

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

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

Respondent.

DOCKET UE-230172
(Consolidated)

In the Matter of

ALLIANCE OF WESTERN ENERGY
CONSUMERS'

Petition for Order Approving Deferral of
Increased Fly Ash Revenues

DOCKET UE-210852
(Consolidated)

**CROSS-EXAMINATION EXHIBIT
OF MATTHEW MCVEE**

**ON BEHALF OF
SIERRA CLUB**

**EXHIBIT MDM-__X
ORDER 09, UE-140762 ET AL. (MAY 26, 2015)**

December 4, 2023

[Service Date May 26, 2015]

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

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|--|---|-------------------------|
| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, |) | DOCKET UE-140762 |
| |) | (consolidated) |
| |) | |
| Complainant, |) | ORDER 09 |
| |) | |
| v. |) | FINAL ORDER APPROVING |
| |) | AND ADOPTING |
| PACIFIC POWER & LIGHT |) | SETTLEMENT |
| COMPANY, a Division of PacifiCorp, |) | AGREEMENT; |
| |) | AUTHORIZING AND |
| Respondent. |) | REQUIRING TARIFF FILING |
| |) | |
| |) | |
| In the Matter of |) | DOCKET UE-140617 |
| |) | (consolidated) |
| PACIFIC POWER & LIGHT |) | |
| COMPANY |) | |
| |) | |
| Petition for an Order Approving |) | |
| Deferral of the Washington-Allocated |) | |
| Revenue Requirement Associated with |) | |
| the Merwin Fish Collector. |) | |
| |) | |
| In the Matter of |) | DOCKET UE-131384 |
| |) | (consolidated) |
| PACIFIC POWER & LIGHT |) | |
| COMPANY |) | |
| |) | |
| Petition for an Order Approving |) | |
| Deferral of Costs Related to Colstrip |) | |
| Outage. |) | |
| |) | |
| In the Matter of |) | DOCKET UE-140094 |
| |) | (consolidated) |
| PACIFIC POWER & LIGHT |) | |
| COMPANY |) | |
| |) | |
| Petition for an Order Approving |) | |
| Deferral of Costs Related to Declining |) | |
| Hydro Generation. |) | |
| |) | |

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Synopsis: The Commission approves and adopts a Settlement Stipulation providing the design details and parameters necessary to implement a Power Cost Adjustment Mechanism (PCAM) for Pacific Power & Light Company (Pacific Power or Company), as required by the terms of Order 08 in these proceedings. All active parties are signatories to the Settlement Stipulation. The terms of the Settlement Stipulation were negotiated following brief additional process conducted immediately after the Company's compliance filing revising its tariff to reflect rate changes the Commission ordered in these proceedings. The Commission finds, on the basis of its review of the pertinent record, that the Settlement Stipulation establishes a design and uses parameters for a PCAM that are consistent with the requirements of Order 08 and in the public interest.

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SUMMARY

1 **PROCEEDING:** Pacific Power & Light Company (Pacific Power or Company), an operating division of PacifiCorp, filed a general rate case (GRC) proceeding with the Washington Utilities and Transportation Commission (Commission) in Docket UE-140762 on May 1, 2014, seeking to recover additional revenue of approximately \$27.2 million.¹ The Commission consolidated into the GRC for decisions the issues raised in three other pending dockets that implicated the Company's rates, as follows:

- A petition for an accounting order on July 26, 2013, in Docket UE-131384, requesting an order authorizing the Company to defer from the date of the petition forward its costs for repair and replacement purchase power for an outage at the 740-megawatt unit 4 of the Colstrip generating plant located in Colstrip, Montana.
- A petition for an accounting order in Docket UE-140094 on January 17, 2014, seeking to defer costs that the Company anticipated it would incur during 2014 due to decreased hydropower production.
- Pacific Power's request to recover in rates the deferral balance for the Merwin Fish Collector Project, as to which the Commission approved deferral accounting treatment on April 14, 2014, in Docket UE-140617.

The Commission entered Order 08 in these proceedings on March 25, 2015, fully resolving the consolidated dockets and resolving all issues in the GRC. Order 08, among other things, required Pacific Power to make a tariff filing to implement a Power Cost Adjustment Mechanism (PCAM). The order provided for expedited supplemental proceedings to inform the implementation of the required PCAM, with an anticipated effective date of June 1, 2015.

2 On April 10, 2015, following approval of the Company's compliance filing implementing the rates authorized by Order 08, the Commission convened a prehearing conference and determined process and a procedural schedule for the supplemental proceedings. On May 8, 2015, consistent with the procedural schedule, Pacific Power filed a Settlement Stipulation to which all active parties agreed, providing the details necessary to implement a workable PCAM consistent with the

¹ Pacific Power modified its request during the proceedings to \$30,398,178.

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requirements of Order 08 and other orders in which the Commission has discussed its policies concerning PCAM mechanisms. The active parties, Pacific Power, Commission Regulatory Staff, the Public Counsel Section of the Washington Office of Attorney General, and Boise White Paper, L.L.C. (collectively Parties), concurrently filed a Joint Narrative in Support of Settlement Stipulation with two appendices.

3 **PARTY REPRESENTATIVES:** Katherine A. McDowell and Adam Lowney, McDowell Rackner & Gibson PC, Portland, Oregon, represent Pacific Power. Patrick J. Oshie, Brett P. Shearer, and Jennifer Cameron-Rulkowski, Assistant Attorneys General, Olympia, represent the Commission's Regulatory Staff (Staff).² Simon J. ffitch, Senior Assistant Attorney General, Seattle, represents the Public Counsel Section of the Washington Office of Attorney General (Public Counsel). Melinda J. Davison and Jesse Cowell, Davison Van Cleve, Portland, Oregon, represent the Boise White Paper, L.L.C. (Boise White Paper).

4 Albeit not active in this phase of Docket UE-140762, Brad M. Purdy, attorney at law, Boise, Idaho, represents the Energy Project; Samuel L. Roberts, Hutchinson, Cox, Coons, Orr & Sherlock PC, Eugene, Oregon, represents Walmart Stores, Inc.; and Joseph F. Wiedman, Keyes, Fox & Wiedman, Oakland, California, represents The Alliance for Solar Choice.

5 **COMMISSION DETERMINATIONS:** The Commission finds on the basis of the evidence presented that the Settlement Stipulation establishes parameters for a PCAM that are consistent with the requirements of Order 08 and in the public interest. The Commission accordingly approves and adopts the Settlement in full resolution of the issues in this proceeding.

² 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.

MEMORANDUM

I. Background and Procedural History

6 The Commission discusses at length in Order 08 the history, reasoning, and rationale for ordering a PCAM in this proceeding, and describes Staff’s proposed PCAM in this docket.³ We find it appropriate for the convenience of the Parties and others who may review this Order to repeat this discussion from Order 08 to the extent it describes Staff’s proposal.⁴

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7 Mr. Gomez testifies to Staff’s belief that “the Commission has provided more than sufficient guidance to Staff and the Company over the last nine-years on this issue to warrant action and to move forward with implementation of a PCAM once and for all.”⁵ Mr. Gomez, focusing on the Commission’s detailed discussion of a PCAM proposed in Pacific Power’s 2006 GRC,⁶ addresses the key factors that led the Commission to reject Pacific Power’s proposal and explains Staff’s view of the appropriate means to address these issues in this case.

8 Mr. Gomez first discusses the Commission’s concern relative to the Company’s proposed use of a computer-generated cost methodology to determine both forecasted normalized base power costs and to determine “actual costs” that would be true-up on an annual basis. In this regard, the Commission discussed in Order 08 that:

Base power costs are a statistical estimation of what level of costs is expected under normal conditions. Because this is an estimate, it is not expected to match the actual costs incurred in any given year. The core idea of a power cost adjustment mechanism is to true-up these

³ See Order 08, ¶¶ 105-27.

⁴ Paragraphs 7 - 26 in this Order, offset by section symbols, are quoted from paragraphs 109 – 120 in Order 08. Original footnotes are preserved, including references to Mr. Gomez’s testimony in this proceeding. Mr. Gomez’s testimony in this proceeding, in turn, refers back to evidence in Docket UE-140043. The Commission takes official notice of the earlier testimony to the extent relevant here.

⁵ Gomez, Exh. No. DCG-1CT at 19:13-16.

⁶ *WUTC v. PacifiCorp*, Docket UE-061546, Order 08 ¶¶ 59-111 (June 21, 2007).

estimated costs with actual costs that are the measured and documented costs that did occur in a given year.

Our concern is that the computer-generated, pseudo-actual costs will themselves be only estimates including some statistical (i.e., modeling) variability (i.e., error). The Company and Staff contend that actual data, rather than assumptions, will be used in the computer model. Presumably that will reduce the modeling error and produce a more precise result. Truing-up one estimate with another more precise estimate may be justified, but the risk is that neither will be accurate and using two inaccurate, even if precise, estimates of cost to set cost-based rates could lead us to depart farther and farther from actual costs. A key problem with this approach is that we would never know.⁷

9 Mr. Gomez testifies that in Docket UE-130043, the Company’s 2012/2013 GRC, Pacific Power abandoned its prior proposal that relied on computer-generated costs and, instead, offered to report actual net power costs (NPC) per its books and records. In Staff’s view, “[t]his approach resolves the first threshold hurdle to a properly designed PCAM for Pacific Power.”⁸

10 Turning to the issue of dead bands and sharing bands, Mr. Gomez testifies that Staff’s proposal would resolve the second point of concern stated in Order 08 by proposing a PCAM with properly designed sharing and dead bands. In the earlier case, the Commission included in Order 08 at Table 2, reproduced here, showing the various proposals for dead bands and sharing bands in the 2006/2007 time frame:

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⁷ *Id.* ¶¶ 76-77.

⁸ Gomez, Exh. No. DCG-1CT at 20:13-14.

PCAM Proposals⁹

| | Dead Band | Sharing Bands | Other Features | Risk-Adjustment |
|-------------------|-------------|---|--|--|
| PacifiCorp | +/- \$3 M | +/- \$3- 7.4M 60% customer >\$7.4M 90% customer | Include fixed cost for new resources \leq 50 MW for \leq 2-year term; Retail Load Adjustment; \$3 M threshold for cost-recovery. | None |
| Staff | +/- \$4M | +/- \$4 – 10M 50% customer >\$10M 90% customer | No fixed cost for new resources (only variable cost); Retail Load Adjustment; \$6 M threshold for cost-recovery. | Reduction in equity component of capital structure to 42% [ROR = 7.90] |
| ICNU | +/- \$8.6 M | +/- \$8.6 – 17.3M 50% customer > \$17.3 85% customer | No other detail | ROE reduction of 30 basis points [ROR = 7.92] |

11 The Commission expressed its concern that none of these proposals reflected the asymmetry in the distribution of net power costs that “skewed [them] toward higher costs, in part because poor hydropower is correlated with higher wholesale power costs and higher fuel costs.”¹⁰ Order 08 [in Docket UE-061546] states that:

An optimally designed PCAM would recognize the inequality between upside and downside risk in its design of dead bands and sharing bands. For example, to equally balance risk with benefit, the dead band and sharing bands should be set at lower levels on the “lower cost” side of base costs to increase the expected value of customer benefits enough to balance the expected value of customer risks on the “high side” of base costs.¹¹

12 Staff proposes in this case a dead band of plus or minus \$25 million on a WCA basis which corresponds to about 5 percent of the average NPC costs for the Company on a

⁹ *WUTC v. PacifiCorp*, Docket UE-061546, Order 08 ¶ 66 (June 21, 2007).

¹⁰ *Id.* ¶ 85.

¹¹ *Id.* ¶ 86.

WCA basis. How Staff determines this level on a WCA basis is unclear. It is also not clear why, unlike Staff's recommendation in Pacific Power's 2006/2007 GRC, this is not reduced to a Washington basis that would allow for comparison to earlier proposals.

13 As to the sharing bands Staff proposes in this case:

[A]ny remaining portion of the variance above or below the dead-band will be shared with customers in different proportions depending if the variance between base and actual NPC reflects a year-end surcharge or rebate. Under-recovery of NPC (that is, in the surcharge direction) will be shared on a 50/50 basis between customers and the Company. To reflect asymmetry of power cost distribution, over-recovery of NPC (that is, in the rebate direction) is shared by 75 percent going to customers and the remainder retained by the Company.¹²

14 Mr. Gomez illustrates the operation of these proposed bands in a confidential exhibit using "actual NPC results provided by the Company in the last rate case [in Docket UE-130043,] which were updated with results from 2012 and 2013."¹³ Again, however, Staff does not explain the bases for its choice of a single sharing band or the degree of asymmetry reflected in the sharing mechanism it proposes.

15 In considering the types of costs that would be included in Staff's proposed PCAM, Mr. Gomez testifies that Staff accepts the approach proposed by Pacific Power in its 2012/2013 GRC. That is, the PCAM is calculated "using all components of NPC as traditionally defined in the Company's general rate cases and modeled by the Company's GRID model."¹⁴ Mr. Gomez provides details in his testimony identifying the specific Federal Energy Regulatory Commission (FERC) accounts that are included.¹⁵ Thus, Mr. Gomez testifies, "the proposed PCAM for PacifiCorp will be very similar to Avista Corporation's Energy Recovery Mechanism (ERM),"¹⁶ on which the Company based its own proposal in the 2006/2007 GRC.

¹² Gomez, Exh. No. DCG-1CT at 22:16-22.

¹³ *Id.* at 20:15-20 (referring to Exh. No. DCG-5C).

¹⁴ *Id.* at 21:3-5.

¹⁵ *Id.* at 21:5-16.

¹⁶ *Id.* at 21:17-19.

16 Also like the Avista ERM, Staff's proposed PCAM will include a monthly retail revenue adjustment applied to the monthly difference between actual NPC and forecasted base NPC. The retail revenue adjustment will reflect the power production expenses recovered through base retail revenues due to changes in retail load, as follows:

Base NPC will be divided by the base load MWh to arrive at a net power cost sales factor (SF) expressed in dollars per MWh. The monthly retail revenue adjustment used in the PCAM will be computed by multiplying the SF by the difference between actual and base monthly retail MWh sales. If actual MWh sales are greater than base, the retail revenue adjustment will reduce the PCAM deferral. If actual MWh sales are less than base, the retail revenue adjustment will increase the PCAM deferral.¹⁷

17 Staff proposes a carrying charge on the customers' share of NPC deferral balances using the Company's actual cost of debt. This is to be updated semi-annually and applied to NPC deferral balances less associated accumulated deferred income taxes. Staff would require the Company to report semi-annually the result of the updates to the parties in this proceeding. Interest would be accrued monthly and compounded semi-annually.¹⁸

18 The deferrals will trigger a rate adjustment when the customers' share of Washington-allocated NPC deferrals accumulates to 10 percent of base retail revenues. If this happens, Pacific Power will file to implement a surcharge or rebate through a separate tariff schedule dedicated to this purpose. The proposed effective date of the tariff must allow for a 90-day review and approval process. The Company may propose a different effective date, subject to Commission approval, to minimize the number of rate changes to customers.¹⁹

19 Any surcharge or rebate will be spread to rate schedules on the same basis as power costs are allocated using base revenues approved in this proceeding, unless otherwise changed in a future rate proceeding. Within each rate schedule the rate adjustment will apply to the energy charges on a uniform cents per kilowatt-hour basis using the

¹⁷ *Id.* at 22:1-10.

¹⁸ *Id.* at 23:5-10.

¹⁹ *Id.* at 23:13-19.

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most recent normalized kilowatt-hours as filed annually by the Company pursuant to Commission Basis Reporting requirements. There is an exception for street and area light rates, which will be adjusted by a uniform percentage. The rate adjustment will be in effect for a 12-month period and only one surcharge or rebate will be in place at any given time.²⁰

20 Finally, Staff proposes that the Company be required to file quarterly reports of activity in the PCAM when it files its quarterly report of actual operations. In addition, the Company will file annually, on or before April 1st of each year, its PCAM deferrals from the previous calendar year. Standard discovery rules will apply for Company responses to data requests allowing the Commission Staff and interested parties the opportunity to review the deferral information during a 90-day review period ending June 30th of each year. The 90-day review period may be extended by agreement of the parties participating in the review, or by Commission order. The Commission will be asked to confirm and approve the deferral balances in an open meeting or to conduct appropriate process if they are challenged.

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21 The Commission determined that it should initiate an expedited proceeding within 30 days after entering Order 08 to develop and implement a full PCAM for Pacific Power consistent with the Commission's direction in prior orders. The Commission provided significant guidance concerning its expectations both in Order 08 and during subsequent discussions at a prehearing conference initiating "Phase II" of these proceedings. Given this, the Commission stated its requirement that Pacific Power file tariff sheets necessary and adequate to implement a Power Cost Adjustment Mechanism no later than May 31, 2015. The Commission encouraged the parties to engage in settlement discussions, but said that if no full-party agreement could be reached by that time, or the Company declined by that date to file a full PCAM consistent with prior Commission orders, the Commission would approve expeditiously a mechanism generally along the lines Staff proposed in this docket.

22 On April 10, 2015, following approval of the Company's compliance filing implementing the rates authorized by Order 08, the Commission held a prehearing conference. The Presiding Administrative Law Judge discussed with the parties the requirements of Order 08 and the Commission's Staff's responses to questions posed

²⁰ *Id.* at 23:20-24:5.

in Order 08 concerning certain details suggested by Staff's proposed PCAM. In addition, consistent with a proposal from the parties, the Commission determined process and a procedural schedule for the supplemental proceedings.²¹ On May 8, 2015, consistent with the procedural schedule, Pacific Power filed a Settlement Stipulation to which all active parties agreed, providing the details necessary to implement a workable PCAM consistent with the requirements of Order 08 and other orders in which the Commission has discussed its policies concerning PCAM mechanisms. The active parties (Parties) concurrently filed a Joint Narrative in Support of Settlement Stipulation with two appendices.

II. Settlement

23 We describe in this section of our Order the Parties' Settlement Stipulation, which is attached to, and adopted into, this Order by this reference. We discuss in this section and in section III, our understanding of the means by which the Company will implement its PCAM. **If there is any inconsistency between our discussion in these sections and what one or more parties intend the Settlement Stipulation to require, the terms of this Order control, subject to any motion for clarification under WAC 480-07-835 or 836, or a petition for reconsideration under WAC 480-07-850.**

A. Calculation of Net Power Cost Variances

24 The Parties agree that the PCAM will include the power cost elements, by FERC Account, traditionally reflected in the Company's NPC as presented in its general rate cases. Thus, the PCAM will be calculated using all components of NPC as traditionally defined in the Company's general rate cases and modeled by the Company's GRID model. Specifically, Base NPC estimates and Actual NPC determinations will include amounts typically booked to the following FERC accounts:

- FERC Account 447—Sales for resale, excluding on-system wholesale sales.

²¹ Notice of Process and Procedural Schedule for Phase II of Docket UE-140762 (April 16, 2015).

- FERC Account 501—Fuel, steam generation; excluding certain costs for fuel handling, startup fuel/gas, diesel fuel, residual disposal, and other costs not modeled in GRID.
- FERC Account 503—Steam from other sources.
- FERC Account 547—Fuel, other generation.
- FERC Account 555—Purchased power, excluding BPA residential exchange credit pass-through if available.
- FERC Account 565—Transmission of electricity by others.

25 Pacific Power's Base NPC (*i.e.*, NPC in rates adjusted by Washington retail sales) and its Actual NPC are calculated on a West Control Area (WCA) basis.²² The PCAM allocates both amounts to Washington under the WCA inter-jurisdictional allocation methodology. That is, the PCAM compares Pacific Power's Washington-allocated Base NPC and Pacific Power's Washington-allocated Actual NPC.

26 Base NPC are calculated by multiplying NPC reflected in rates on a unit cost basis (*i.e.* dollars per megawatt hour (\$/MWh)) by actual Washington retail sales at the meter. NPC in rates on a \$/MWh basis are calculated by dividing Washington-allocated NPC as established in a general rate case by the Washington sales-at-meter used to set rates in a general rate case.

27 Actual NPC are calculated using actual costs booked to applicable FERC accounts, as described above, and consistent with the method used to calculate Base NPC. The Company will allocate Actual NPC to Washington using allocation factors calculated with actual jurisdictional load.

28 The following formula illustrates the calculation of NPC Variance:

$$NPC\ Variance = Actual\ NPC - (Base\ NPC_{\$/Mwh} \times Actual\ Sales)$$

²² The Settlement Stipulation provides that any future challenges to the method for calculation of Base NPC and Actual NPC will occur in a general rate case and not in an annual PCAM proceeding, unless otherwise directed by the Commission. Parties reserve the right to contest the prudence and accuracy of Company calculations.

An illustrative example of the calculation of NPC Variances in the PCAM is attached to the Settlement Stipulation as Appendix A.

- 29 The Company will calculate the variance between Base NPC, adjusted for actual retail sales, and Actual NPC on a monthly basis. This is referred to as NPC Variance. Monthly NPC Variance will be recorded in a PCAM deferral account.

B. Operation of the PCAM Deferral Account

- 30 The PCAM is designed to recover for the Company or refund to customers significant, unexpected variations in power costs that exceed an annual dead band of +/- \$4 million, if and when the cumulative positive or negative balance in the PCAM deferral account, including monthly interest using the rate published by the Federal Energy Regulatory Commission (FERC),²³ exceeds \$17 million. The PCAM calculates the monthly variance, positive or negative, between Pacific Power's NPC embedded in rates and Pacific Power's actual NPC, and records these variances in a PCAM balancing account (*i.e.*, a deferral account). Annually, the net sum of the accrued NPC variances is determined, a dead band of \$4 million is subtracted, and tiered sharing bands are applied to adjust the year-end balance. In the first sharing band, positive annual NPC variances (*i.e.*, NPC greater than amounts reflected in rates) of more than \$4 million, up to and including \$10 million, will be allocated 50 percent to customers and 50 percent to the Company. That is, the annual net sum of NPC variances, less the \$4 million dead band, will be increased by one-half of any positive variance between \$4 million and \$10 million.
- 31 Negative annual NPC Variances (*i.e.*, NPC less than amounts reflected in rates) of more than \$4 million, up to and including \$10 million, will be allocated 75 percent to customers and 25 percent to the Company. That is, the annual net sum of NPC

²³ The FERC interest rate, currently 3.25 percent, is available online. See FERC Interest Rates: <http://www.ferc.gov/enforcement/acct-matts/interest-rates.asp>

The carrying charge will apply to the deferred NPC Variances in the PCAM balancing account. The PCAM balancing account will track the monthly NPC Variances and will include carrying charges calculated using the current FERC interest rate (updated quarterly) and the half-month method illustrated below:

$$\begin{aligned} \text{Monthly Carrying Charge} \\ = [\text{Beg Balance} + (\text{Monthly NPC Variance} \times 1/2)] \times FERC / 12 \end{aligned}$$

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variances, less the \$4 million dead band, will be decreased by three-fourths of any negative variance between \$4 million and \$10 million.

- 32 Finally, in the second sharing band, any annual NPC Variances greater than \$10 million, positive or negative, will be allocated 90 percent to customers and 10 percent to the Company. That is, the annual net sum of NPC variances, less the \$4 million dead band, and adjusted for any positive or negative variance between \$4 million and \$10 million, will be adjusted further either by adding to the deferral balance 90 percent of any positive variance greater than \$10 million or subtracting from the deferral balance 10 percent of any negative variance greater than \$10 million.

C. Amortization of PCAM Deferral Account Balances that Exceed \$17 Million Trigger; Surcharges and Credits

- 33 Accruals in the PCAM deferral account are cumulative from year to year unless and until they amount to a positive or negative balance of \$17 million or more in a given year. This level of accumulation triggers amortization of the balance in rates. If the accumulated balance of \$17 million or more at the end of a given year is positive, this will result in a monthly surcharge to customers over the ensuing 12 months. If the accumulated balance of \$17 million or more at the end of a given year is negative, this will result in a monthly credit to customers over the ensuing 12 months. The Company will collect or credit the accumulated PCAM balance on new Tariff Schedule 97, Power Cost Adjustment Mechanism, as a part of its annual PCAM filing. Schedule 97 is included as Appendix B to the Settlement Stipulation. The recoverable PCAM balance will be allocated to rate schedules consistent with the allocation of Base NPC from the Company's most recent general rate case filing.
- 34 Although the Settlement Stipulation does not expressly provide for any variation from this approach to recovering surcharges or refunding credits, the Commission will consider any petitions to alter the surcharge or credit amortization and payout in any given year. Such petitions may be appropriate, for example, if the accumulated balance is large enough to require a surcharge or credit that might have too significant an impact on customers or the Company if paid monthly over 12 months, or if other rate changes are imminent and may be beneficially adjusted by use of some or all of the accumulated PCAM deferral balance in excess of \$17 million.

D. Annual PCAM Filing

35 The Parties agree that the Company will file an annual report on or before June 1 of each year for the Commission to confirm and approve the deferred PCAM balances for the previous calendar year. The review period for the filing will be 90 days ending August 30 of each year. The Commission's standard discovery rules will apply, except that the response time for data requests will be reduced to seven business days, on a best efforts basis, allowing Staff and interested parties an opportunity to review the Company's deferred PCAM balances under the expedited review period.

E. First Year PCAM Filing

36 The Company will make its first annual PCAM filing on June 1, 2016, covering the first partial year of the PCAM beginning April 1, 2015, which aligns with the beginning of the rate-effective period in Phase I of this case,²⁴ and ending on December 31, 2015. The Parties refer to this in their Settlement Stipulation as "the Stub Year." The Parties agree that for the Stub Year PCAM filing certain PCAM elements will be adjusted to reflect the shorter time period (*i.e.*, nine of twelve months). The dead band for the Stub Year will be plus or minus \$3 million, the asymmetrical sharing band will be applied to any Stub Year variance in the range of between plus or minus \$3 million and plus or minus \$7.5 million, and the symmetrical sharing band will be applied to any Stub Year variance greater than \$7.5 million. The carrying charge, filing date, amortization trigger, and review period will not be altered for the Stub Year, and will remain as described in the Settlement Stipulation.

III. Evidence Supporting Settlement Stipulation

37 In 2007, the Commission rejected a PCAM proposed by the Company in Docket UE-061546 and discussed its concerns that led to its decision. Staff witness Mr. Gomez's testimony in this current proceeding, proposing a PCAM for Pacific Power, focused on the Commission's expressed concerns in the earlier docket. He testified to Staff's view that the Commission established in Docket UE-06154 threshold requirements for a PCAM for the Company. Mr. Gomez testified specifically that:

²⁴ Rates from Phase I of the general rate case became effective March 31, 2015. For administrative ease, the Parties agree that the PCAM should become effective April 1, 2015.

In Docket UE-061546 the Commission specified that any PCAM must:

- Demonstrate the process, accounting, and reliability of the computer-generated “actual costs” that the Company then-proposed to use in the annual PCAM true-up; and
- Refine the PCAM design to reflect asymmetry of power cost distribution.²⁵

38 Mr. Gomez testified further that Staff’s proposed PCAM in this proceeding addresses these concerns:

In the 2006 general rate case, the Commission rejected the Company’s use of a computer generated cost methodology (*i.e.*, costs derived from a model rather than a record of actual costs) to true-up normalized base power costs. The Commission did so because of its concern that computer-generated costs will be only estimates and could lead to a further departure from actual costs. In the last rate case, the Company abandoned its prior proposal that relied on computer generated costs and, instead, offered to report actual NPC per its books and records. This approach resolves the first threshold hurdle to a properly designed PCAM for Pacific Power.

To resolve the second hurdle, Staff, in its proposal here, offers the Commission a PCAM with properly designed sharing and dead bands which were lacking in past and recent Company design proposals.²⁶

39 In Order 08 in this proceeding, the Commission stated its interest in having a more complete record explaining, among other things, Staff’s position that Pacific Power’s proposed PCAM in Docket UE-140043 resolved the Commission’s previously stated concern about the approach to determining actual power costs. Staff responded in writing to the Commission’s request for additional information on April 9, 2015, the day before the Commission’s prehearing conference initiating supplemental proceedings. In part relevant here, Staff stated that:

It is not only appropriate, but essential, that both base and actual Net Power Costs (NPC) in Pacific Power’s PCAM be calculated from the

²⁵ Gomez, Exh. No. DCG-1CT at 19:18 – 20:4 (citing *WUTC v. Pacific Power*, Docket UE-061546, Order 08 at ¶111 (June 21, 2007)).

²⁶ *Id.* at 20:6-17 (internal citation to *WUTC v. Pacific Corp*, Docket UE-061546, Order 08 at ¶77 (June 21, 2007) omitted).

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basis of the WCA. The WCA consists of generation and transmission resources that are either located within Pacific Power's West balancing authority (PACW) or have the physical capability to deliver energy into the WCA.^[1] The WCA isolates the costs associated with these assets and 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.^[2] The PCAM's deferral amounts will be calculated first from the WCA whole and then allocated to Washington using the appropriate factor for each FERC account.

Staff understands the term "wholesale power costs", within the context of Pacific Power's PCAM, to mean both Sales for Resale – FERC Account No. 447 and Purchased Power – FERC Account No. 555. Account 447 would include the East Area Sales (WCA Sale) which will be treated the same as any Fixed Price/Firm Energy Power Purchase Agreement. Account No. 555 would exclude any BPA residential exchange credit pass-through which Staff understands is accounted for elsewhere and not included in the calculation of NPC.

In UE-130043^[3], the Company removed a significant cost-calculation hurdle by abandoning the use of "pseudo actual, computer-generated" data to calculate actual NPC in favor of actual NPC per the books and records of the Company. Assets or proportions of assets included in the reporting of actual NPC will be consistent with the WCA used to determine normalized NPC in the Company's general rate cases. To the extent an energy imbalance exists after accounting for actual loads and resources, the Company will account for the difference by reducing actual short-term balancing purchase or sales transactions, leaving actual, per books.²⁷

40 In order to understand fully the determination of Actual NPC in the context of the PCAM, we refer in addition to Mr. Duvall's testimony in response to questions from Commissioner Jones. Referring to the Company's proposal in Docket UE-140043, Mr. Duvall testified in this proceeding that:

²⁷ Commission Staff's Response to Commission Questions in Order 08 ¶¶ 3-5 (internal citations:

^[1] *WUTC v. Pacific Power*, UE-140762, Siore, Exh. No. NCS-5, Page 2; ^[2] Siore, Exh. No. NCS-5, Page 3; ^[3] *WUTC v. Pacific Power*, UE-130043, Duvall, Exh. No. GND-1CT, Page 46: 3-12).

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In the last case, we proposed a different method that did not use [GRID].²⁸ It used our books and records.

And my understanding -- so basically, since we do dispatch on a total company basis, our loads and resources in the WCA don't balance. So to the extent that we have too many resources, we back off, I believe it's the highest cost purchases or set of purchases. So we get into balance and then that's our actuals.

If we have not enough resource, then we back off wholesale sales until our retail loads and resources are in balance.

And my understanding is Mr. Gomez has reviewed that, and in this case has basically endorsed that method as reasonable. And we're happy to work with Mr. Gomez to, you know, finalize that if need be.²⁹

41 Commissioner Jones followed up on this point later in the evidentiary hearing in colloquy with Mr. Gomez, as follows:

COMMISSIONER JONES: Okay. And then for the second one, how are you going to get to the actuals?

Because you heard Mr. Duvall this morning saying they don't dispatch - - they dispatch as a system. They don't dispatch WCA/ECA. And therefore the loads, at least according to his testimony, the WCA loads and resources don't match the system loads.

So you're going to have to do some reconciliation to get to NPC actuals, aren't you?

[MR. GOMEZ]: Well, my understanding -- and again, Mr. Duvall's understanding of how he calculates the entire costs for WCA are probably better than mine. But my understanding is that the WCA methodology, at least the resources that are used to -- have been determined to be included in the calculation of net power costs are used when the grid was modeled originally. And the grid models that for the

²⁸ The Company's proprietary power cost model is identified as GRID, the acronym for Generation Regulation Initiative Decision.

²⁹ TR. 454:14- 455:7.

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base position and uses the load associated with the forecast of what the actual load will be for Washington -- or excuse me; for WCA.

And then what it does then, is when they calculate the NPC actual, my understanding is that they have a methodology by which they had represented in the last case, and that Staff examined and accepted, they come up with an NPC per books that is comparative to the NPC base number.

COMMISSIONER JONES: Okay. So my question is, is that going to take a lot of work on your part to verify the NPC actual, given that there's -- given that Mr. Duvall has testified before that's it's a pseudo actual, and there are assumptions and various variables that could go into that line?

[MR GOMEZ]: I think that the way I understand it is that we have now resolve[d] the pseudo actual issue. We're not in the pseudo actuals anymore.

So the Company will actually present the net power costs per books. And that's our understanding based on what the Company told us in the last case. So they're not using modeling to determine what their pseudo actual is anymore.

So that was a big hurdle to overcome to make the actual PCAM actually workable from a Staff perspective. So it's not a big hurdle for Staff to look at and verify these numbers based on our experience with them and having worked with them in the [past].³⁰

42 The PCAM is designed to measure and take account of Pacific Power's actual net power costs in the WCA, or PacifiCorp West (PACW) control area.³¹ One challenge to measuring actual costs is that PacifiCorp may purchase power in the wholesale market in the PACW in amounts that exceed what is required to meet PACW load. We take from Mr. Dalley's and Mr. Gomez's testimonies, quoted above, that any

³⁰ TR. 578:9 – 580:2.

³¹ The acronym "WCA" typically is used to refer to the inter-jurisdictional cost allocation methodology approved for use in Washington. The acronym "PACW" refers more generally to PacifiCorp's west control area where Pacific Power does business in Washington, Oregon, and California. The acronym "PACE" refers generally to PacifiCorp's east control area where Rocky Mountain Power does business in Utah, Wyoming, and Idaho.

imbalance of this sort will be solved by removing from PACW actual power costs power purchases in PACW that exceed any amount necessary to account for load in PACW, starting with the most expensive purchases, until the amount of power produced and purchased in PACW matches PACW load.

- 43 Additional issues discussed during the prehearing conference on April 10, 2015, and identified as being candidates for further development by the Parties included: a comparison between Staff's proposed \$25 million dead band at the control area level in this proceeding and the dead band proposals presented by the parties in Docket UE-061546 on a Washington-allocated basis; a review of Pacific Power's historical NPC variability; a comparative review of Avista's and Puget Sound Energy's (PSE) NPC-related rate mechanisms; and consideration of asymmetry in the sharing bands to most appropriately strike the balance between customers and the Company.³²
- 44 On April 16, 2015, following up on the discussions during the prehearing conference,³³ the Parties reviewed the parameters of Avista's current ERM (Energy Recovery Mechanism) and PSE's PCA (Power Cost Adjustment) mechanisms, both current and proposed.³⁴ Using these models as a reference point, the Parties discussed the appropriate framework for Pacific Power's PCAM in light of Pacific Power's individual circumstances and range of variability of NPC.³⁵ The Parties met again on April 23, 2015, reached an agreement in principle regarding PCAM design and implementation, and provided notice to the Commission that they had reached an all-party settlement.³⁶
- 45 In their Joint Narrative in Support of Stipulation, the Parties provide a useful comparison of the proposed Pacific Power PCAM components to Avista's current ERM and PSE's current and proposed PCA. These are shown below in Table 1.
- 46 The data displayed in Table 1 confirm Staff's statement in support of the Settlement Stipulation that: "[t]he Parties have agreed upon a power cost adjustment mechanism that is both based upon Commission precedent and conformed to Pacific Power's

³² TR. 776:14-780:4.

³³ TR. 778:20-21.

³⁴ PCAM Joint Narrative in Support of Stipulation ¶ 9.

³⁵ *Id.*

³⁶ *Id.* ¶ 10.

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individual circumstances.”³⁷ Staff states more particularly that the dead band and sharing bands, both asymmetrical and symmetrical, are “consistent with Commission precedent.” Furthermore, it states that the “proposed amortization trigger of \$17 million is based upon the Commission’s experience with Avista Corporation and is conformed to Pacific Power’s power costs for the applicable base NPC established in the Company’s most recent rate case.”³⁸ Staff concludes that “the Stipulation will result in fair, just, reasonable and sufficient rates, and is otherwise in the public interest.”³⁹

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³⁷ *Id.* ¶ 32.

³⁸ *Id.* ¶ 33.

³⁹ *Id.* ¶ 35.

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TABLE 1
Comparison of Power Cost Recovery Mechanisms Approved and Under
Consideration in Washington

| | PSE Current | PSE Proposed | Avista Current | Pacific Power Proposed |
|-------------------------------|---|---|--|--|
| Comparative NPC Data | \$1.3 billion (\$734 million variable, \$523 million fixed) | \$734 million variable NPC | \$108 million Washington-allocated | \$116 million Washington-allocated |
| Dead Band Amount | +/- \$20 million | +/- \$17 million | +/- \$4 million | +/- \$4 million |
| Dead Band (percentage) | 1.5% of NPC (includes fixed costs) | 2.32% of variable NPC | 3.70% of NPC Washington | 3.45% of NPC Washington |
| Sharing Bands | Symmetrical: +/- \$20 to \$40 million <i>Recovery or Refund:</i> 50% to customers / 50% to company | Asymmetrical: +/- \$17 to \$40 million <i>Recovery:</i> 50% to customers / 50% to company <i>Refund:</i> 65% to customers / 35% to company | Asymmetrical: +/- \$4 to \$10 million <i>Recovery:</i> 50% to customers / 50% to company <i>Refund:</i> 75% to customers / 25% to company | Asymmetrical: +/- \$4 to \$10 million <i>Recovery:</i> 50% to customers / 50% to Company <i>Refund:</i> 75% to customers / 25% to Company |
| | Symmetrical: +/- \$40 to \$120 million <i>Recovery or Refund:</i> 90% to customers / 10% to company | Symmetrical: > +/- \$40 million <i>Recovery or Refund:</i> 90% to customers / 10% to company | Symmetrical: > +/- \$10 million <i>Recovery or Refund:</i> 90% to customers / 10% to company | Symmetrical > +/- \$10 million <i>Recovery or Refund:</i> 90% to customers / 10% to Company |
| | Symmetrical: > +/- \$120 million <i>Recovery or Refund:</i> 95% percent to customers / 5% to company | (no third sharing band) | (no third sharing band) | (no third sharing band) |
| Carrying Charge | FERC interest rate, compounded monthly | FERC interest rate, compounded monthly | After tax cost of debt, compounded semi-annually | FERC interest rate, compounded monthly |
| Amortization Trigger | \$30 million, after filing and approval (~0.14% of base retail revenues) | \$20 million (~0.9% percent of base retail revenues) | \$30 million (~6.0% of base retail revenues) | \$17 million (~5.1% of base retail revenues) |
| Filing Date | April 1 | April 1 | April 1 | June 1 |
| Review Period | 90 days ended June 30 | Commission approval by September 30 | 90 days ended June 30 | 90 days ended August 30 |

47 Pacific Power states that the Stipulation is in the public interest and meets the Commission’s legal and policy standards as related in Order 08, which “effectively resolved the key policy issues related to the design of Pacific Power’s PCAM.” Thus, in the Company’s view, Phase II of this case is a compliance process to effectuate [those decisions].⁴⁰ Pacific Power states further that:

The stipulated PCAM is informed by the PCAM models adopted for Avista and PSE and by Pacific Power’s individual circumstances, including the approved WCA inter-jurisdictional allocation methodology, and its historical NPC variances. For example, as reflected in Appendix A to the Narrative, the \$4 million dead band is less than one-half of the average NPC under recovery experienced annually by Pacific Power between 2007 and 2013. The stipulated PCAM aligns closely with Avista’s ERM, although there are aspects that are similar to PSE’s PCA.⁴¹

While Pacific Power believes the Settlement Stipulation fairly implements the requirements for a PCAM as reviewed in Order 08, the Company states that it “understands that the details of the stipulated PCAM may require adjustments over time and it will continue to work with the Parties on refinements to the PCAM as necessary.”⁴²

48 Although Public Counsel did not recommend a PCAM in Phase I of this proceeding, Public Counsel stated in its initial brief that it agreed conceptually with Staff’s proposal that incorporated the parameters for PCA design established by the Commission in earlier cases.⁴³ Moreover, Public Counsel supports the Settlement Stipulation as adequately meeting the requirements stated in Order 08 and as being in the public interest.⁴⁴

49 Noting that the proposed PCAM incorporates design elements from Avista’s ERM, Public Counsel states that the ERM is a useful model considering the similar size of

⁴⁰ *Id.* ¶ 36.

⁴¹ *Id.* ¶ 37.

⁴² *Id.* ¶ 38.

⁴³ Public Counsel Initial Brief ¶ 86.

⁴⁴ PCAM Joint Narrative in Support of Stipulation ¶ 40.

Avista's and Pacific Power's Washington operations. Public Counsel, however, recommends that:

While the proposed PCAM adheres to the Commission's design parameters for a power cost adjustment mechanisms (including incorporating a dead band and sharing bands to create a more balanced approach to the risk shift associated with the adoption of such a mechanism), the Commission and parties should monitor the operation of the PCAM, to ensure that the Company retains incentives to appropriately forecast and manage its NPC.⁴⁵

50 Boise White Paper states that it supports adoption of the proposed PCAM as being consistent with the requirements of Order 08 despite the fact that it does not incorporate certain design elements suggested by Boise White Paper both in Phase I of these proceedings and during the conferences that produced the Settlement Stipulation. Boise White Paper agrees with Public Counsel that considering the similar size of Avista's and Pacific Power's Washington operations, incorporating important customer safeguards comparable to Avista's ERM is appropriate.⁴⁶ Boise White Paper states that the Pacific Power proposed "dead bands, sharing bands, and amortization triggers should provide roughly the same levels of ratepayer protection in the proposed PCAM as Avista customers are afforded through the ERM."⁴⁷ In addition, Boise "believes that design elements similar to PSE's PCA are reasonable, such as the use of a third-party interest rate for carrying charges on NPC Variances, and represent a fair result for Pacific Power customers."⁴⁸ Finally, Boise agrees with the Company that "further refinement may be required as the PCAM is applied in actual practice, and appreciates the Company's willingness to work with Parties in making any necessary adjustments in the future."⁴⁹

⁴⁵ *Id.* ¶ 42.

⁴⁶ *Id.* ¶ 44.

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ *Id.* ¶ 45. Boise states in this connection its understanding that all Parties will be able to conduct a comprehensive review of the Company's compliance filing as soon as it is filed with the Commission. We note that it would be most efficient for any such review to occur prior to the Company making its filing to implement the PCAM so that any questions can be resolved in advance of the Commission's review of the compliance filing.

IV. Commission Determination

51 The Commission said in Order 08 that:

We agree with Pacific Power's repeated assertions over the past 10 years that it should have a power cost adjustment mechanism in place to address higher than normal variability in its net power costs, just as do the other electric power utilities subject to the Commission's jurisdiction, PSE and Avista. However, the Company has yet to come forward with a proposal that includes the properly designed elements the Commission has clearly said it requires. This is no longer acceptable, especially considering the clear, repeated discussion by the Commission in prior orders concerning the minimum requirements for a PCAM.⁵⁰

We accordingly initiated this expedited process with the goal of working out the details necessary to implement a PCAM for Pacific Power by June 1, 2015. Giving direction to this process, we observed in Order 08 that:

Staff's proposal in this case is well-grounded in precedent, modeled both to be consistent with the ERM the Commission approved for Avista in 2002 and to reflect the guidance the Commission has provided specifically to Pacific Power in earlier cases. Indeed, Staff's effort appears to have been guided to a large degree by Pacific Power's 2006/2007 PCAM proposal, which was based on Avista's ERM, as well as the Commission's discussion of that proposal's failure to reflect circumstances specific to Pacific Power, including issues related to power cost measurement and asymmetry in the distribution of power costs. We commend Staff for proposing such a model.⁵¹

52 Order 08 raised several specific questions for Staff, to which Staff responded at the outset of our supplemental process. We invited active participation by other parties, asking that they "bring their own ideas to our attention with detailed explanation and

⁵⁰ Order 08 ¶ 121 (internal citations omitted).

⁵¹ *Id.* ¶ 122.

support.”⁵² We strongly encouraged the parties to engage in settlement negotiations.⁵³ Our goal was to have the ability at the end of the process to “tailor a PCAM to the unique characteristics of Pacific Power taking into account a range of well-supported ideas.”⁵⁴

53 Pacific Power, Staff, Public Counsel, and Boise White Paper responded admirably and promptly to the Commission’s direction in Order 08. As we have discussed in detail above, these parties have brought to us for approval and adoption a Settlement Stipulation that reflects in its design elements and parameters a workable PCAM that is consistent with the Commission’s requirements for such mechanisms as discussed in a number of Pacific Power and other general rate case orders over a period of more than a decade.⁵⁵ It is, in addition, “informed by the PCAM models adopted for Avista and PSE and by Pacific Power’s individual circumstances, including the approved WCA inter-jurisdictional allocation methodology, and its historical NPC variances.”⁵⁶

54 The Parties acknowledge that “further refinement may be required as the PCAM is applied in actual practice.”⁵⁷ Pacific Power expresses its willingness to “continue to work with the Parties on refinements to the PCAM as necessary.”⁵⁸ Boise White Paper expresses its appreciation of “the Company’s willingness to work with Parties in making any necessary adjustments in the future.”⁵⁹ The Commission encourages this the Parties to continue this cooperation that can better serve the Company’s customers and shareholders, and the broader regulatory community, by promoting a positive balancing of diverse interests that is more difficult to accomplish, if achievable at all, through contentious relationships and litigation.

⁵² *Id.* ¶ 125.

⁵³ *Id.* ¶ 124.

⁵⁴ *Id.* ¶ 125.

⁵⁵ See, e.g., *WUTC v. PacifiCorp d/b/a Pacific Power & Light*, Docket UE-130043, Order 05 (December 4, 2013); *WUTC v. PacifiCorp d/b/a Pacific Power and Light Co.*, Docket UE-061546, Order 08 (June 21, 2007); *WUTC v. PacifiCorp d/b/a Pacific Power and Light Co.*, Docket UE-050684, Order 04 (April 17, 2006); *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-011570 and UG-011571, Twelfth Supp. Order (June 20, 2002); *WUTC v. Avista Corporation*, Docket UE-011595, Fifth Supp. Order (June 18, 2002).

⁵⁶ PCAM Joint Narrative in Support of Stipulation ¶ 37.

⁵⁷ *Id.* ¶ 45; see also *Id.* ¶¶ 38, 42.

⁵⁸ *Id.* ¶ 38.

⁵⁹ *Id.* ¶ 42.

55 In sum, we find that the Settlement Stipulation reasonably resolves the issues in this proceeding and that the public interest will be well-served by its expeditious approval and adoption.

FINDINGS OF FACT

56 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 57 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including electrical and gas companies.
- 58 (2) Pacific Power is a “public service company” and an “electrical company,” as these terms are defined in RCW 80.04.010 and as these terms otherwise are used in Title 80 RCW. Pacific Power is engaged in Washington State in the business of supplying utility services and commodities to the public for compensation.
- 59 (3) The Parties’ Settlement Stipulation filed on May 8, 2015, which is attached to, and adopted by reference into, this Order includes all design elements and parameters necessary to implement a PCAM for Pacific Power that will effect a reasonable sharing of risk between the Company and its customers in connection with power cost variability. The stipulated PCAM is designed to address significant, unexpected variations in power costs that are not accounted for through the normalization process in rate proceedings, including the following requirements, among others:
- Pacific Power’s normal power cost variability is captured via a \$4 million dead band.
 - Asymmetrical sharing bands for annual NPC Variances greater than \$4 million and up to and including \$10 million, positive or negative are designed so that customers are surcharged for 50 percent of

NPC under recovery within the band (*i.e.*, a positive annual NPC Variance), but are credited for 75 percent of NPC over-recovery (*i.e.*, a negative annual NPC variance).

- NPC Variance greater than \$10 million are subject to symmetrical sharing bands that allocate 90 percent of under recovery to customers and leave the Company responsible for 10 percent. Customers receive 90 percent of the benefit from over recovery, with 10 percent allocated to the Company.
- No surcharge or credit will be reflected in rates for power costs unless, and until, the PCAM balancing account exceeds \$17 million.

60 (4) The PCAM is designed to produce cost-based, incremental changes in rates, if any, that will not result in rates that are unfair, unjust, unreasonable, or insufficient.

61 (5) The PCAM fairly allocates any cost recoveries or refunds among customer classes and does not produce results that are unduly preferential or discriminatory.

CONCLUSIONS OF LAW

62 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:

63 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, these proceedings.

64 (2) Pacific Power should be required to file tariff sheets, make accounting entries, and take any other steps necessary to make effective a Power Cost Adjustment Mechanism that is consistent with the Commission's design preferences, including among other things, appropriate dead bands and sharing bands that balance risk between the Company and its customers, as required by Order 08 in these proceedings.

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- 65 (3) The Parties Settlement Stipulation, as discussed in the body of this order, establishes acceptable design and operational details to implement a PCAM for Pacific Power in Washington. The Commission should approve and adopt the Settlement Stipulation in full resolution of the Phase II issues in this proceeding.
- 66 (4) The rates, terms, and conditions of service that will result from this Order are fair, just, reasonable, and sufficient.
- 67 (5) The rates, terms, and conditions of service that will result from this Order are neither unduly preferential nor discriminatory.
- 68 (6) The Commission Secretary should be authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 69 (7) The Commission should retain jurisdiction over the subject matters and the parties to this proceeding to effectuate the terms of this Order.

ORDER**THE COMMISSION ORDERS THAT:**

- 70 (1) The Parties Settlement Stipulation, as discussed in the body of this order, establishes acceptable design and operational details to implement a PCAM for Pacific Power in Washington. The Commission approves and adopts the Settlement Stipulation in full resolution of the Phase II issues in this proceeding.
- 71 (2) Pacific Power is authorized and required to file tariff sheets, establish accounts, and take any other steps necessary and sufficient to effectuate the terms of this Order. Pacific Power must file the required tariff sheets (*i.e.*, Schedule 97) at least two full business days prior to their stated effective date, which shall be no sooner than June 1, 2015.
- 72 (3) Pacific Power must make its first annual PCAM filing on June 1, 2016, covering the first partial year of the PCAM (Stub Year) beginning April 1, 2015, which aligns with the beginning of the rate-effective period in Phase I of

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this proceeding,⁶⁰ and ending on December 31, 2015. The use of an initial stub year allows the stipulated PCAM to convert to a calendar year 12-month period in year two.

73 (4) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Final Order.

74 (5) The Commission retains jurisdiction to effectuate the terms of this Final Order.

Dated at Olympia, Washington, and effective May 26, 2015.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.

⁶⁰ Rates from Phase I of the general rate case became effective March 31, 2015. For administrative ease, the Parties agree that the PCAM should become effective April 1, 2015.

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Attachment

Settlement Stipulation