CONFIDENTIAL SUBJECT TO PROTECTIVE ORDER
Exhibit No. RJM-3CT
Docket UE-230482
Witness: Ramon J. Mitchell

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP dba PACIFIC POWER & LIGHT COMPANY Respondent.	Docket UE-230482

PACIFICORP

REDACTED
REBUTTAL TESTIMONY OF RAMON J. MITCHELL

May 2024

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I. INTRODUCTION

Q. Are you the same Ramon J. Mitchell who previously submitted direct testimony in this proceeding on behalf of PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or the Company)?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. I rebut the response testimony of John D. Wilson, filed on behalf of the Staff of the Washington Utilities and Transportation Commission (Staff), Robert L. Earle, filed on behalf of the Washington State Office of the Attorney General Public Counsel Unit (Public Counsel), and Bradley G. Mullins, filed on behalf of the Alliance of Western Energy Consumers (AWEC).

Q. Please provide a summary of your testimony.

A. I provide further detail, incremental to my direct testimony, on how the Washington Inter-Jurisdictional Allocation Methodology (WIJAM) has an implicit, built-in, hedging mechanism for its power supply/demand imbalance and respond to recommendations and claims from Staff, Public Counsel and AWEC.

I do not recommend the Commission adopt any of Staff's recommendations. Other Company witnesses provide the Company's position on both Public Counsel's and AWEC's recommendations.

Q. How is this testimony organized?

A. First, I summarize the WIJAM balancing adjustment in the context of hedging. Then I respond to Staff, Public Counsel and AWEC in that order.

Q. Please identify the other Company witnesses supporting the Company's rebuttal.

A. Three additional witnesses provide rebuttal testimony. Michael G. Wilding, Vice President, Energy Supply Management, provides testimony addressing Public Counsel's issues. Douglas R. Staples, Net Power Cost Adviser, provides testimony addressing hedging in detail. John M. Fritz, Director of Credit, Contracts, and Risk Management, provides testimony responding to Staff witness Wesly Yeomans.

III. THE WIJAM BALANCING ADJUSTMENT

A. Summary

Q. What is the WIJAM balancing adjustment?

A. The WIJAM balancing adjustment is an adjustment in the WIJAM that assigns a monetary value to Washington's power supply/demand imbalance.[1]

Q. Does the WIJAM have a built-in hedging mechanism for its power supply/demand imbalance?

A. Yes. Considering a situation in the power cost adjustment mechanism (PCAM) wherein Washington has a supply/demand deficit (open position) in a given month,[2] this deficit is first valued using the actual monthly average market price for all historical short term firm (STF) wholesale electricity market sales (STF sales) in that month, then after the volume of those STF sales are exhausted, the deficit is valued using the actual monthly average market price for all historical STF wholesale electricity market purchases (STF purchases) in that month.[3]

[1] Exh. RJM-1T at 11.
[2] Exh. RJM-1T at 13.
[3] Monthly average STF sales are lower priced than monthly average STF purchases.

Q. How can this be considered hedging?

A. Using the month of January 2022 as an example; before accounting adjustments, approximately [redacted] percent[4] of the historical STF purchases were hedges, with the remainder being spot market transactions. The monthly average STF purchase price was approximately [redacted].[5] Therefore, if the open position was valued using STF purchases only, then the price used for that valuation would contain that [redacted] percent of historical hedges and that [redacted] percent[6] of historical spot market transactions for the month of January 2022.

Q. Please continue.

A. Recall that the open position is first valued using the average price of STF *sales*, and that the monthly average STF sale price is lower than the monthly average STF purchase price. From these observations, two pertinent facts present themselves.

Q. What is the first fact?

A. First, if the January 2022 open position was valued (closed) with STF purchases only, its valuation would comprise of [redacted] and the price used for that valuation would embody those actual historical hedges purchased throughout time by the Company for the month of January 2022. This price is the similar price that would be incurred if the Company physically hedged separately for Washington. Therefore, from this perspective, the January open position is hedged within the ratemaking construct of the WIJAM,[7] if that were the extent of the balancing adjustment.

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[4] 230482-PAC-RJM-WP-01-2022-Short-term-firm-sales (C).xlsx, tab "Power Market Transactions".
[5] NEW-PAC-PCAM-WP3-6-15-23.xlsx, tab "Net Position Balancing.
[6] 230482-PAC-RJM-WP-01-2022-Short-term-firm-sales (C).xlsx, tab "Power Market Transactions".
[7] Industry standards indicate that it is imprudent to hedge 100% of all market exposure.

Q. What is the second fact?

A. Recognizing that the WIJAM balancing adjustment is therefore an exercise in ratemaking hedging; the balancing adjustment goes one step further. Instead of relying solely on the historical hedge and spot market purchase prices, the open position is first closed using the average price of STF *sales*, which were approximately [redacted][8] in January 2022. Therefore, the hedging that is occurring within the ratemaking construct of the WIJAM, is valuing and closing Washington's market exposure at a *lower* price than the historical hedge and spot purchase prices (approximately [redacted]) and associated costs that were actually incurred by the Company in January 2022 and that would have been incurred on behalf of Washington had there been simultaneous and additional hedging for Washington separately. From this perspective it is therefore preferable for Washington to hedge within the ratemaking construct of the WIJAM as compared to purchasing physical energy in the wholesale electricity markets to hedge the WIJAM's open position.

B. Response to Staff

Q. What does Staff take issue with in their response testimony?

A. Staff takes issue with the spreadsheet calculation of Washington NPC under the WIJAM and initiates a discussion of perceived uneconomic dispatch of Washington gas plants.[9] Staff's issues can be considered as separated into three recommendations.

Q. Does PacifiCorp agree with any of Staff's recommendations?

A. No. As discussed in detail below: (1) Staff's first recommendation removes all hedges from the WIJAM balancing adjustment; (2) Staff's second recommendation is based

[8] NEW-PAC-PCAM-WP3-6-15-23.xlsx, tab "Net Position Balancing".
[9] Staff Witness John D. Wilson, Exh. JDW-1CT at 5 (Mar. 28, 2024).

on a false premise and will likely increase Washington NPC in the upcoming year(s); and (3) Staff's third recommendation is not aligned with how resources are economically dispatched in actual operations.

Q. What is Staff's first recommendation?

A. Staff first recommends using hourly prices to close the WIJAM's open position rather than monthly average prices.[10] However, the hourly prices recommended for use by Staff, are all spot market prices (as discussed below in an analysis of Staff's second recommendation). Therefore, Staff's recommendation is to completely expose Washington's open position to the spot market, which is the very opposite of hedging. This is as compared to the implicit hedging currently undertaken in the WIJAM by use of monthly average prices as discussed above. Therefore, Staff's recommendation runs contrary to the Commission's intent and should not be adopted.

When Staff used hourly prices representative of all markets[11] and time horizons (including the hedging, day ahead and real-time horizons), Staff found that there "are not significant differences" using hourly prices as compared to monthly prices,[12] with NPC increasing slightly in this 2022 PCAM when using system[13] average hourly prices. Staff correctly implies that using hourly system data is more accurate than monthly system data, but Staff does not recommend using system data, and the Company does not believe that the increased administrative burden in

[10] Exh. JDW-1CT at 32.
[11] Excluding the EIM.
[12] Exh. JDW-1CT at 33.
[13] All markets and time horizons.

reviewing an hourly WIJAM balancing adjustment justifies the use of a methodology from which there are “not significant differences.”[14]

Q. What is Staff’s second recommendation?

A. Staff recommends using the Mid-Columbia (Mid-C) spot market price to value the WIJAM’s open position instead of using system monthly average prices.[15] I have already explained above why the Mid-C valuation method as recommended by Staff is inadequate because it relies solely on spot market prices which is the very opposite of hedging.

Setting that explanation aside, Staff justifies the choice of Mid-C (as opposed to another trading hub) by referencing a California Independent System Operator (CAISO) document,[16] which lists the Mid-C trading hub as the proxy to use for calculation of hydroelectric generators’ energy bids in the Western Energy Imbalance Market (WEIM) for the Company’s west control area during periods of market power mitigation.[17] This document is completely unrelated to the WIJAM or to hedging for Washington. Furthermore, the use of Mid-C as a hydroelectric generator cost proxy in the WEIM was guidance provided to the CAISO by the Company, and not representative of any third-party opinion or analysis.

Regardless, it is worth nothing that after the implementation of Washington’s Cap and Invest program in 2023, the Mid-C spot market price is now, on average, the

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[14] Exh. JDW-1CT at 33.
[15] Exh. JDW-1CT at 40.
[16] Exh. JDW-1CT at 41.
[17] “The local firm physical electricity trading location used in the calculation of the Hydro DEB Option. The Default Electric Pricing Hub is assigned based on resource Balancing Authority Area.” *Business Practice Manual for Market Instruments*, CALIFORNIA ISO at 216 (Apr. 9, 2024) available at https://bpmcm.caiso.com/BPM%20Document%20Library/Market%20Instruments/BPM_for_Market%20Instruments_V85_Clean.doc.

highest among the region, instead of the lowest.[18] Notwithstanding that this implies Staff's recommendation is tantamount to increasing NPC in years post 2022; the Company does not recommend that the Commission break from the precedent of using system prices in the WIJAM, which recognizes all system transmission benefits and costs.[19]

Q. What is Staff's third recommendation?

A. Subject to the results of an audit,[20] Staff recommends valuing a portion of the WIJAM's open position with increased or decreased dispatch at the Chehalis and Hermiston gas plants (Washington gas plants),[21] thereby capturing natural gas fuel costs in the valuation of the WIJAM open position. Staff based this recommendation on two premises. First, that there is economic excess capacity available on these gas plants,[22] or second, that there is uneconomic dispatch from the perspective of Washington customers occurring at these gas plants.[23] However, Staff's premises are false.

Q. Please elaborate.

A. Both Chehalis and Hermiston are gas plants that participate in and are economically dispatched by the WEIM. One of the foundational principles of the WEIM is that the entire WEIM footprint (which consists of 80 percent of demand across the entire western interconnection) is dispatched as one entity, and the benefits of this approach are widely recognized. From this perspective, it is therefore important to note that the

[18] 230482-PAC-RJM-WP-2022-23-Day-Ahead-Prices.xlsx.
[19] *WUTC v. Pac. Power & Light Co*., Docket Nos. UE-191024, UE-190750, UE-190929, UE-190981, and UE-180778, Final Order 09/07/12 at 112 (Dec. 14, 2020).
[20] Exh. JDW-1CT at 55.
[21] Exh. JDW-1CT at 5.
[22] Exh. JDW-1CT at 45.
[23] Exh. JDW-1CT at 44; Exh. JDW-1CT at 54.

WEIM is also not dispatching the region in favor of Washington customers. Taking Staff's logic to its natural conclusion, the entire West should therefore be re-dispatched to prevent Washington gas plants from being ramped down in favor of non-Washington gas plants across the WEIM footprint, from New Mexico, U.S. to British Columbia, Canada.

Furthermore, the upcoming Extended Day-Ahead Market (EDAM) follows similar principles of regional dispatch, not specifically for the benefit of Washington customers. In this integrated regional environment, re-dispatching any Company gas plant for Washington customers must recognize both the benefits and the costs. While Staff has implied the existence of benefits, little mention is made of the commensurate costs, either now or in the future. Such costs – when Washington gas plants are dispatched in an isolated fashion – in the context of the EDAM include, but are not limited to, the following: (1) increased transmission expense for Washington customers, which increases NPC; (2) increased regulation reserve requirements, which increases NPC; (3) uneconomic unit commitment, which increases NPC; and (4) increased NPC due to a lack of import or export benefits of lower priced energy into or out of the Company's system due specifically to Washington gas plants' lack of participation in the EDAM.

Q. Setting aside the contradictions and conceptual flaws in Staff's "undispatched capacity"[24] logic, how is their first premise false?

A. Returning to the fact that the WEIM dispatches Washington gas plants, Staff's first premise is false because any excess capacity observed on Washington's gas plants is

[24] Exh. JDW-1CT at 43.

due to the WEIM importing cheaper energy from elsewhere and therefore the prevailing market price is lower than the dispatch price of those gas plants during those hours. This means it would be uneconomic to choose the dispatch price of the gas plant over the lower market price. Regardless, I have already demonstrated that this hourly approach to the WIJAM is inadequate and as Staff points out, it is inappropriate and conceptually flawed to apply this gas re-dispatch concept to the current monthly average pricing method.[25]

Q. How is Staff's second premise false?

A. As implied above, Staff has not recognized that the entirety of the economic dispatch of Washington's gas plants are conducted in the WEIM. From this fallacy follows Staff's claims that these plants are uneconomically dispatched from the perspective of Washington customers[26] and that these plants do not "appear to be dispatched in response to market prices."[27] Staff presents analysis that compares the dispatch of Washington's gas plants to day-ahead zonal bilateral market prices at the Mid-C power trading hub and purports to identify instances of uneconomic dispatch.[28] However, these gas plants are dispatched in accordance with the relevant generator nodal locational marginal prices from the WEIM. Furthermore, contrary to Staff's claim, the Mid-C trading hub is *not* a node.

There is no nodal price within the WEIM that represents the Mid-C, nor has there ever been. The Mid-C trading hub is a region comprising a large geographic

[25] Exh. JDW-1CT at 38.
[26] I have addressed the concept of the WEIM's region wide dispatch above, and the associated contradiction inherent in Staff's position.
[27] Exh. JDW-1CT at 44.
[28] Exh. JDW-1CT at 46-47.

area,[29] whereas a WEIM node is typically a transmission substation (switchyard). The CAISO calculates points that are aggregation of WEIM nodes, but there is no calculation for Mid-Columbia. For the above reasons, Staff's numeric analysis on uneconomic dispatch is fallacious and should be ignored.

Q. Are there any other issues with Staff's testimony?

A. Yes, there are two. First, within Staff's argument for the existence of economic "undispatched capacity" on Washington gas resources – which as explained above is not a viable argument – Staff attempts to reap benefits without recognition of commensurate costs. Specifically, Staff claims to have found some merit in the claim that "Washington's gas plants are often ramped down in favor of non-Washington plants,"[30] but conveniently ignores the fact that non-Washington plants are ramped down to hold capacity which supports the integration of Washington's allocated portion of the system's wind and solar plants.

Currently, generation dispatch is optimized on a total-system basis, serving the integrated needs of the holistic six-state service territory. This dispatch accommodates system load service *along with wind and solar integration (regulation reserve) service*. In the total-system dispatch, coal and gas resources that are not allocated to Washington serve Washington's wind and solar integration obligations (regulation reserve requirements).

[29] The Mid-Columbia hub is a "power trading hub for the Northwest U.S. comprising the control areas of three public utility districts in Washington that run hydroelectric projects on the Columbia River. The three PUDs are Grant, Douglas and Chelan. Hydro projects include Wells, Rocky Reach, Rock Island, Wanapum and Priest Rapids dams." *Methodology and Specifications Guide, US and Cananda M2M Power Quantitively Modeled Forward Curves*, S&P GLOBAL (June 2022) available at https://www.spglobal.com/commodityinsights/PlattsContent/_assets/_files/en/our-methodology/methodology-specifications/m2ms_power_methodology.pdf.

[30] Exh. JDW-1CT at 18.

Staff's purports to calculate benefits from re-dispatching Washington plants to serve Washington load, but fails to calculate the commensurate costs of re-dispatching non-Washington plants to not serve Washington's wind and solar integration needs. This cost would involve re-dispatching Washington gas plants to serve the totality of Washington's regulation reserve requirements for wind and solar resource integration service. As explained in prior testimony, the impact to Washington ratepayers of this commensurate cost is substantial.[31]

Q. What is the second issue?

A. Staff claims that "PacifiCorp's valuation of system power transactions includes only short-term firm transactions and does not include Energy Imbalance Market (EIM) transactions."[32] However, the Company's short-term firm transactions include WEIM (EIM) wholesale sales revenue and purchased power expense.

IV. POWER HEDGING

A. Response to Public Counsel

Q. Does PacifiCorp agree with Public Counsel's recommendations?

A. No. Company Witness Wilding details the Company's position.

Q. Public Counsel claims that "[a]llocation through WIJAM is not hedging separately for Washington."[33] How do you respond?

A. I have demonstrated above in Section III(A) that allocation through the WIJAM is: (1) functionally identical to physically hedging separately for the WIJAM's open position; and (2) more economically favorable.

[31] *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket No. UE-230172, Exh. RJM-3CT at 10-11 (Oct. 27, 2023).
[32] Exh. JDW-1CT at 41.
[33] Public Counsel Witness Earle, Exh. RLE-1T at 18 (Mar. 28, 2024).

Q. Public Counsel claims and implies that the Company's calculation, which shows an increase in NPC of $7.1 million if Washington was physical hedged, is flawed and misleading.[34] How do you respond?

A. Public Counsel's analysis of the Company's analysis contains a number of flaws or erroneous assumptions. *First*, Public Counsel claims that the Company's calculation "merely shows that if Washington was excluded from the hedging performed for the system as a whole, and no separate hedging was performed for Washington then the NPC for Washington would increase by $7.1 million in 2022."[35] This claim by Public Counsel is false. The calculation shows the impact of valuing the WIJAM's open position with the monthly average prices of STF market purchases only, as compared to the current method of first using monthly average STF sale prices, then purchase prices. In doing so, the calculation simulates the impact of actually, physically purchasing hedges in the wholesale electricity markets to close the WIJAM's open position. I have discussed this in further detail above in Section III(A).

Second, Public Counsel makes a concerning statement. "[I]n Mitchell's Exhibit RJM-2 […] the 'separately hedged' scenario is labeled 'WA-Allocated NPC if covering Market Exposures Solely with Market Purchases.' That is, rather than including Washington in the system wide hedging benefits or hedging for Washington separately, Washington's short position is covered by market purchases."[36] Public Counsel does not appear to be cognizant of the fact that hedging in the wholesale electricity markets involves, amongst other things, <u>making market purchases</u> in the

[34] Exh. RLE-1T at 18-19.
[35] Exh. RLE-1T at 19.
[36] Exh. RLE-1T at 19.

forward markets to close open positions. That is to say, Public Counsel has expressed its belief that power hedging in the wholesale electricity markets does not involve market purchases. I am unable to reconcile Public Counsel's belief with actual power system operations.

In light of this egregious misunderstanding and misrepresentation as it concerns the Company's assertion that the WIJAM has a built-in hedging mechanism for its power market exposure, Public Counsel's testimony on this specific topic should be ignored.

Q. Do you have any other remarks related to Public Counsel's testimony?

A. Company witness Wilding further addresses Public Counsel's testimony in more detail.

B. Response to AWEC

Q. Does PacifiCorp agree with AWEC's recommendations?

A. No. Company Witness Staples details the Company's position.

Q. AWEC claims that the Company's statement that the WIJAM minimizes spot market exposure[37] is "inconsistent with […] past testimony".[38] How do you respond?

A. AWEC notes that in the 2022 PCORC,[39] PacifiCorp plainly stated that under the WIJAM Washington customers have been "uniquely vulnerable to market purchases. The Commission observed this reality when it approved the WCA, noting that the 'WCA must meet a higher proportion of its retail load with market purchases:'"[40] (1)

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[37] Exh. RJM-1CT at 11.
[38] Exh. BGM-1CT at 48.
[39] Exh. BGM-1CT at 48.
[40] *WUTC v. Pacific Power & Light Co.,* Docket No. UE-061546 et al., Order No. 08 at ¶ 50 (Jun. 21, 2007).

This is true; (2) the increased market exposure was noted by the Commission; and (3) this does not contradict the fact that "the hedging treatment provided for under the WIJAM […] minimiz[es] spot market price exposure."[41] As I have explained in Section III(A) and in other sections above: (1) market exposure in the context of the WIJAM balancing adjustment is exposure to both hedges and the spot market; (2) hedges are market purchases; and (3) the monthly average STF prices that value the WIJAM's open position contains the prices of both historical hedges and historical spot market transactions. In this manner, the WIJAM has a built-in hedging mechanism and minimizes spot market exposure as compared to the alternative of valuing the WIJAM's open position based solely on historical spot market prices (which is Staff's proposal).

Q. AWEC claims that the Company's statement that the WIJAM minimizes spot market exposure[42] is "inconsistent with […] actual experience".[43] How do you respond?

A. First, AWEC refers to the increase in Washington NPC as compared to the increase in the total-Company NPC. This difference in increases is related to the WIJAM's market exposure through its open position, but this difference does <u>not</u> contradict the fact that the WIJAM's balancing adjustment minimizes spot market exposure. Put another way, because the WIJAM's balancing adjustment contains a valuation of the open position based on prices of both hedges and spot market transactions, there is a minimizing of exposure to spot market prices, as compared to a valuation which only

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[41] Exh. RJM-1T at 11.
[42] Exh. RJM-1T at 11.
[43] Exh. BGM-1CT at 48.

included spot market prices; and this fact is unrelated to any difference in increases of NPC across different jurisdictions.

Second, AWEC refers to price volatility, which hedging is designed to reduce, and states that "PacifiCorp's contention that the WIJAM insulates customers from price volatility cannot be squared with this experience."[44] However, a difference between two NPC increases is unrelated to the concept of price volatility in the context of the WIJAM balancing adjustment. AWEC's statement in this context has no relevance to the fact that the WIJAM minimizes spot market exposure.

Q. AWEC claims that the $7.1 million, which represents the benefit of the WIJAM's built in hedging mechanism (implicit), is not a meaningful value and is misleading.[45] How do you respond?

A. AWEC's claims that the calculation of the $7.1 million "compares to an alternative scenario that has nothing to do with the WIJAM."[46] However, it is quite plain (and stated by AWEC themselves) that the $7.1 million calculation is a counterfactual scenario which assumes that the WIJAM's open position is valued only with the average monthly prices of STF market purchases. Clearly this counterfactual scenario is related to the WIJAM. AWEC's assertion that it is has "nothing to do with the WIJAM"[47] is illogical and incorrect.

Furthermore, I have explained above how this $7.1 million value reflects an estimate of the increase in 2022 NPC for Washington if the Company were to separately hedge power for Washington customers in actual operations; as opposed to

[44] Exh. BGM-1CT at 48.
[45] Exh. BGM-1CT at 48.
[46] Exh. BGM-1CT at 48.
[47] Exh. BGM-1CT at 48.

the functional hedging that currently occurs in the WIJAM.

Q. AWEC claims that the $7.1 million benefit "has nothing to do with hedging."[48] How do you respond?

A. I have discussed above in Section III(A) that the WIJAM has a built-in hedging mechanism for its power market exposure that results from the fact that historical hedges are embedded in the historical STF transactions that value the WIJAM's open position. I have also explained above in Section III(A) that those prices embedded in the historical STF transactions would be the prevailing prices faced by the Company were it to have hedged for Washington throughout time, for calendar year 2022. The $7.1 million figure, which represents the benefit of the WIJAM's built in hedging mechanism, calculates based on those STF prices and relies on the fact that historical hedge prices are embedded within them. Therefore, AWEC is incorrect. The figure has everything to do with hedging.

Q. Do you have any other remarks related to AWEC's testimony?

A. Company witness Staples further addresses AWEC's testimony in more detail.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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[48] Exh. BGM-1CT at 49.