset" any increase to the NPC baseline, and replacing it with language permitting the \$17.5 million to be "reflected in" the PCAM deferral account.⁸⁰
- 75 After the Parties' modification, the Settlement proposes to defer the \$17.5 million variance between the October Update's projected \$119.5 million NPC baseline and the Settlement's agreed NPC baseline in base rates of approximately \$102 million.⁸¹ The

⁷⁶ Settlement (UE-191024 *et. al.*) at 8, ¶ 20; Wilding, TR at 113:18-22.

⁷⁷ July 20, 2020, Settlement (UE-191024 *et. al.*) at 9, ¶ 21; Joint Testimony, Exh. JT-3CT at 9:9-11; *see* Ball, TR at 141:19-25. The balance of the PCAM deferral account, as of December 31, 2019, was \$9.5 million. Joint Testimony, Exh. JT-3CT at 2:5-6. When the PCAM deferral account balance exceeds \$17 million, a refund to customers or a charge to customers is triggered.

⁷⁸ Joint Testimony, Exh. JT-3CT at 2:5-6; *id.* at 9:1-14.

⁷⁹ *See* TR at 140:15-141:25.

⁸⁰ Settlement (UE-191024 *et. al.*) at 9, ¶ 21.

⁸¹ Joint Testimony, Exh. JT-3CT at 10:3-18.

Settlement thereby includes only the approximately \$102 million originally agreed to by the Parties in base rates, or the calculated revenue requirement, and therefore excludes the additional \$17.5 million from base rates. The Parties agreed, however, that this additional amount should be reflected in the 2021 PCAM deferral account through a second step to the calculation of the PCAM deferral account balance.⁸² The Parties refer to this calculation as the Deferred NPC Baseline Adjustment (DNBA): it equals the dollar per megawatt-hour difference between the October Update's estimated NPC baseline and the NPC baseline in rates, multiplied by 2021 actual sales.⁸³ The debt incurred by customers on a monthly basis in 2021 by the operation of the DNBA will not flow through the PCAM's sharing and dead bands, but will be added to the PCAM balance monthly and accrue interest monthly.⁸⁴

Commission Determination

- 76 While we find that the Parties' agreement regarding the NPC baseline should be approved as a portion of the Settlement, we have concerns about the Parties' agreement to add this unwieldy additional calculation into the PCAM because it fails to afford the transparency to customers that we expect of a properly functioning PCAM and of regulatory ratesetting. We approve the Parties' agreement nevertheless, but strictly limit our decision to the circumstances demanded by these consolidated proceedings. We admonish the Parties and interested stakeholders that mechanisms like PacifiCorp's PCAM should not be modified haphazardly, and that *any* modification should be clear, transparent, and fully supported by the record, particularly the testimony filed in support of a settlement.
- 77 The Settlement's provision regarding the NPC baseline preserves the immediate rate decrease to customers, but we observe that there are other costs to ratepayers acknowledged by the Parties in their responses to several bench requests addressing this portion of the Parties' agreement. First, by removing the \$17.5 million from recovery in base rates and reflecting that amount through the proposed DNBA calculation, customers will incur the costs of the accrued interest. Had the recovery of the projected \$119.5 million in 2021 power costs been recovered as the NPC baseline through base rates, customers would not incur this cost in the future.

⁸² Settlement (UE-191024 *et. al.*) at 8, ¶ 20; Joint Testimony, Exh. JT-3CT at 9:3-11:10.

⁸³ *Id.* at 10:8-18.

⁸⁴ *Id.*

- 78 Second, the Parties have agreed to remove recovery of the \$17.5 million variance from the cost-sharing and risk reduction controls of the PCAM. The Settlement reflects the \$17.5 million variance through the PCAM deferral account separate from the application of the sharing and dead bands, which distributes unexpectedly high or low costs between PacifiCorp and its customers. Additionally, the amount ultimately calculated by the DNBA and owed by customers will not be lessened due to lower-than-projected actual 2021 power costs. Permitting the DNBA calculation to exist in the PCAM deferral account without updating based on 2021 actual costs and outside of the sharing and dead bands undermines, at least partially, the PCAM's designed cost-sharing and risk reduction benefits to customers.
- 79 Third, the application of the DNBA could have unintended consequences on the PCAM deferral account. For example, it could result in the full depletion of the deferral account balance that is currently in customers' favor. Had the projected \$119.5 million in 2021 power costs been recovered as the NPC baseline through base rates and after application of the sharing and dead bands, a variance may have been added to the deferral account balance and resulted in triggering a significant refund to customers.⁸⁵ Instead, the Parties, including those representing PacifiCorp's customers, have agreed that preserving the Settlement's immediate rate decrease of \$4.15 million is worth allowing the balance owed to customers in the PCAM deferral account to be absorbed by monthly deferrals created by the DNBA calculation in 2021. In addition, we do not know the final PCAM deferral account balance for calendar year 2020 or whether the 2020 balance will trigger a refund to customers. A refund is triggered to customers when the PCAM deferral account balance reaches \$17 million in customers' favor. As of December 31, 2019, the balance stood at approximately \$9.5 million in customers' favor.⁸⁶ While unlikely, as perhaps indicated by the Parties' silence, it is possible that a \$17 million or greater refund to customers may result from the 2020 PCAM, which could reduce the balance back to \$0. The Parties' agreement fails to address this possibility and instead banks on the assumption that the PCAM deferral account balance will stay in customers' favor, but not so much as to trigger a refund.

⁸⁵ A refund to customers is triggered when the PCAM deferral account balance reaches \$17 million in the customers' favor; a surcharge from customers to the Company is triggered when the PCAM deferral account balance reaches \$17 million in the Company's favor.

⁸⁶ This amount was updated, confidentially, by the Parties in Joint Testimony, Exhibit JT-3CT at 9:1-19.

80 Fourth, the NPC baseline will be reset and addressed in the agreed 2021 PCORC. It is too early to predict what NPC baseline projections may be presented in that proceeding, but the trend within these consolidated dockets has foreshadowed the possibility for an increase to power costs beyond those of the October Update. Even if 2022 forecasted power costs remain only at 2021 projected levels, the effect on rates as a result of the 2021 PCORC, alone, may be alarming and the Commission will not have the context of a general rate case within which to assess the impact.

81 Finally, the Parties' agreement creates unnecessary uncertainty in various aspects, and thereby undermines the transparency intentionally designed in PacifiCorp's PCAM. These uncertainties include insufficient expectations of how the DNBA calculation might increase or decrease the final amount owed by customers. The agreement buries the uncertain final DNBA costs in the PCAM deferral account whereby customers may never see the benefit of that account's balance triggering a refund or know how the balance currently in their favor has been spent. Further, the \$17.5 million variance is transformed by the DNBA calculation to a rate of \$4.37 per megawatt hour and subject to sales plus accrued interest and is, therefore, merely an initial projection with multiple uncertainties regarding what the final amount owed by customers will be. This provides little to no certainty for customers, or for the Company, as to the final amount the DNBA calculation will produce.

82 It is unclear from the Parties' presentation when or how the \$17.5 million variance and the DNBA calculation will be reviewed by the Commission. The Parties make references both to the 2021 PCORC approved by this Order and to a 2022 Commission review of the 2021 PCAM in joint testimony without sufficient elaboration or explanation.⁸⁷ The Parties testify:

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

[...]

⁸⁷ Joint Testimony, Exh. JT-3CT at 11:11-21.

The DNBA is simply an additional step to the PCAM deferral until rates are changed in the PCORC.⁸⁸

83 The 2021 PCORC is anticipated to be filed in June of 2021, only halfway through the calendar year over which the \$17.5 million will be recovered through the DNBA calculation, and will resolve (as anticipated by the Parties) with rates effective January 1, 2022. It is unclear how the Parties are capable of knowing actual 2021 sales, costs, and their affect upon the DNBA calculation six months before the end of the calendar year. It is unclear how the Parties plan to update or supplement the 2021 PCORC filing to include monthly information from June through December, or how the Commission could review such evidence and issue a decision in time for rates to be effective January 1, 2022. It is also unclear why the Parties failed to specifically identify, in response to Bench Request No. 7, with all other items of scope for the 2021 PCORC, how the DNBA calculation would be resolved therein, if this was the intent of the Parties' joint testimony.⁸⁹ Additionally, the Parties testify that

the review of the PCAM deferral for calendar year 2021 will occur sometime in 2022, consistent with its current operation. There is no effect from the DNBA on the process for reviewing actual power costs during calendar 2021 for prudence.⁹⁰

84 We are unaware of how the DNBA, a second step calculation that necessarily includes the element of actual sales in 2021, would be excluded from the Commission's 2022 prudence review of the 2021 PCAM. For this uncertainty, at least, we are able clarify that it *will* be subject to the Commission's normal prudence review of PacifiCorp's annual PCAM filing unless we decide at a later time to affirmatively relinquish, in this specific instance, our regulatory authority to review PacifiCorp's PCAM for prudence.

85 Not valued less than the critiques we identify above is our frustration with the Parties' unsatisfactory and unforthcoming presentation in their November 6, 2020, filing of the Settlement, supporting joint testimony, and exhibits. The Parties' explanations were not sufficient to convey the Parties' intent or the functional impact of the agreed revisions on the PCAM. The numerous and extensive bench requests required for the Commission's evaluation should not have been necessary and should not, in the future, be repeated. We

⁸⁸ *Id.* at 11:13-18.

⁸⁹ *See* Exh. BE-7.

⁹⁰ Joint Testimony, Exh. JT-3CT at 11:18-21.

expect joint testimony and exhibits to state clearly what the Parties' agreement requires and what the Parties' are requesting the Commission to approve. The November 6, 2020, filing fell short. Only after receiving responses to our repeated bench requests do we find that the Parties' agreement regarding the NPC baseline is supported by an appropriate record. To be clear, we expect the Parties in any future settlement agreement to demonstrate clearly the effect of their proposal.

- 86 Despite our critiques and frustrations with the Parties' agreed NPC baseline, we cannot ignore that the Parties' agreement, on balance and in the context of a full settlement to which all Parties' subscribe, is lawful and in the public interest. While the immediate rate benefit to customers may be short-lived, in the context of these consolidated proceedings and the unprecedented circumstances currently faced by PacifiCorp's customers due to the ongoing COVID-19 pandemic, the public interest may demand preservation of the Parties' agreed rate relief for customers. And as for PacifiCorp's interest, the Settlement does not require the Company to forfeit the \$17.5 million variance in order to preserve the agreed immediate rate reduction. Instead, the agreement essentially shifts when, and how, customers will compensate the Company, delaying the impact of the \$17.5 million until at least January 1, 2022, a year after the effective date of the \$4.15 million decrease in revenues approved by this Order.
- 87 In addition, when a balance in the PCAM deferral account is in the customers' favor, it is fair under these extraordinary circumstances, that the balance be applied in customers' favor to preserve an immediate rate reduction. The Parties' inclusion of the DNBA calculation in the deferral account will provide for any balance in customers' favor to offset at least part of the \$17.5 million variance through the PCAM over the next calendar year, while preserving the needed immediate rate benefit for customers.
- 88 The 2021 PCORC could result in a significant rate increase, but that assessment is speculative at this time. However, any potential increase to rates resulting from the 2021 PCORC would be incurred by customers beginning no sooner than January 1, 2022. To the parties representing PacifiCorp's customers, this appears to be a valuable reprieve and welcome delay of the rate increase until a later date when the COVID-19 pandemic will likely be of less concern for the economic well-being of Washington citizens and of PacifiCorp's Washington customers. We note that Public Counsel and PCA, parties representing PacifiCorp's customers, support the Settlement and ask that we accept the Parties' NPC baseline agreement in order to maintain the agreed \$4.15 million decrease.⁹¹

⁹¹ Public Counsel and PCA, Joint Response to Bench Request No. 9, Exh. BE-9PC.

Despite our concerns about possible future rate increases, we are aware of the benefits of immediate rate relief through 2021 and potentially beyond.

89 Furthermore, our decision to approve the Parties' NPC baseline agreement is bolstered by its inclusion in a full settlement with the support of all Parties. Settlements are the result of negotiations among the Parties who, we expect, have contemplated the circumstances faced by PacifiCorp and its customers and balanced those concerns with the other elements in the Settlement. We recognize in this instance the significance of the Parties' agreed rate reduction of \$4.15 million in the context of the complete Settlement, between the Company and the parties representing its customers. Accordingly, in light of all the information available to the Commission, we determine that the Parties' NPC baseline agreement in the Settlement is lawful, supported by an appropriate record, in the public interest, and would contribute to rates, terms, and conditions that are fair and reasonable for customers, sufficient for the Company, and should be approved.

v. Major Maintenance Expenses for Colstrip Unit 4

90 The Parties agree to deferred accounting treatment for major maintenance expenses at Colstrip Unit 4 through 2020 and early 2021.⁹² The Parties agree that this deferred accounting treatment will be reviewed for prudence in the 2021 PCORC.⁹³ Prudently incurred expenses approved in the 2021 PCORC could then be recovered in rates as part of PacifiCorp's next general rate case.⁹⁴

Commission Determination

91 The Parties' agreement for addressing major maintenance expenses for Colstrip Unit 4 mirrors the Parties' agreements for addressing PTCs and EIM costs. The Parties agree to support deferred accounting for these expenses at Colstrip Unit 4 through 2020 and early 2021, but do not agree that the expenses are prudent. Therefore, determination for whether the expenses were prudently incurred will be made in the 2021 PCORC as agreed to by the Parties. Consistent with the Parties' agreement regarding any unanticipated additional capital additions that might be included in the limited rate filing, any major maintenance expense for Colstrip Unit 4 that are found prudent will not go immediately into rates. Instead, they will be included in PacifiCorp's next general rate

⁹² Settlement (UE-191024 *et. al.*) at 9, ¶ 22.

⁹³ *Id.*; Exh. BE-7.

⁹⁴ Settlement (UE-191024 *et. al.*) at 9, ¶ 22.

case. This provision helps maintain rate stability for customers over the next three years as intended by the Parties. In addition, we make clear in this Order that we make no determination at this time as to any statutory limitations that may restrict future recovery of these expenses. We reserve that determination for the 2021 PCORC and, possibly, future general rate cases. We determine that the Parties' agreement for major maintenance expenses for Colstrip Unit 4 to be reasonable, supported by an appropriate record and in the public interest, and should be approved.

7. WIJAM AND THE 2020 PROTOCOL

92 The Parties support and recommend that the Commission approve the WIJAM and the 2020 Protocol. The Settlement includes several specific provisions to implement the Commission's approval of the WIJAM and the 2020 Protocol: a transmission adjustment, accelerated depreciation for PacifiCorp's share of the Colstrip Unit 4 and the Jim Bridger Plant, decommissioning and remediation for PacifiCorp's share of the Colstrip Unit 4 and the Jim Bridger Plant, and costs related to the Bridger Coal Company. These provisions are all linked to the Parties' proposals that the Commission approve the WIJAM and the 2020 Protocol.⁹⁵

Commission Determination

93 The 2020 Protocol is PacifiCorp's plan for an overarching inter-jurisdictional cost-allocation methodology for the six states in which it operates. In essence, the 2020 Protocol is a resolution for cooperation among PacifiCorp and parties from the six states served by PacifiCorp to gradually address cost-allocation issues, categorize those issues, and assign a planned timeframe for resolution.⁹⁶ PacifiCorp, Staff, Public Counsel, and PCA are all parties to the 2020 Protocol.

94 The WIJAM is included in the 2020 Protocol, but is the standalone cost allocation methodology proposed by the Parties for allocating costs to PacifiCorp's Washington

⁹⁵ See Settlement (UE-191024 *et. al.*) at 9-11, ¶¶ 23-28; Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 17:6-16.

⁹⁶ The three categories of issues in the 2020 Protocol are Implemented Issues, Resolved Issues, and Framework Issues. Implemented Issues are cost allocation procedures implemented in the interim period of January 1, 2020, through December 31, 2023, or earlier if all remaining cost allocation issues are resolved (Interim Period). Resolved Issues are cost allocation procedures that are agreed but will not take effect until after the Interim Period. Framework Issues are unresolved issues that will be negotiated during the Interim Period. Lockey, Exh. EL-1T at 20:2-16.

ratepayers in this proceeding.⁹⁷ The WIJAM has four primary components that differ from the West Control Area (WCA) methodology, the current cost allocation methodology for PacifiCorp's Washington ratepayers. First, the costs and benefits associated with PacifiCorp's entire transmission system will be allocated based on Washington's share of the system monthly coincident peaks and system load.⁹⁸ As stated in the Parties' agreement regarding the transmission adjustment, the costs and benefits of any transmission-voltage, radial lines that connect PacifiCorp's interconnected, network transmission system solely with any resources not included in Washington rates will not be allocated to Washington.⁹⁹ Second, the costs and benefits associated with PacifiCorp's new and existing non-emitting, non-qualifying facility generating resources will be allocated based on Washington's share of the system monthly coincident peaks and system load.¹⁰⁰ NPC will be allocated using a spreadsheet method consistent with previous NPC methodology, but based on the updated assets in Washington rates and including benefits from the Energy Imbalance Market (EIM).¹⁰¹ Washington ratepayers' share of Colstrip Unit 4 and Jim Bridger will be depreciated by December 31, 2023, in Washington rates.¹⁰²

95 The Commission has long held that only resources that are used and useful for service to Washington may be included in rates.¹⁰³ This standard, which forms the basis for the current WCA methodology, may be met only when a utility demonstrates that its resource "provides quantifiable direct or indirect benefits to Washington commensurate with its cost."¹⁰⁴ Here, the Parties support the WIJAM's adoption as part of a full settlement of all

⁹⁷ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 16:5-6; Ball, TR at 126:6-13.

⁹⁸ Wilding, Exh. MGW-1CT at 5:8-23.

⁹⁹ Settlement (UE-191024 *et. al.*) at 9-10, ¶ 24; Wilding, Exh. MGW-1CT at 7:3-6.

¹⁰⁰ Wilding, Exh. MGW-1CT at 5:10-13, 20-23. Qualifying facilities will continue to be situs-assigned in Washington. Wilding, Exh. MGW-1CT at 9:3-6.

¹⁰¹ Wilding, Exh. MGW-1CT at 5:14-16, 20-23. At hearing, PacifiCorp witness Wilding and Staff witness Ball explained PacifiCorp's historical use of the spreadsheet method to allocate NPC to Washington and that the method is intended to be used until an updated methodology, such as nodal pricing methodology and the dispatch method from CAISO, may be implemented. Wilding, TR at 143:4-145:12; Ball, TR at 145:17-146:10.

¹⁰² Wilding, Exh. MGW-1CT at 5:17-18, 20-23.

¹⁰³ RCW 80.04.250; *Wash. Utils. & Transp. Comm'n v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Dockets UE-050684 and UE-050412 (*Consolidated*), Order 04/03, 27-28, ¶ 68 (Apr. 17, 2006).

¹⁰⁴ *Id.*

issues in these consolidated proceedings. We have reviewed the entirety of the record in this proceeding and find that there is sufficient testimony and evidence supporting approval of the WIJAM, even without considering benefits which may be premature for compliance with CETA. We thus find, as explained below, that the Parties' agreement regarding the WIJAM and the 2020 Protocol should be approved.

- 96 Since the merger of Pacific Power & Light Company and Utah Power in 1987, PacifiCorp's only approved inter-jurisdictional cost allocation methodology in Washington is the WCA methodology.¹⁰⁵ The WCA includes loads and resources in California, Oregon, and Washington as well as some generation resources, such as Colstrip and Jim Bridger, which are located elsewhere but have adequate transmission to deliver power to Washington customers.¹⁰⁶ In PacifiCorp's 2006 general rate case, the Commission accepted the proposal agreed by PacifiCorp and Staff to adopt the WCA methodology despite the opposition of other parties.¹⁰⁷
- 97 Here, all parties support replacing the WCA methodology with the WIJAM.¹⁰⁸ Historically, agreement by all parties to any modification to the WCA methodology has been rare and the Parties' universal support for the WIJAM imbues some qualitative significance for our attention as we consider its merits. Additionally, as PacifiCorp and Staff did for the WCA methodology in the 2006 general rate case, it is apparent that the Parties have expended considerable effort to design the WIJAM to meet the Commission's standards.¹⁰⁹ Many of the Parties have been involved for years with PacifiCorp's multi-state collaborative process (MSP), which addresses inter-jurisdictional cost allocation. The Parties' participation in the MSP led, in 2018, to further discussions about and the development of the WIJAM.¹¹⁰

¹⁰⁵ *Wash. Utils. & Transp. Comm'n v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Dockets UE-061546 and UE-060817 (*consolidated*), Order 08, 16, ¶¶ 56-58 (Jun. 21, 2007).

¹⁰⁶ *See id.* at 13, ¶ 44. The WCA methodology "isolates the costs associated with these assets, purchases and sales, and allocates to Washington a proportionate share of the costs based on Washington's relative contribution to the WCA's demand and energy requirements." *Id.*

¹⁰⁷ *See id.* at 13-16, ¶¶ 43-58.

¹⁰⁸ Settlement at 9, ¶ 23; *see* TR at 215:7-224:9.

¹⁰⁹ *See Wash. Utils. & Transp. Comm'n v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Dockets UE-061546 and UE-060817 (*consolidated*), Order 08, at 16, ¶ 56.

¹¹⁰ *See* Wilding, Exh. MGW-1T at 4:9-21; Ball, TR at 211:21-212:14.

98 In their joint testimony supporting the Settlement, the Parties identify the direct and indirect benefits to Washington customers from the WIJAM compared to the WCA methodology: increased NPC benefits, greater benefits for its compliance with Washington's renewable portfolio standard (RPS), greater flexibility for compliance with CETA, increased PTCs, increased wheeling revenues, and increased system diversity.¹¹¹ These benefits were identified and quantified in PacifiCorp's initial filing:

- Approximately \$13.5 million in benefits from decreased NPC,
- An estimated \$0.75 – \$1.6 million in greater benefits for RPS compliance,
- An estimated average of \$1.73 million MWh annually in greater flexibility for compliance with CETA during 2030-2033,
- Approximately \$10.1 million in increased PTCs,
- Approximately \$1.2 million of increased wheeling revenues, and
- Several quantified examples of increased system diversity to the benefit of Washington customers.¹¹²

99 The WIJAM's development was at least partially inspired by the Parties' consideration of compliance with CETA.¹¹³ While the Parties' emphasize in testimony the benefits for CETA compliance that would arise from approval of the WIJAM, the Parties do not seek approval from the Commission that any of the resources identified in the WIJAM are compliant with CETA at this time.¹¹⁴ At hearing, PacifiCorp witness Wilding explained that even excluding the benefits of CETA compliance, *i.e.* if a resource identified under the WIJAM were found non-compliant under CETA, the WIJAM could still meet the Commission's standard due to the other direct and indirect benefits identified in

¹¹¹ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 25:2-7.

¹¹² Wilding, Exh. MGW-1CT at 18:3-13, 20:17-27:5, 29:3-36:12. It is unclear how subsequent updates to NPC presented in this record affect the initially quantified \$13.5 million in benefits from decreased NPC. At the time of PacifiCorp's initial filing, the projection for 2021 power costs was \$106.5 million. Wilding, Exh. MGW-1CT at 31, Fig. 4. The October Update, including production factor, now projects approximately \$119.5 million in 2021 power costs. Neither PacifiCorp nor any other party provides any update to the quantified benefits for NPC, or indicates directionally how or whether changes since the initial filing affect these identified benefits. Additionally, it is unclear how or whether subsequent updates presented in this record affect the initially quantified \$1.2 million in benefits from increased wheeling revenues.

¹¹³ Wilding, TR at 161:14-22; Ball, TR at 162:18-163:8.

¹¹⁴ Wilding, TR at 162:12-16.

Wilding's initial testimony and exhibits, the Parties' joint testimony, and the testimony offered by the Parties at hearing.¹¹⁵

- 100 It is difficult to quantify the benefits of PacifiCorp's increased system diversity. At hearing, Staff witness Ball explained that changed circumstances have helped to reveal how PacifiCorp's increased system diversity benefits Washington customers. These changed circumstances, Ball testified, concern PacifiCorp's system and its capabilities as well as the Commission's understanding of the Company's operations even since PacifiCorp's 2015 rate case, and justify considering approval of the WIJAM.¹¹⁶ After a number of constructive years spent in extensive MSP discussions with PacifiCorp, the Parties developed a strong understanding of all the components of the Company's operations and confidence in evaluating how PacifiCorp plans, builds, and operates its system to move power between its balancing area authorities.¹¹⁷ Previously, as Staff witness Ball testified, the transmission assets connecting Jim Bridger and the rest of PacifiCorp's system to the WCA were very limited and could only send power under specific conditions.¹¹⁸ Now, the recent Idaho Asset Exchange agreements, which updated legacy contracts to FERC open access transmission tariffs, enable greater transmission access to Washington of resources on PacifiCorp's system.¹¹⁹
- 101 The WIJAM is a cost allocation methodology with an outlook of PacifiCorp's whole system portfolio – including assets in both PacifiCorp West and PacifiCorp East, the two regions of its overall service territory.¹²⁰ But, the WIJAM appropriately excludes resources that have no benefit to Washington, such as the transmission-voltage, radial lines that do not connect PacifiCorp's transmission system to resources included in Washington rates.¹²¹ Staff is confident that only resources meeting the used and useful

¹¹⁵ See Wilding, TR at 160:9-162:6, referencing benefits identified in Exh. MGW-1CT at 18:3-13, 20:17-27:5, 29:3-36:12, and Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 25:2-7.

¹¹⁶ See Ball, TR at 128:13-130:21; 211:12-213:8.

¹¹⁷ See Ball, TR at 212:1-14.

¹¹⁸ Ball, TR at 129:4-15.

¹¹⁹ Ball, TR at 129:16-130:21, 163:17-23; *see also* Wilding, Exh. MGW-1CT at 20:17-27:5; Wilding, TR at 167:4-12.

¹²⁰ Ball, TR at 125:2-126:14, 163:17-165:16; Wilding, TR at 164:13-168:20.

¹²¹ See Settlement (UE-191024 *et. al.*) at 9-10, ¶ 24; Ball, TR at 125:2-126:14, 163:17-165:16; Wilding, TR at 164:13-168:20.

standard will be placed in Washington rates under the WIJAM.¹²² The Parties believe that the WIJAM meets the Commission's standard requiring that only resources providing quantifiable direct or indirect benefits commensurate with their costs may be included in Washington rates.¹²³ We agree, and will ensure going forward that only appropriate resources, in accordance with the Commission's standards, are included by the WIJAM in costs charged to PacifiCorp's Washington customers.¹²⁴

102 The Parties have presented an all-party settlement supporting approval of the WIJAM. Additionally, PacifiCorp and the Parties have explained detailed quantitative and qualitative evidence that demonstrates the WIJAM meets the Commission's standard. Based on these factors and in the context of a full settlement that all Parties support, we are satisfied by the evidence and find that the WIJAM should be approved. Although the Parties make no request as to PacifiCorp's compliance with CETA, we make clear in this Order that any evaluation of CETA compliance is premature and that this Order contains no determination regarding PacifiCorp's compliance with CETA's requirements.

103 Likewise, we agree that the Parties' proposal that the Commission approve the 2020 Protocol is appropriate and in the public interest. While much of the 2020 Protocol does not directly apply to Washington, two components are applicable with the Commission's approval of the 2020 Protocol.¹²⁵

104 The first concerns the process surrounding "Exit Orders," which would include any order issued by the Commission indicating Washington's exit from a resource owned by PacifiCorp whereby Washington would no longer receive any benefits or new costs from the resource.¹²⁶ The Commission's approval of the 2020 Protocol in this Order will be considered an Exit Order for the Jim Bridger and Colstrip resources owned by

¹²² Ball, TR at 128:13-18.

¹²³ Wilding, TR at 126:6-14.

¹²⁴ We note that if in the future the WIJAM or any other interjurisdictional cost allocation methodology no longer meets the Commission's standards, the Commission retains authority to resolve, in any manner it deems appropriate within its regulatory authority, such a failure to meet the Commission's standards.

¹²⁵ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 16:5-27; *see* Lockey, Exh. EL-3.

¹²⁶ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 16:9-15. "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." *Id.* at 15, n. 12; *Id.* at 16, n. 13.

PacifiCorp, with “Exit Dates” of December 31, 2023 for Jim Bridger Unit 1, and no later than December 31, 2025, for Jim Bridger Units 2-4 and Colstrip Unit 4.¹²⁷ We agree with the Parties and find this appropriate, as Washington law requires PacifiCorp to eliminate coal-fired resources from its allocation of electricity by no later than December 31, 2025.¹²⁸

- 105 The second concerns the Framework Issues that are in need of negotiation and resolution during the 2020 Protocol’s interim period of January 1, 2020, through December 31, 2023, or earlier if all remaining cost allocation issues are resolved (Interim Period).¹²⁹ The 2020 Protocol creates a framework for collaboration to resolve many cost allocation issues among PacifiCorp’s service areas. It ultimately may develop additional proposals for cost allocation of PacifiCorp’s system.¹³⁰ PacifiCorp and the Parties are required to seek Commission approval to implement any future cost allocation methodologies developed through the 2020 Protocol as this Order contains no preapproval for any methodology yet to be developed. Instead, this Order approves only the WIJAM as a stand-alone methodology.
- 106 The Commission’s review of the record supporting the WIJAM and the 2020 Protocol also informs our consideration and approval of the Parties’ related agreements regarding the agreed transmission adjustment, accelerated depreciation for Colstrip Unit 4 and the Jim Bridger Plant, decommissioning and remediation for Colstrip Unit 4 and the Jim Bridger Plant, and costs related to the Bridger Coal Company, which we address below.

¹²⁷ *Id.* at 16:13-19, stating:

Exit Orders may be established through the approval of the 2020 Protocol, in depreciation dockets, general rate cases, or other appropriate regulatory proceedings. Approval of the 2020 Protocol by the Commission will be considered issuance of an Exit Order for Jim Bridger and Colstrip with the following Exit Dates: December 31, 2023 for Jim Bridger Unit 1 and no later than December 31, 2025 for Jim Bridger Units 2-4 and Colstrip Unit 4.

“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.”
Id. at 16, n. 14.

¹²⁸ *See* RCW 19.405.030.

¹²⁹ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 16:20-27.

¹³⁰ *See* Ball, TR at 131:7-132:2.

i. Transmission Adjustment

107 While the WIJAM MOU had originally proposed a three-year phase-in to rates of PacifiCorp's System Transmission costs, the Parties agree to include these costs in base rates as of January 1, 2021.¹³¹ By December 31, 2023, however, PacifiCorp must present to the Commission a method to exclude all transmission-voltage, radial lines that connect PacifiCorp's interconnected, network transmission system with any resources not included in Washington rates.¹³² As confirmed in testimony by the Company at hearing, the costs of any such transmission-voltage, radial lines that are included in rates by the Commission's approval of the WIJAM by this Order will be subject to refund in Washington rates once the Commission determines the appropriate method for their exclusion.¹³³

ii. Accelerated Depreciation

108 The revenue requirement stipulated by the Parties includes the costs of accelerating depreciation for Colstrip Unit 4 and the Jim Bridger Plant to the end of 2023.¹³⁴ The Parties agree that once the facilities are removed from the Company's revenue requirement, PacifiCorp will not seek to recover in its Washington rates any additional investments in those facilities.¹³⁵

iii. Decommissioning and Remediation

109 The revenue requirement stipulated by the Parties includes additional decommissioning and remediation (D&R) costs for Colstrip Unit 4 and the Jim Bridger Plant, which will be

¹³¹ Settlement (UE-191024 *et. al.*) at 9, ¶ 24.

¹³² Settlement (UE-191024 *et. al.*) at 9-10, ¶ 24.

¹³³ See Wilding, TR at 165:24-167:21. At hearing, PacifiCorp witness Wilding testified as follows:

COMMISSIONER RENDAHL: Okay. So -- so will the incremental cost of those lines be subject to refund in Washington rates once this is all sorted out?

MR. WILDING: Yes.

TR at 167:18-21.

¹³⁴ Settlement (UE-191024 *et. al.*) at 10, ¶ 25.

¹³⁵ *Id.*

recovered over 10 years from 2021 through 2030.¹³⁶ These costs include D&R costs of approximately \$10.9 million (total company) and approximately \$6.3 million (total company) of other plant-related closure costs per year.¹³⁷ Washington's share of these costs will be recorded in the balancing account proposed by PacifiCorp witness Wilding in Exhibit MGW-1CT, the balance of which will act as a reduction to rate base.¹³⁸ While the Parties agreed to the D&R cost estimates from PacifiCorp's April 1, 2020, filing for purposes of setting rates in this proceeding, the Parties take no position on the estimates' accuracy or the individual components and "reserve all rights to challenge future decommissioning cost estimates in subsequent general rate cases or other proceedings in which such costs are at issue."¹³⁹

iv. Bridger Coal Company

110 The revenue requirement stipulated by the Parties includes additional, incremental reclamation and depreciation costs of approximately \$11.8 million (total company) per year, recovered over 10 years from 2021 through 2030, for Bridger Mine reclamation and depreciation costs beyond 2023.¹⁴⁰ Washington's share of these costs will be recorded in a balancing account that will be part of rate base.¹⁴¹ These costs are in addition to the approximately \$18.8 million (total company) that was already included in PacifiCorp's NPC baseline as contributions to the Bridger Coal Company (BCC) Reclamation Trust Fund through fuels costs for the Jim Bridger Plant.¹⁴²

¹³⁶ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 18:11-13; Settlement (UE-191024 *et. al.*) at 10-11, ¶ 26.

¹³⁷ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 18:13-16; Settlement (UE-191024 *et. al.*) at 10-11, ¶ 26. The Parties note that the additional D&R costs are "based on the Decommissioning Studies issued in January and March 2020 as compared to the level of [D&R] originally included in the Company's 2018 Depreciation Study." Settlement (UE-191024 *et. al.*) at 10, ¶ 26, n. 14.

¹³⁸ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 18:16-21; Settlement (UE-191024 *et. al.*) at 10-11, ¶ 26; Wilding, Exh. MGW-1CT at 16:3-22.

¹³⁹ Settlement (UE-191024 *et. al.*) at 10-11, ¶ 26; Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 18:17-20.

¹⁴⁰ Settlement (UE-191024 *et. al.*) at 11, ¶ 27.

¹⁴¹ *Id.*

¹⁴² *Id.*

111 As part of the Settlement, PacifiCorp agrees to hold a workshop during the fall of 2020 on BCC costs addressing: “(1) customers’ historical contribution to BCC costs; (2) how BCC costs are reflected in Washington rates and in what amount; and (3) the estimated remaining contribution of Washington customers to these costs.”¹⁴³ Over the three-year rate plan approved by this Order, PacifiCorp will also track customers’ contribution to BCC costs in a manner that will permit review of the contributions to BCC costs in PacifiCorp’s next general rate case.¹⁴⁴

Commission Determination

112 We find that the Parties’ agreements regarding the transmission adjustment, accelerated depreciation for Colstrip Unit 4 and the Jim Bridger Plant, decommissioning and remediation for Colstrip Unit 4 and the Jim Bridger Plant, and costs related to the Bridger Coal Company are reasonable. The Parties’ transmission adjustment incorporates immediately into rates system transmission costs included in the WIJAM rather than over three years as initially proposed by the Company. We find the Parties’ agreement reasonable as we approve in this Order the WIJAM beginning January 1, 2021. Including these system transmission costs aligns their inclusion with the start date for the rest of the Settlement’s provisions as approved by this Order. Additionally, we agree with the Parties that it is appropriate to require PacifiCorp to propose a methodology to exclude all transmission-voltage, radial lines that connect PacifiCorp’s interconnected, network transmission system with any resources not included in Washington rates as our approval of the WIJAM is based in part on its exclusion of such resources.

113 As previously discussed, Washington law requires PacifiCorp to eliminate coal-fired resources from its allocation of electricity by no later than December 31, 2025.¹⁴⁵ The acceleration of depreciation for Colstrip Unit 4 and the Jim Bridger Plant to December 31, 2023, ensures early compliance with Washington law. We find the Parties’ proposal to accelerate the depreciation to a date earlier than required by law reasonable because the proposal is balanced by the agreement that PacifiCorp will not seek to recover any additional investments in the facilities in its Washington rates after December 31, 2023.

¹⁴³ Settlement (UE-191024 *et. al.*) at 11, ¶ 28.

¹⁴⁴ *Id.*

¹⁴⁵ *See* RCW 19.405.030.

114 The Parties' agreements to permit PacifiCorp to recover D&R costs for Colstrip Unit 4 and the Jim Bridger Plant, as well as costs related to reclamation and depreciation contributions to the BCC, over ten years are reasonable and not contrary to law. While Washington law requires PacifiCorp to eliminate coal-fired resources from its allocation of electricity, the Commission can allow recovery in rates of prudent decommissioning and remediation costs for a coal-fired resource beyond December 31, 2025.¹⁴⁶ Accordingly, we determine that the Parties' agreements regarding the transmission adjustment, accelerated depreciation for Colstrip Unit 4 and the Jim Bridger Plant, decommissioning and remediation for Colstrip Unit 4 and the Jim Bridger Plant, and costs related to the Bridger Coal Company are supported by an appropriate record, in the public interest, and should be approved.

8. RATE SPREAD AND RATE DESIGN

115 The Parties agree to spread the rate decrease authorized by the Commission to all rate schedules, other than street lighting, on an equal percentage of revenue basis.¹⁴⁷

116 The Parties agree on the residential and non-residential rate design, as well as to implementing certain pilot programs. The Company's residential basic charge will remain at \$7.75 and the inclining block-tiered energy charge rate structure will be flattened by 25 percent.¹⁴⁸ The Parties agree to implement PacifiCorp's changes for non-residential rate design proposed in its initial filing, except: Schedule 36's first and second block energy charges will maintain the same relationship, and Schedule 48T-Dedicated Facilities' billing determinants used to set rates are re-calculated based upon calendar 2019.¹⁴⁹

117 All of the pilot programs proposed by PacifiCorp in its December 13, 2019, initial filing are included in the Parties' agreement. These pilot programs include time of use (TOU) pilot programs for Schedules 19, 29, and 36 in the decoupling mechanism. PacifiCorp

¹⁴⁶ *See id.*

¹⁴⁷ Settlement (UE-191024 *et. al.*) at 11-12, ¶ 29. The Parties agree to set street lighting schedules at their cost of service as PacifiCorp specified in its initial filing. *Id.* Attachment B to the Settlement in Dockets UE-191024 *et. al.* demonstrates the Parties' agreed upon rate design to collect the Parties' agreed revenue requirement.

¹⁴⁸ Settlement (UE-191024 *et. al.*) at 12, ¶ 31. In its initial filing, the Company had proposed to flatten the rate structure by 50 percent. Meredith, Exh. RMM-1T at 18:19-20.

¹⁴⁹ Settlement (UE-191024 *et. al.*) at 12, ¶ 32.

agrees to collaborate with Staff and other interested parties to develop appropriate monitoring and reporting plans that will include, at a minimum, the impacts on low-income and other vulnerable customers of these pilot programs. Additionally, PacifiCorp commits to “host a regional meeting by June 30, 2021, on emerging technologies that may help it meet its future resource adequacy needs.”¹⁵⁰

Commission Determination

- 118 We find that the rate spread and rate design proposed by the parties are fair, just, and reasonable. Determining an appropriate rate spread requires consideration of several factors and not simply the result of pure arithmetic. Here, we agree with the Parties that it is fair and equitable to spread the revenue requirement decrease equally based on an equal percentage of revenue, except for street lighting. Largely, this maintains the status quo for purposes of this rate proceeding. We find this reasonable and justified. The Commission’s Cost of Service Rulemaking recently concluded and rules went into effect on August 7, 2020.¹⁵¹ When PacifiCorp files its next rate case, its inclusion of a cost of service study that complies with chapter 480-85 WAC will inform the Commission’s consideration of whether any modifications to the Company’s rate spread and rate design are warranted. Accordingly, we determine that the Settlement’s proposal for rate spread and rate design is fair and reasonable and should be approved.
- 119 We find the Parties’ agreement to the pilot programs proposed by PacifiCorp in its initial filing appropriate. We take particular interest in the TOU pilot programs because of their inclusion in the decoupling mechanism. At hearing, Staff witness Ball explained that the Parties agreed to include the TOU pilot programs in the decoupling mechanism because the Parties assumed, at least for the time being, that the decoupling mechanism would continue.¹⁵² Ball explained further that customers’ behavior resulting from price signals as effected by the decoupling mechanism was a factor the Parties wanted to include in and evaluate as part of the pilot.¹⁵³ We understand the Parties’ rationale and find the inclusion of the TOU pilot programs justified.

¹⁵⁰ Settlement (UE-191024 *et. al.*) at 12-13, ¶ 33.

¹⁵¹ *In re Amending WAC 480-07-510 and Adopting Chapter 480-85 WAC Relating to Cost of Service Studies for Electric and Natural Gas Investor-Owned Utilities*, Dockets UE-170002 and UG-170003, General Order R-599 (July 7, 2020).

¹⁵² Ball, TR at 189:18-190:18.

¹⁵³ *See id.*

120 The Parties have agreed to collaborate to determine what monitoring, reporting, and evaluation protocols are appropriate for all the pilot programs, including the TOU pilot programs, as explained in the Settlement, joint testimony, and at hearing.¹⁵⁴ Consistent with that testimony, the Commission expects the Parties to file with the Commission collaborative agreements for monitoring, reporting, and evaluating prior to the start of the programs or, in any case, no later than 90 days after the effective date of this Order. While we support the Parties' agreement to collaborate to develop appropriate reporting and monitoring for the pilot programs, we find it necessary to condition our approval of the TOU pilot programs and their inclusion in the decoupling mechanism on certain reporting requirements for the TOU pilot programs, as explained below.

121 **Condition.** We condition our approval of the Settlement on certain reporting requirements for the inclusion of the TOU pilot programs in the decoupling mechanism. The Commission requires PacifiCorp to include a report, along with its decoupling report, addressing the TOU pilot programs and quantifying the decoupling mechanism's impact on rates in the data received from the pilot programs. Subject to this condition, we determine that the Parties' agreement for rate spread, rate design, and pilot programs is in the public interest and should be approved.

9. LOW-INCOME PROGRAMS

122 The Settlement establishes a low-income bill assistance (LIBA) Advisory Group, with PacifiCorp, The Energy Project, Public Counsel, Commission Staff, NWECA, and agency representatives and other interested stakeholders as members.¹⁵⁵ Among other tasks, the LIBA Advisory Group will review mechanisms to expand access to bill assistance and, within a year of this Order, will develop a bill discount proposal for the LIBA program.¹⁵⁶ The first meeting of the LIBA Advisory Group will be held within 60 days of this Order.¹⁵⁷ Subsequent meetings will be held quarterly.¹⁵⁸

¹⁵⁴ Settlement (UE-191024 *et. al.*) at 12, ¶ 33; Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 20:14-21; Ball, Collins, Wilding, Meredith, Dahl, TR at 191:14-198:1.

¹⁵⁵ Settlement (UE-191024 *et. al.*) at 13, ¶ 34.

¹⁵⁶ Settlement (UE-191024 *et. al.*) at 13, ¶¶ 35-36.

¹⁵⁷ Settlement (UE-191024 *et. al.*) at 13, ¶ 34.

¹⁵⁸ *Id.*

123 PacifiCorp agrees to file with the Commission annual reports of the LIBA program's status, with the first to be filed one year after the effective date of this Order and subsequent reports due 120 days after the end of each LIBA program year.

Commission Determination

124 We find the Parties' agreements for PacifiCorp's low-income program reasonable and appropriate. Other Washington utilities have low-income advisory groups like the LIBA Advisory Group the Parties' agree to here. The LIBA Advisory Group will, among other things, evaluate PacifiCorp's bill discount program "with the aim of maintaining equity across varying levels of customer usage."¹⁵⁹ The Parties explain in testimony that the Company's initial filing proposed changes with this aim in mind, but the LIBA Advisory Group will provide stakeholders the opportunity to collaborate with PacifiCorp to determine whether changes are warranted.¹⁶⁰ We agree. Collaboration between PacifiCorp and its low-income stakeholders is valuable because it will encourage cooperative discussions and, potentially, the development of programs that will benefit PacifiCorp ratepayers. The creation of the LIBA Advisory Group, with its goals and defined tasks, enables this cooperation.

125 In their joint testimony supporting the Settlement, the Parties explain their heightened attention in PacifiCorp's service territory because of the income demographics in the counties served by PacifiCorp.¹⁶¹ Three of the counties served by the Company – Walla Walla, Columbia, and Yakima – are in the bottom half of median household incomes in the state.¹⁶² The Parties contend that, in consideration of all factors, taking steps to lower the energy burden of PacifiCorp's low-income customers is in the public interest.¹⁶³ We agree and find that the Parties have provided ample support for the Settlement's low-income provisions. Accordingly, we determine that the Parties' agreement regarding PacifiCorp's low-income program is in the public interest and should be approved.

¹⁵⁹ Joint Testimony, Exh. JT-1T (UE-191024 *et. al.*) at 40:5-7.

¹⁶⁰ *Id.* at 39:21-40:13.

¹⁶¹ *Id.* at 40:18-19.

¹⁶² *Id.* at 40:19-41:3.

¹⁶³ *Id.* at 41:3-41:5.

10. DISCONNECTION PRACTICES

126 PacifiCorp agrees in the Settlement to certain disconnection practices including data reporting, a disconnection reduction plan, and premise visits. First, PacifiCorp agrees to continue providing its monthly Washington Low-income Data Tracking report and will include information on disconnections, credit, and collection data, in its annual report to the LIBA Advisory Group. Second, PacifiCorp agrees to develop a Disconnection Reduction Plan and file it with the Commission within one year of this Order. Third, PacifiCorp agrees to continue making premise visits to residential addresses that it serves to disconnect service for non-payment, and will accept payment from the customer during that premise visit to avoid disconnection.

Commission Determination

127 We find the Parties' agreement regarding PacifiCorp's disconnection practices to be reasonable and in the public interest. The Parties explain in joint testimony supporting the Settlement that reducing disconnections benefits all ratepayers, decreases the Company's costs due to disconnections, reconnections, and uncollected receivables, and relieves the cost, stress, and hardship that can inure to individual households.¹⁶⁴ We agree.

128 The ongoing COVID-19 pandemic adds importance to these agreements. Many in Washington are suffering economically and the Parties' agreements on bill assistance and disconnection practices will help to keep PacifiCorp's customers connected to a vital utility service while also helping to resolve the costs of disconnections for both customers and the Company. We also approve the Parties' agreement to expand the collection of disconnection data beyond low-income customers in order to better understand the types of customers being disconnected. Accordingly, we find that the Parties' agreement regarding PacifiCorp's disconnection practices is in the public interest and should be approved.

11. MISCELLANEOUS PROVISIONS

129 The Settlement proposes agreements by the parties on several issues concerning Renewable Energy Credits (RECs), decoupling, the Idaho Asset Exchange, investor supplied working capital (ISWC), and tax normalization. We address each below.

¹⁶⁴ *Id.* at 42:1-5.

i. Renewable Energy Credits

130 The Settlement includes PacifiCorp’s proposed treatment for RECs, but the Parties agree that the \$300,000 one-time purchase of RECs presented in this case by PacifiCorp witness Lockey “should be amortized and tracked for true-up in the existing mechanism over three years.”¹⁶⁵

Commission Determination

131 In its initial filing, PacifiCorp requested the Commission to allow it to “defer costs associated with REC purchases related to RPS compliance obligations made in between rate cases consistent with Schedule 95” and subsequently address incorporation of these costs into rates during a rate case or other appropriate proceeding.¹⁶⁶ The Company proposed that for one-time purchases of RECs, the transaction amount “should be deferred with an appropriate amortization schedule in a future proceeding.”¹⁶⁷ PacifiCorp requested such treatment for a \$300,000 purchase of RECs in 2019. PacifiCorp explained in its initial filing that the 2019 REC purchase resulted from the Company’s need to procure additional RECs in order to meet Washington’s increasing RPS in 2020, but that the Company’s position would improve in 2021 if the WIJAM were approved.¹⁶⁸ Specifically, PacifiCorp witness Wilding explains that approval of the WIJAM, which includes PacifiCorp’s existing and new wind resources being built, would remove the Company’s need to purchase, and the associated costs of purchasing, additional RECs to comply with Washington’s RPS during the years 2021-2023.¹⁶⁹

132 We find that the Parties’ agreed treatment of the \$300,000 one-time REC purchase by PacifiCorp in 2019 is reasonable. The Parties have agreed to track and true-up the amount as it is recovered by the Company over its three-year amortization. This time period is reasonable and will correspond with the three-year rate plan approved by this Order. The Company’s explanation that our approval of the WIJAM will improve its REC position for future compliance with the RPS is encouraging for PacifiCorp’s ability to plan its continued compliance and may likely reduce the future need for one-time purchases. Accordingly, we determine that the Parties’ agreement to track and true-up the recovery

¹⁶⁵ Settlement (UE-191024 *et. al.*) at 14, ¶ 41; *see* Lockey, Exh. EL-1T at 35:1-19.

¹⁶⁶ Lockey, Exh. EL-1T at 34:3-8.

¹⁶⁷ *Id.* at 34:13-16.

¹⁶⁸ *Id.* at 35:1-19.

¹⁶⁹ *See* Wilding, Exh. MGW-1CT at 32:20-33:4.

of the \$300,000 2019 REC purchase over three years is appropriate and should be approved.

ii. Decoupling

- 133 PacifiCorp recently completed the third year of its five-year decoupling pilot. Largely, the Settlement describes the Parties' acceptance of the changes to PacifiCorp's decoupling mechanism proposed in the Company's initial filing.¹⁷⁰ In its initial filing, PacifiCorp proposed three modifications to the decoupling mechanism, all three of which are accepted by the Settlement. The first modification would update the total revenue, net power cost revenue, and fixed basic charge revenue to reflect the final revenue requirement authorized by the Commission in this proceeding. The second would modify the monthly decoupling deferral calculation to base actual decoupled revenue on actual revenue instead of billing determinants. Lastly, PacifiCorp initially proposed to include in the mechanism Schedule 19 (Residential Service – Time of Use Pilot) in the residential class and Schedule 29 (Non-Residential Time of Use Pilot) in the Schedule 36 (Large General Service – Less Than 1,000 kW) class.
- 134 PacifiCorp explained, in Exhibit BE-6, that certain modifications to its second proposal are warranted. PacifiCorp witness Meredith testified to the initially proposed tariff changes to Step 8 and Step 9 for calculating the Monthly Decoupling Deferral in the decoupling tariff (Schedule 93).¹⁷¹ PacifiCorp acknowledged that Step 9 did not specifically distinguish that Fixed Basic Charge Revenue, Net Power Cost Revenue, and Actual Revenue are “monthly.”¹⁷² PacifiCorp therefore corrected Step 9's calculation in Exhibit BE-6 such that it calculates the Actual Decoupled Revenue by subtracting monthly Fixed Basic Charge Revenue and monthly Net Power Cost Revenue from monthly Actual Revenue.¹⁷³

Commission Determination

- 135 We find the Parties' agreed modifications to the decoupling mechanism, as updated by PacifiCorp's correction of the Monthly Decoupling Deferral calculation in its decoupling tariff, appropriate. The Company is in the middle of its five-year decoupling mechanism

¹⁷⁰ Settlement (UE-191024 *et. al.*) at 14, ¶ 42.

¹⁷¹ Meredith, Exh. RMM-1T at 63:3-20.

¹⁷² Exh. BE-6.

¹⁷³ *Id.*

pilot program. We agree with the Parties that only minor modifications, as agreed by the Parties, are necessary. Because of the inclusion of the TOU pilot programs in the decoupling mechanism, we have conditioned our approval of the Settlement on a reporting requirement.¹⁷⁴ Subject to that single condition, we determine that the Parties' minor modifications to PacifiCorp's decoupling mechanism are supported by an appropriate record and are in the public interest, and should be approved.

iii. Idaho Asset Exchange

136 The Parties agree, as part of the Settlement, that PacifiCorp's investments related to the Idaho Asset Exchange, described by PacifiCorp witness Vail, are prudent and the related requirements from Docket UE-152253 are satisfied.¹⁷⁵

Commission Determination

137 At hearing, Staff witness Ball supported this element of the Parties' agreement by describing the importance of the Idaho Asset Exchange and the new agreements included in PacifiCorp's initial filing.¹⁷⁶ As mentioned previously, Ball explained that Staff and others participating in PacifiCorp's MSP discussions spent years working to understand how PacifiCorp planned, built, and operated its system to move power between its balancing area authorities.¹⁷⁷ Additionally, with the agreements for the Idaho Asset Exchange updated to open access transmission tariffs, PacifiCorp's transmission capabilities gives Washington access to resources on PacifiCorp's system that were previously unavailable.¹⁷⁸

138 As regards the Idaho Asset Exchange, we are satisfied and persuaded by the totality of testimony and evidence in the record that this agreement by the Parties is lawful, supported by an appropriate record, and consistent with the public interest. We therefore determine it is appropriate to approve the Parties' agreement finding that PacifiCorp's investments related to the Idaho Asset Exchange were prudent and that the related requirements from Docket UE-152253 are satisfied.

¹⁷⁴ See *supra* paragraph 121.

¹⁷⁵ Settlement (UE-191024 *et. al.*) at 15, ¶ 43; see Vail, Exh. RAV-1T at 11:10-15:2.

¹⁷⁶ See Vail, Exh. RAV-1T at 11:10-15:2.

¹⁷⁷ Ball, TR at 212:1-14.

¹⁷⁸ Ball, TR at 129:4-130:21.

iv. Investor Supplied Working Capital

139 The Parties agree that in future rate cases, the format of ISWC work papers will be the same as provided in Appendix C to Settlement, which is PacifiCorp's Second Supplemental Response to UTC Data Request No. 81.¹⁷⁹ The Parties further agree that

ISWC will reflect [Average of Monthly Averages] account balances, by subaccount, in one of the following categories: current assets, current liabilities, average invested capital, and investments. The ISWC presentation will then categorize the investment AMA amounts as Washington, Other States, or Non-Operating/Other. Then, it will multiply ISWC by the percentage of the total investment representing Washington, to calculate ISWC for Washington.¹⁸⁰

Commission Determination

140 The Parties' agreement resolves format and presentation for the Company's ISWC work papers. It also specifies that work papers will reflect use of the average of monthly averages methodology and categorization practices. We find that the Parties' agreement should promote efficiency and reasonable results for the Commission, its Staff, and other interested parties to review in the future. Thus, we determine that the Settlement's terms pertaining to ISWC are reasonable, appropriate, and should be approved.

v. Tax Normalization

141 In its initial filing, PacifiCorp requested authorization from the Commission to use full income tax normalization, with the exception of equity Allowance for Funds Used During Construction (AFUDC).¹⁸¹ The Settlement provides that PacifiCorp will "use a normalized method of accounting for all temporary book-tax differences, with the exception of equity AFUDC, on a prospective basis beginning January 1, 2021."¹⁸²

¹⁷⁹ Settlement (UE-191024 *et. al.*) at 15-16, ¶ 44.

¹⁸⁰ *Id.*

¹⁸¹ Fuller, Exh. RF-1T at 2:6-12, 7:13-9:12.

¹⁸² Settlement (UE-191024 *et. al.*) at 15, ¶ 45.

Commission Determination

- 142 The Commission has previously rejected similar proposals by PacifiCorp to use a normalized method of accounting.¹⁸³ In Docket UE-100749, PacifiCorp's 2010 general rate case, the Commission stated that allowing full normalization is a significant policy decision that requires careful evaluation of the merits and ample evidence in the record.¹⁸⁴ In that case, the Commission unequivocally rejected the Company's proposal, finding the policy arguments on which it was based unpersuasive and decrying the Company's insufficient qualitative support in evidence.¹⁸⁵
- 143 There are significant differences between PacifiCorp's 2010 general rate case and this proceeding. In this case, the request to use normalized accounting applies only to temporary tax-book differences excluding AFUDC and will begin on a prospective basis on January 1, 2021. Additionally, the Company has provided evidence that the regulatory asset will be amortized using the RSGM.¹⁸⁶ The Company's supplemental filing further disclosed the quantifiable impact of the switch on its revenue requirement and rates, resulting in a revenue requirement decrease of nearly \$3.54 million.¹⁸⁷ The inclusion of the Company's proposal in a full settlement supported by all Parties is also a factor that weighs in favor of our approval.
- 144 Initially, PacifiCorp justified the switch from flow-through accounting to a normalized method, in part, by citing the limitations of its accounting system to support continued use of flow-through accounting in all six states across which its territory spans.¹⁸⁸ This attempted justification is thoroughly unpersuasive. Fortunately for PacifiCorp and our consideration of this issue, more compelling evidence and support was provided in the record. At hearing, PacifiCorp witness Fuller explained that the accounting switch would apply to all temporary tax differences other than AUFDC and that the benefit of doing so is that it will reduce rate volatility resulting from the flow-through method.¹⁸⁹ Also at

¹⁸³ *Wash. Utils. & Transp. Comm'n v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Docket UE-100749, Final Order 06, 90-96, ¶¶ 265-81 (Mar. 25, 2011).

¹⁸⁴ *Id.* at 94, ¶ 277.

¹⁸⁵ *Id.* at 94-95, ¶ 278.

¹⁸⁶ Fuller, Exh. RF-1T at 7:21-8:2.

¹⁸⁷ *See* Fuller, Exh. RF-7T at 1:19-22; Fuller, Exh. RF-1T at 10:16-20.

¹⁸⁸ Fuller, Exh. RF-1T at 10:3-8; 11:6-12.

¹⁸⁹ Fuller, TR at 209:3-210:14.

hearing, Staff witness Ball explained Staff's, if not all other Parties', rationale for supporting the accounting switch. Ball stated that using the normalized method of accounting for these temporary tax-book differences would align the liabilities – money owed to ratepayers – with their corresponding assets and should help the Commission and its Staff match the benefits with the costs originally yielding the tax deferrals.¹⁹⁰ We agree.

145 We are satisfied by the substantive evidence and rationale presented by the Company and supported by the Parties for the change from flow-through accounting to normalized accounting. While we approve the Parties' acceptance of PacifiCorp's proposal to use a normalized accounting method for temporary tax-book differences excluding AFUDC in this case, we do not do so lightly. We maintain the Commission's precedent that such an accounting switch is a significant policy decision that requires careful evaluation of the merits and ample evidence in the record. Our decision in this case, as always, is limited and highlighted by the evidence, rationale, and circumstances presented along with the PacifiCorp's proposal, which includes our consideration of a company's unique characteristics.¹⁹¹ Accordingly, we determine that the Parties' agreement to permit PacifiCorp to use a normalized method of accounting for all temporary book-tax differences, with the exception of equity AFUDC, on a prospective basis beginning January 1, 2021, is justified, reasonable, and should be approved.

B. SETTLEMENT DETERMINATION

146 The Commission's statutory duty is to establish rates, terms, and conditions for electric service that is "fair, just, reasonable and sufficient."¹⁹² In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The resulting rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the

¹⁹⁰ See Ball, TR at 210:21-211:4.

¹⁹¹ See Fuller, Exh. RF-1T at 11:2-12.

¹⁹² RCW 80.28.010(1); RCW 80.28.020.

financial needs of the utility to cover its expenses and attract capital on reasonable terms.¹⁹³

147 We have reviewed both Settlements and all evidence in the record. In light of all the information available to the Commission, we determine that the Settlements are lawful, supported by an appropriate record, and consistent with the public interest, subject to the conditions outlined in this Order applicable to the Settlement in Dockets UE-191024 *et. al.* Accordingly, we conclude that approval of the Settlement (UE-180778) without condition and approval of the Settlement in Dockets UE-191024 *et. al.* subject to conditions will establish rates, terms, and conditions for PacifiCorp's electric service to Washington customers that are fair, just, reasonable, and sufficient. We therefore approve the Settlement (UE-180778) without condition, and approve the Settlement in Dockets UE-191024 *et. al.* subject to the conditions outlined in paragraphs 44 and 121.

FINDINGS OF FACT

Having discussed above in detail the evidence received in this proceeding concerning all material matters, the Commission now makes the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 148 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies.
- 149 (2) PacifiCorp is a "public service company" and an "electrical company" as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PacifiCorp is engaged in Washington state in the business of supplying utility services and commodities to the public for compensation.
- 150 (3) On September 13, 2018, PacifiCorp filed with the Commission a petition for an accounting order in Docket UE-180778, requesting the Commission enter an

¹⁹³ See generally *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W.V.*, 262 U.S. 679 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *People's Org. for Wash. Energy Res. v. Wash. Utils. & Transp. Comm'n*, 104 Wn.2d 798, 807-13 (1985) (describing rate setting process in Washington).

order authorizing a change in depreciation rates applicable to the Company's depreciable electric plant.

- 151 (4) On September 6, 2019, PacifiCorp filed a petition for an order approving deferred accounting in Docket UE-190750 related to repowering the Leaning Juniper wind facility.
- 152 (5) On November 8, 2019, PacifiCorp filed a petition for deferral of costs related to purchases of renewable energy credits in Docket UE-190929.
- 153 (6) On November 22, 2019, PacifiCorp filed a petition for an order approving deferred accounting in Docket UE-190981 related to repowering the Marengo I, II, and Goodnoe Hills wind facilities.
- 154 (7) On December 13, 2019, PacifiCorp filed a general rate case with the Commission revisions to its currently effective tariff, WN U-75, in Docket UE-191024 and requested an increase in revenues of approximately \$3.1 million from Washington operations, offset by the approximately \$7.1 million proposed amortization of certain tax reform benefits, resulting in an overall rate reduction of \$4.0 million, or approximately 1.1 percent.
- 155 (8) On February 3, 2020, the Commission consolidated Dockets UE-191024, UE-190750, UE-190929, UE-190981, and UE-180778 in response to an unopposed motion by Staff.
- 156 (9) On February 19, 2020, the Governor declared a state of emergency in Washington due to the COVID-19 pandemic.
- 157 (10) On April 1, 2020, PacifiCorp filed supplemental testimony and exhibits having the effect of eliminating the original \$4.0 million proposed overall decrease and resulting in an overall increase of \$11.0 million or 3.2 percent.
- 158 (11) On July 20, 2020, the Parties timely filed with the Commission two settlement agreements. PacifiCorp, Staff, PCA, and Public Counsel reached a full settlement resolving all issues presented in Docket UE-180778. PacifiCorp, Staff, Public Counsel, PCA, The Energy Project, and Walmart reached a full settlement resolving all other issues presented in the Dockets UE-191024 *et. al.* and incorporating the agreement reached in Docket UE-180778.

- 159 (12) The Settlement (UE-180778) resolves depreciation rates for all accounts, resulting in a reduction of approximately \$1.48 million to the depreciation rates charged to Washington customers.
- 160 (13) The Parties' Settlement in Dockets UE-191024 *et. al.* resolves all issues in dispute and presents the Parties' agreements for revenue requirement and deferred tax benefits, a three-year rate plan, cost of capital, pro forma major capital additions, net power costs, the WIJAM and the 2020 Protocol, rate spread and rate design, low-income programs, disconnection practices, and various other miscellaneous provisions.
- 161 (14) The Parties' agree to a total decrease in rates of \$4.15 million, or 1.18 percent, which incorporates the approximately \$1.48 million reduction from the settlement in Docket UE-180778, and includes provisions returning \$50.5 million in EDIT over five years and another \$70.6 million of protected EDIT using the RSGM over a total of 53.2 years.
- 162 (15) The Parties agree to a three-year rate plan with no change to base rates through December 31, 2023, unless such a change results from the ancillary proceedings – a 2021 PCORC and a 2021 limited issue rate filing – provided for in the Settlement.
- 163 (16) The Parties agree to all elements of cost of capital, including a capital structure with 49.10 percent equity, 0.02 percent preferred stock, and 50.88 percent debt (long-term), an ROE of 9.50 percent, a cost of debt (long-term) of 4.92 percent, a cost of preferred stock of 6.75 Percent, with a resulting overall ROR of 7.17 percent.
- 164 (17) The Parties agree to include in rates the following major capital additions, that are placed in service after May 1, 2020:
- Ekola Wind Project;
 - TB Flats Wind Project;
 - Cedar Spring II Wind Project;
 - Pryor Mountain Wind Project;
 - Dunlap Wind Repowering Project;
 - Foote Creek I Wind Repowering Project;

- Aeolus to Bridger/Anticline 500kv Transmission Line Sequence 4; and,
- Associated 230kv network upgrades.

The Parties agree that the capital additions will be subject to refund to customers after a 2021 limited issue rate filing during which the Commission will determine whether PacifiCorp has demonstrated the prudence and actual costs of these major capital additions. That 2021 limited issue rate filing may include other unanticipated capital additions, but any unanticipated capital additions found prudent by the Commission will not be recovered in rates until the Company's next general rate case.

- 165 (18) The Parties agree to several issues concerning NPC, including the 2021 PCORC to update the NPC baseline, which may affect customer rates, and also agree to provisions prescribing how EIM costs and benefits, PTCs, the current NPC baseline, and deferred accounting treatment for major maintenance expenses at Colstrip Unit 4 through 2020 and early 2021.
- 166 (19) The Parties agree to move non-NPC EIM costs to base rates as required by the Commission's final order in Docket UE-152253, include EIM forecast costs and benefits in base NPC, allow actual EIM costs and benefits to flow through the PCAM, and preserve the Parties' ability to advocate for any specific approach for determining or modeling EIM benefits in the 2021 PCORC.
- 167 (20) The Parties agree to exclude PTCs from the PCAM, separately account for the PTCs, and true-up the PTCs annually.
- 168 (21) The Parties agree to set the NPC baseline at \$119.5 million, but include only \$102 million immediately in rates. The \$17.5 million variance will be set aside and included in the PCAM through the DNBA, a second step calculation that will reflect both the projected \$17.5 million and interest accrued on it over the next year in the PCAM, but outside of the application of the sharing and dead bands.
- 169 (22) The Parties agree to deferred accounting treatment for major maintenance expenses at Colstrip Unit 4 through 2020 and early 2021, which will be reviewed in the 2021 PCORC, and could be recovered in rates as part of PacifiCorp's next general rate case.

- 170 (23) The Parties agree to the 2020 Protocol, an ongoing framework for the potential development of a future interjurisdictional cost allocation method through the cooperation of stakeholders from PacifiCorp's service territory spanning six states, and to the WIJAM, a stand-alone cost allocation methodology that assigns to PacifiCorp's Washington customers a portion of PacifiCorp's full system with the exception of resources that have no benefit to Washington, such as the transmission-voltage, radial lines not connected by PacifiCorp's transmission system to resources included in Washington rates.
- 171 (24) The Parties support the WIJAM with the quantifiable direct and indirect benefits of decreased NPC, greater RPS benefits, greater flexibility for compliance with CETA during 2030-2033, increased PTCs, increased wheeling revenues, and increased system diversity commensurate with the costs of the resources included in Washington rates by application of the WIJAM.
- 172 (25) The portions of the 2020 Protocol applicable for the Commission's decision in this matter regard Exit Orders, which are orders entered by any state's regulatory 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, and the Framework Issues that are in need of negotiation and resolution during the 2020 Protocol's Interim Period.
- 173 (26) Washington law requires PacifiCorp to eliminate coal-fired resources from its allocation of electricity by no later than December 31, 2025.¹⁹⁴
- 174 (27) This Order will be an Exit Order, as that term is used in the 2020 Protocol, for PacifiCorp's share of the Jim Bridger and Colstrip resources owned by PacifiCorp, with Exit Dates of December 31, 2023 for Jim Bridger Unit 1, and no later than December 31, 2025, for Jim Bridger Units 2-4 and Colstrip Unit 4.
- 175 (28) The Framework Issues to be addressed through the 2020 Protocol may produce a new cost allocation methodology, but the Parties do not request preapproval from the Commission for that methodology or that the Commission make any determination in this Order as to whether that future methodology will be sufficient to meet the Commission's standards.

¹⁹⁴ See RCW 19.405.030.

- 176 (29) The Parties agree to include in base rates PacifiCorp's System Transmission costs, but PacifiCorp must present to the Commission by December 31, 2023, a method for excluding all transmission-voltage, radial lines that connect PacifiCorp's interconnected, network transmission system with any resources not included in Washington rates, the costs of which, if included in rates by this Order, will be subject to refund to customers.
- 177 (30) The Parties agree that the Settlement's revenue requirement includes the costs of accelerating depreciation for Colstrip Unit 4 and Jim Bridger Plant to the end of 2023, at which point PacifiCorp will not seek to recover in its Washington rates any additional investments in the facilities.
- 178 (31) The Parties agree that the Settlement's revenue requirement includes additional D&R costs of approximately \$10.9 million (total company) and approximately \$6.3 million (total company) of other plant-related closure costs per year for Colstrip Unit 4 and Jim Bridger Plant, which will be recovered over 10 years from 2021 through 2030.
- 179 (32) The Parties agree that the Settlement's revenue requirement includes additional, incremental reclamation and depreciation costs of approximately \$11.8 million (total company) per year, recovered over 10 years from 2021 through 2030, for Bridger Mine reclamation and depreciation costs beyond 2023. These costs are in addition to the approximately \$18.8 million (total company) already included in PacifiCorp's NPC baseline as contributions to the BCC Reclamation Trust Fund through fuels costs for the Jim Bridger Plant. PacifiCorp will hold a workshop in 2020 addressing the BCC costs.
- 180 (33) The Parties agree to spread the rate decrease authorized by this Order as part of the Settlement to all rate schedules, other than street lighting, on an equal percentage of revenue basis.
- 181 (34) The Parties agree to keep the residential basic charge of \$7.75, flatten the residential inclining block tiered energy charge rate structure by 25 percent, and implement PacifiCorp's changes for non-residential rate design in the Company's initial filing, except: Schedule 36's first and second block energy charges will maintain the same relationship, and Schedule 48T-Dedicated Facilities' billing determinants used to set rates are re-calculated based upon calendar 2019.

- 182 (35) The Parties agree to all pilot programs proposed by PacifiCorp in its December 13, 2019, initial filing, including TOU pilot programs that will be included in PacifiCorp's decoupling mechanism, and agree to develop appropriate reporting, monitoring, and evaluating plans for the pilot programs.
- 183 (36) The Parties agree to establish the LIBA Advisory Group with PacifiCorp, The Energy Project, Public Counsel, Commission Staff, NWECA, and agency representatives and other interested stakeholders as members. The LIBA Advisory Group will, among other tasks, review mechanisms to expand access to bill assistance and will, within a year of the effective date of this Order, develop a bill discount proposal for the LIBA program. PacifiCorp agrees to file with the Commission annual reports of the LIBA program's status.
- 184 (37) The Parties agree to certain disconnection practices by PacifiCorp including data reporting to the LIBA Advisory Group monthly and annually, the development of a disconnection reduction plan to be filed with the Commission within one year of the effective date of this Order, and the continuing practice of premise visits prior to disconnection.
- 185 (38) The Parties agree to the treatment proposed by PacifiCorp in its initial filing for RECs, but the \$300,000 one-time purchase of RECs in 2019 will be amortized and tracked for true-up over a three-year period consistent with the term of the rate plan.
- 186 (39) The Parties agree to the following three modifications to PacifiCorp's decoupling mechanism proposed in the Company's initial filing, as clarified in Exhibit BE-6: updating the total revenue, net power cost revenue, and fixed basic charge revenue to reflect the final revenue authorized by this Order; modifying the monthly decoupling deferral calculation to base actual decoupled revenue on actual revenue instead of billing determinants; and, including Schedules 19, 29, and 36 in the mechanism.
- 187 (40) The Parties agree that PacifiCorp's investments related to the Idaho Asset Exchange are prudent and the requirements from Docket UE-152253 are satisfied.
- 188 (41) The Parties agree that ISWC in future rate cases will: reflect AMA account balances categorized as either current assets, current liabilities, average invested capital, or investments; subsequently be categorized as Washington, Other States, or Non-Operating/Other; be calculated for Washington's portion by multiplying

ISWC by the percentage of the total investment representing Washington; and, have work papers in the format as provided in Appendix C to the Parties' agreement in these consolidated dockets.

- 189 (42) The Parties agree to the use of a normalized method of accounting for all temporary book-tax differences, with the exception of equity AFUDC, on a prospective basis beginning January 1, 2021.

CONCLUSIONS OF LAW

Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

- 190 (1) The Commission has jurisdiction over the subject matter of, and parties to, this proceeding.
- 191 (2) PacifiCorp is an electric company and a public service company subject to Commission jurisdiction.
- 192 (3) At any hearing involving a proposed change in a tariff schedule the effect of which would be to increase any rate, charge, rental, or toll theretofore charged, the burden of proof to show that such increase is just and reasonable will be upon the public service company.¹⁹⁵ The Commission's determination of whether the Company has carried its burden is adjudged based on the full evidentiary record.
- 193 (4) PacifiCorp's existing rates for electric service are neither fair, just, and reasonable, nor sufficient, and should be adjusted prospectively after the date of this Order.
- 194 (5) The rates, terms, and conditions in the Settlement (UE-180778) are fair, just, reasonable, and sufficient.
- 195 (6) The Commission should approve the Settlement (UE-180778) because it is lawful, supported by an appropriate record, consistent with the public interest in light of all the information available to the Commission. The Settlement

¹⁹⁵ RCW 80.04.130(4).

(UE-180778) should be incorporated by reference into the body of this Order, as if set forth in full.

- 196 (7) Subject to the conditions in paragraphs 44 and 121, the rates, terms, and conditions in the Settlement in Dockets UE-191024 *et. al.* are fair, just, reasonable, and sufficient.
- 197 (8) The Commission should approve the Settlement in Dockets UE-191024 *et. al.* subject to the conditions in paragraphs 44 and 121, because it is lawful, supported by an appropriate record, consistent with the public interest in light of all the information available to the Commission. The Settlement, subject to conditions, should be incorporated by reference into the body of this Order, as if set forth in full.
- 198 (9) PacifiCorp should be authorized and required to make compliance filings in these consolidated dockets in accordance with the Settlements and this Order.
- 199 (10) The Commission Secretary should be authorized to accept by letter, with copies to all parties to this proceeding, filings that comply with the requirements of this Order.
- 200 (11) The Commission should retain jurisdiction over the subject matter and the Parties to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

- 201 (1) The settlement stipulation in Docket UE-180778 is lawful, supported by an appropriate record, and consistent with the public interest and is, therefore, approved without condition.
- 202 (2) The settlement stipulation in Dockets UE-191024, UE-190750, UE-190929, UE-190981, UE-180778 (*Consolidated*) is lawful, supported by an appropriate record, and consistent with the public interest and is, therefore, approved subject to the conditions set by the Commission in paragraphs 44 and 121.
- 203 (3) All parties are authorized and required to separately notify the Commission by December 29, 2020, by a letter to the Commission Secretary filed in this docket

whether each accepts the conditions of approval set by this Order on the settlement stipulation in Dockets UE-191024, UE-190750, UE-190929, UE-190981, UE-180778 (*Consolidated*).

- 204 (4) The proposed tariff revisions PacifiCorp, d/b/a Pacific Power & Light Company, filed in these consolidated dockets and suspended by prior Commission order are rejected.
- 205 (5) PacifiCorp, d/b/a Pacific Power & Light Company, is authorized and required to make compliance filings in this docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Order.
- 206 (6) The Commission Secretary is authorized to accept by letter, with copies to all http://apps.utc.wa.gov/apps/cases/2019/191024/Filed_Documents/00073/191024-PAC-Stip-7-17-20.pdf parties to this proceeding, filings that comply with the requirements of this Order.
- 207 (7) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Olympia, Washington, and effective December 14, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

APPENDIX A

SETTLEMENT (UE-180778) and ATTACHMENTS A, B, C

APPENDIX B

**SETTLEMENT IN DOCKETS UE-191024 *et. al.* AND
ATTACHMENTS A, B, C**