

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION)	
)	DOCKETS UE-230172 and
Complainant,)	UE-230852 (<i>Consolidated</i>)
)	
v.)	
)	
PACIFICORP d/b/a PACIFIC POWER &)	
LIGHT COMPANY,)	
)	
Respondent.)	
)	
In the Matter of ALLIANCE OF)	
WESTERN ENERGY CONSUMERS')	
)	
Petition for Order Approving Deferral of)	
<u>Increased Fly Ash Revenues</u>)	

**POST-HEARING BRIEF OF THE
ALLIANCE OF WESTERN ENERGY CONSUMERS**

January 12, 2024

(REDACTED)

TABLE OF CONTENTS

I. INTRODUCTION	1
II. ARGUMENT.....	1
A. The Commission should affirm the current Power Cost Adjustment Mechanism design... 1	
i. As repeatedly recognized by the Commission, the current structure of PacifiCorp’s PCAM provides important protections for customers.	2
ii. PacifiCorp’s arguments against the PCAM are irrelevant.....	3
iii. PacifiCorp’s PCAM is functioning as intended.	5
iv. PacifiCorp’s participation in CAISO’s Energy Day Ahead Market does not support dollar-for-dollar recovery of NPC.	8
v. PacifiCorp level of control over key NPC drivers has not changed since its current PCAM design was adopted.....	8
v. The Commission should decline to adopt Staff’s proposed modifications to PacifiCorp’s PCAM.	10
B. The Commission should modify PacifiCorp’s proposed NPC update process.....	11
C. Washington’s obligations related to Bridger Mine depreciation and reclamation costs were settled in PacifiCorp’s 2020 GRC and thus are not appropriately updated in this case.	17
i. Washington’s obligations related to Bridger Mine depreciation and reclamation costs were settled in PacifiCorp’s 2020 GRC and thus are not appropriately updated in this case.....	18

ii. The Company has not provided evidence supporting the correctness or prudence of updated Bridger Mine costs included in this case..... 20

D. PacifiCorp’s change to the DART Adjustment method was improperly raised in rebuttal and is unsupported by the record evidence..... 23

E. Additional power cost adjustments..... 29

III. CONCLUSION 29

I. INTRODUCTION

1 Pursuant to the Washington Utilities and Transportation Commission’s (“Commission”) Order 01 in the above-referenced dockets, the Alliance of Western Energy Consumers (“AWEC”) hereby files this Post-Hearing Brief addressing PacifiCorp’s Power Cost Adjustment Mechanism (“PCAM”) and Net Power Costs (“NPC”),¹ in light of the settlement agreement reached on all other issues to this proceeding between PacifiCorp, Commission Staff, AWEC, The Energy Project (“TEP”), the NW Energy Coalition (“NWEC”) and Walmart Inc. (“Walmart”).² As part of Stipulation Agreement, NPC and PCAM issues remain litigated issue in this case.

II. ARGUMENT

A. The Commission should affirm the current Power Cost Adjustment

Mechanism design.

2 Once again in this proceeding, PacifiCorp is proposing to eliminate all ratepayer protections in the PCAM to the detriment of its Washington customers, despite the fact that the Commission has on several occasions rejected the notion that a properly designed PCAM would include “a dollar-for-dollar annual true-up between forecast and actual power costs....”³ PacifiCorp argues that difficulties with forecasts, increased renewable resources as a result of the Clean Energy Transformation Act (“CETA”) and planned participation in California Independent System Operator’s (“CAISO”) Energy Day Ahead Market (“EDAM”) constitute changed

¹ Dockets UE-230172 and UE-210852 (consolidated) Order 01 (May 24, 2023).

² The Sierra Club and the Public Counsel Unit of the Attorney General’s Office did not join in the Settlement Stipulation. Sierra Club does not oppose the Stipulation. Public Counsel opposes the Stipulation and maintains its litigation position on all issues, including NPC and the PCAM.

³ Dockets UE-140762 et al. (consolidated), Order 08 at ¶ 108 (Mar. 25, 2015).

circumstances that warrant a revisitation of the policy assumptions supporting the current PCAM design. Contrary to PacifiCorp’s assertions, the policy basis for PacifiCorp’s PCAM remains sound. PacifiCorp’s proposed changes to the PCAM structure are contrary to sound Commission policy, unwarranted based on the evidence in this case, and would serve to disproportionately benefit the Company’s shareholders at the expense of its customers. Additionally, the Commission should not be swayed by Staff’s compromise approach to restructure the PCAM in a way that also reduces meaningful ratepayer protections.

i. As repeatedly recognized by the Commission, the current structure of PacifiCorp’s PCAM provides important protections for customers.

3 PacifiCorp’s PCAM design is the culmination of over ten years of failed attempts by the Company to enact a dollar-for-dollar recovery PCAM design. Following yet another inappropriate proposal from PacifiCorp in its 2014 GRC, the Commission expressed its frustration with PacifiCorp’s repeated failure to bring forward an appropriate PCAM design and therefore opened an expedited proceeding to address the issue.⁴ The Commission’s direction in that proceeding was clear - PacifiCorp’s PCAM should “include[] the properly designed elements the Commission has clearly said it requires,”⁵ which include “dead bands and sharing bands [that] reflect the asymmetry of power cost risk that is evident in PacifiCorp’s case.”⁶ The Commission concluded that such a structure “incorporates the appropriate balance between the Company and ratepayers.”⁷ This expedited proceeding resulted in a settlement agreement

⁴ *Id.* at ¶ 121.

⁵ *Id.*

⁶ *Id.* at ¶ 105.

⁷ *Id.* at ¶ 107, quoting *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-130043, Order 05 at ¶ 173.

among the parties – including PacifiCorp – for the current PCAM mechanism that includes deadbands, asymmetrical sharing bands, and a rate adjustment threshold triggering refunds and surcharges.⁸ In approving the stipulated PCAM design, the Commission concluded that these elements “are critically important elements that provide an incentive for the Company to manage carefully its power costs and that protect ratepayers in the event of extraordinary power cost excursions that are beyond the Company’s ability to control.”⁹

4 The same policy considerations hold true today, almost ten years after the Commission adopted the stipulated PCAM design. Deadbands, asymmetrical sharing bands and a rate adjustment threshold strike the appropriate balance between PacifiCorp’s customers and shareholders. Also, notably, Avista Corporation and Puget Sound Energy have nearly identically structured PCAMs.¹⁰ PacifiCorp’s proposal to recover NPC on a dollar-for-dollar basis, a departure from NPC cost recovery for other regulated electric utilities, is wholly inconsistent with these policy considerations, and thus should be denied.

ii. PacifiCorp’s arguments against the PCAM are irrelevant.

5 With all of PacifiCorp’s complaining about the PCAM, it is easy to forget that the mechanism exists primarily for the utility’s protection and benefit. Without it, the Company would be fully exposed to power cost variances between rate cases; with it, customers share in this risk. Power cost variance has always existed and will always exist. The PCAM is in place to recognize this risk and the impact it has on the utility’s financials, given the significant

⁸ Mullins, Exh. BGW-1CT at 67:3-7.

⁹ Dockets UE-140762 et al. (consolidated), Order 08 at ¶ 108, citing to *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-130043, Order 05 at ¶ 170.

¹⁰ Mullins, Exh. BGM-10T at 1:16-18.

percentage of costs NPC represents. Such a true-up mechanism does not exist for other costs PacifiCorp incurs.

6 Thus, whether PacifiCorp is facing increased unpredictability of power costs is entirely immaterial to whether the PCAM should remain. Regardless of the predictability of power costs, PacifiCorp faces the exact same financial risk because the deadbands and sharing bands limit the amount of exposure it has to this unpredictability. To the extent PacifiCorp is arguing that unpredictability creates a risk of a persistent bias toward an over- or -under-forecast of NPC, the evidence does not support this contention, as discussed below, and if it does appear in the future, the answer lies in the utility's NPC modeling, not revisions to the PCAM.

7 Financial risk is the appropriate measure to determine the reasonableness of the PCAM because, ultimately, the Commission's responsibility is to establish fair, just, reasonable, and sufficient rates for PacifiCorp overall, not to arbitrate the measure of NPC unpredictability the utility faces. And, that financial risk was the measure the Commission used when establishing the PCAM is evident by the fact that it approved the current deadbands, in part, as a percentage of PacifiCorp's total power costs, not based on the level of power cost unpredictability the utility faced.¹¹ Based on this measure, if anything the PCAM should be modified to increase the deadbands and sharing bands to account for the growth in PacifiCorp's NPC since the PCAM was established.¹² In short, PacifiCorp has not demonstrated that the circumstances that led the Commission to establish the current PCAM have changed in any way

¹¹ Docket UE-140762 et al. (consolidated), Order 09 at 20 (Table 1) (May 26, 2015).

¹² Mullins, Exh. BGM-10T at 4:3-12.

that justifies eliminating it. The Company's arguments on this matter are nothing more than red herrings.

iii. PacifiCorp's PCAM is functioning as intended.

8 Even if one were to credit PacifiCorp's arguments as relevant to a review of the PCAM, those arguments are unpersuasive. PacifiCorp's actual over/under-recovery of NPC between 2016 and 2021, for instance, does not indicate that there is a bias one way or the other.¹³ Moreover, the fact that PacifiCorp's recent PCAM results indicate that it has, on average, over-collected NPC from customers should not create the perception that PacifiCorp enjoys a "windfall" as a result of the current PCAM design. Instead, relative to traditional ratemaking where utilities take on all of the forecast risk, or dollar-for-dollar recovery where customers take on all of the forecast risk, the current PCAM is an equitable sharing of power supply cost risk. A review of PCAM results since its inception demonstrates that PacifiCorp's PCAM is appropriately designed and is functioning properly.

9 Nevertheless, PacifiCorp argues that the deadband and asymmetrical sharing bands result in an "unbalanced outcome" for customers.¹⁴ The unbalanced outcome that PacifiCorp refers to is a total loss to Washington customers of \$27.6 million between 2016 and 2021, while the loss to the Company is \$10.2 million over that same period.¹⁵ What PacifiCorp leaves out of this analysis is the fact that it did not file a rate case between 2016 and 2020. During this period, PacifiCorp's NPC baseline set in the 2015 rate case was significantly higher

¹³ Mullins, Exh. BGM-1CT at 68:3-69:3.

¹⁴ Painter, Exh. JP-1T at 6:10.

¹⁵ Painter, Exh. JP-1T at 7:14-16.

than actual NPC. While this resulted in over-recovery for PacifiCorp during this period, it also likely helped the utility postpone a rate case, which was to customers' benefit.

10 PacifiCorp also cautions that NPC forecasts will continue to be inaccurate compared to actual NPC, thus putting customers at further risk of disproportionate loss, because (i) forecasts of regional market prices have been less accurate due to factors outside of the Company's control¹⁶ and (ii) the influx of renewable resources has a depressing effect on average fuel costs while simultaneously increasing variability and thus the need to make additional balancing market purchases.¹⁷

11 First, as stated above, it is not appropriate to characterize PacifiCorp's net over-recovery of NPC since the inception of the PCAM as a "windfall," or to conclude that the "loss" to customers will continue. A properly designed PCAM is not intended to favor either shareholders or ratepayers over the other – it is designed to recognize the assumption of risk that each takes when it comes to NPC, which will necessarily vary from year to year but structurally serves to ensure that PacifiCorp maintains an incentive to prudently manage its NPC while not taking on the entire NPC risk.¹⁸

12 Second, PacifiCorp's characterization of forecasts of regional market prices as "less accurate" misrepresents the function of a price forecast. In calculating forecast NPC, PacifiCorp uses official forward price curves ("OFPCs") developed by reputable third parties, which reflect the actual cost of purchasing power in the forecast period based on pricing in effect

¹⁶ Painter, Exh. JP-1T at 9:4-18:2.

¹⁷ Painter, Exh. JP-1T at 18:3-25:3.

¹⁸ Mullins, Exh. BGM-10T at 9:10-10:11.

as of the date that the OFPC is issued.¹⁹ In other words, these are actual prices and therefore cannot be inaccurate. It is more accurate to say that forecasts of regional market prices are volatile, with the level of volatility varying over time.²⁰ And NPC variability has not materially changed since PacifiCorp's PCAM was adopted.²¹ Even in the Company's 2006 GRC, the Commission remarked on the "significant power cost variability" as a basis for considering a PCAM for PacifiCorp.²² The PCAM structure is specifically designed to dampen the effects of volatility, and this this does not serve to support PacifiCorp's proposed changes.

13 Finally, regarding the influx of renewable resources and impacts to NPC, there is no indication that these circumstances bias actual NPC either way such that a change to the PCAM would be appropriate.²³ And in fact, this is also an issue that the Commission expressly considered and rejected in PacifiCorp's 2014 GRC when PacifiCorp offered substantially the same rationale.²⁴ In that case, the Commission rejected PacifiCorp's proposal for a Renewable Resource Tracking Mechanism that would allow for dollar-for-dollar recovery of renewable resources based on almost identical arguments to those raised by PacifiCorp in this case.²⁵ As the Commission did in PacifiCorp's 2014 GRC, it should again conclude that PacifiCorp's arguments are not compelling and that its proposal "misses the mark."²⁶

¹⁹ Mullins, Exh. BGM-1CT at 69:4-17.

²⁰ *Id.*

²¹ Mullins, Exh. BGM-10T at 5:5-6:10.

²² *Id.* at 5:7-11, citing Dockets UE-061546/UE-060817, Order 08 at ¶ 71 (Jun. 21, 2007).

²³ Mullins, Exh. BGM-10T at 5:1-4.

²⁴ *Id.* at 5:12-6:10.

²⁵ *Id.* at 5:12-21, citing Docket UE-140762, Exh. GND-1T at 43:2-7.

²⁶ Mullins, Exh. BGM-10T at 6:7-10, citing Docket UE-140762, Order 08 at ¶ 132.

iv. PacifiCorp's participation in CAISO's Energy Day Ahead Market does not support dollar-for-dollar recovery of NPC.

14 PacifiCorp's participation in CAISO's EDAM weighs against elimination of customer protections in the PCAM. PacifiCorp intends to begin participating in EDAM beginning in 2025 – a decision which it predicts will lower its actual NPC as well as the Company's economic control over NPC.²⁷ Market tools, such as the EDAM but also including the Energy Imbalance Market and Western Resource Adequacy Program, actually make it easier to manage the variability of renewable resources and mitigate the volatility risk.²⁸ As such, PacifiCorp's participation in EDAM will serve to *increase* predictability and *reduce* volatility of NPC relative to the current bilateral markets, even in the face of increased renewables,²⁹ as demonstrated by the Brattle Group's EDAM benefits study.³⁰ The Company will also still engage in trading activities at a level perhaps greater than the bilateral market,³¹ thus increasing the need to ensure that the PCAM design maintains incentives for PacifiCorp to prudently manage its NPC.

v. PacifiCorp level of control over key NPC drivers has not changed since its current PCAM design was adopted.

15 PacifiCorp argues that key drivers of NPC variances, which include deviations in load, renewable resource generation and spot market power prices, are not within its control and

²⁷ Painter, Exh. JP-1T at 25:4-30:15.

²⁸ Mullins, Exh. BGM-10T at 6:11-7:4.

²⁹ Mullins, Exh. BGM-1CT at 71:3-10.

³⁰ Mullins, Exh. BGM-11 at 29.

³¹ Mullins, Exh. BGM-1CT at 71:7-10.

will therefore continue to drive differences between forecast and actual NPC benefits that cannot be attributed to imprudence or inefficiency. Because these factors remain outside of PacifiCorp’s control, it argues that the policy considerations underlying the PCAM – namely creating incentives for the Company to prudently manage NPC – cannot be served.³² This is untrue.

16 PacifiCorp is clearly attempting to reframe elements of NPC that it has never had complete control over as justification to remove key consumer protections from the PCAM. But it is important to remember that the PCAM is predicated on PacifiCorp’s ability and responsibility to manage these uncertainties. To accomplish this, the Company employs highly skilled employees whose job is to prudently manage NPC and, in doing so, are capable of preparing sophisticated forecasts that avoid excessive NPC.³³ There are also other tools, such as hedging, that serve to mitigate market volatility. Again, the issue is not about whether PacifiCorp has control over every element of NPC, but rather, whether and how it responds to those elements using the suite of tools that have been and continue to be available to the Company.³⁴ At its core, the PCAM helps the Company manage its risk relative to its authorized rate of return in light of the scale of NPC relative to the Company’s overall revenue requirement.³⁵ If PacifiCorp were to have complete control over NPC, a PCAM may not be necessary because NPC would, in theory, be more predictable. And, as noted in AWEC’s testimony, if PacifiCorp truly has “zero control over NPC, then ratepayers would be better off managing their own power

³² Painter, Exh. JP-1T at 30:16-33:12.

³³ Mullins, Exh. BGM-1CT at 70:1-16.

³⁴ *Id.* at 70:17-71:2.

³⁵ Mullins, Exh. BGM-10T at 11:11-18.

supply.”³⁶ It is precisely because PacifiCorp maintains an element of control and discretion that PCAM deadbands and sharing bands are an important customer protection – “they incentivize PacifiCorp to control the factors it can.”³⁷

v. *The Commission should decline to adopt Staff’s proposed modifications to PacifiCorp’s PCAM.*

17 After reviewing PacifiCorp’s concerns with its current PCAM structure, Staff concluded a restructure of the Company’s PCAM is warranted and thus proposes to eliminate deadbands altogether, to create symmetrical 90/10 risk sharing bands, and to revise the rate adjustment threshold to \$7 million with revenue recovery set at 50 percent of the deferral account balance.³⁸ As an initial matter, because the Company has not provided evidence that justifies relaxing the customer protections in the current PCAM structure and abandonment of long-standing Commission precedent, any modifications to PacifiCorp’s PCAM should be denied.

18 While AWEC appreciates that Staff’s proposal at least retains risk sharing bands, it is inappropriate for those sharing bands to be symmetrical because NPC forecast risk is itself asymmetrical.³⁹ As noted in AWEC’s cross-answering testimony, “it would be virtually impossible for NPC to decline by 100% to zero, but it is within the realm of possibility for NPC to double, or increase by 100%,”⁴⁰ demonstrating the positive skew to NPC variability which

³⁶ Mullins, Exh. BGM-10T at 11:9-11.

³⁷ Mullins, Exh. BGM-1CT at 71:1-2.

³⁸ Wilson, Exh. JDW-24T at 18:3-23.

³⁹ Mullins, Exh. BGM-10T at 7:18-10:11.

⁴⁰ *Id.* at 7:19-21.

was previously validated by the Commission’s own statistical analysis.⁴¹ No party to this proceeding has presented modeling that demonstrates the Commission’s prior analysis does not hold.⁴² And in fact, data supports the conclusion that distribution of NPC continues to be asymmetrical, thereby validating asymmetrical sharing bands.⁴³

19 By eliminating deadbands and creating symmetrical sharing bands, Staff’s proposal fails to equitably share power supply cost risk between shareholders and customers in a balanced way and is inconsistent with long-standing Commission policy on PCAM design. For these reasons, it should also be denied.

B. The Commission should modify PacifiCorp’s proposed NPC update process.

20 The timing of this case makes the process for updating PacifiCorp’s NPC forecast complicated because the second rate year extends into 2026, after the Clean Energy Transformation Act requires PacifiCorp to remove its coal-fired facilities from Washington rates. Nevertheless, in approving an NPC update process during the multi-year rate plan, the Commission should be guided by the legal requirements, its obligation to set just and reasonable rates, and the matching principle.

21 PacifiCorp’s proposal is as follows:⁴⁴

- Perform a final Rate Year 1 NPC update on February 16, 2024. This update will be based on a power cost forecast using calendar year 2024.⁴⁵

⁴¹ Mullins, Exh. BGM-10T at 7:22-8:13.

⁴² *Id.* at 8:14-23.

⁴³ *Id.* at 8:24-9:9.

⁴⁴ McVee, Exh. MDM-1T at 27 (Figure 1).

⁴⁵ Mullins, Exh. BGM-1CT at 19:16-17.

- Perform a Rate Year 2 NPC update on January 31, 2025. This update will be based on a power cost forecast using calendar year 2025.⁴⁶
- Perform an NPC forecast on October 31, 2025 that removes coal generation costs from Washington rates, with updated rates effective on January 1, 2026.

22 AWEC opposes PacifiCorp’s process in a number of respects and also recommends that the Commission provide more clarity over the NPC items PacifiCorp may update. First, AWEC disagrees with PacifiCorp’s use of calendar year 2024 for the Rate Year 1 update. New rates will not go into effect until March 19, 2024, meaning that PacifiCorp’s proposal creates a mismatch between the NPC forecast period and the rate-effective period. This is particularly important in Rate Year 1 because, as Mr. Mullins points out, Jim Bridger Units 1 and 2 are scheduled to be out of service for the first period of 2024, and the Company will be including substantial new transmission and wind resources in customer rates at the end of 2024.⁴⁷ This means that a calendar year 2024 NPC forecast will result in an artificially high forecast relative to the actual level of NPC customers should expect during the rate period.

23 Commission Staff agrees with AWEC on this point. Mr. Wilson notes that, under the Commission’s rules, NPC may be calculated based either on “test year normalized demand and energy load, or on the future rate year demand and energy load,” and PacifiCorp’s NPC is based on neither period.⁴⁸

⁴⁶ *Id.*

⁴⁷ The Gateway South transmission line is projected to be online by October 2024 at a Washington-allocated cost of \$163.2 million and Gateway West is projected to be online by December 2024 at a Washington-allocated cost of \$22.8 million. Vail, Exh. No. RAV-1T at 13 (Table 1). The 400 MW Rock Creek I wind project is also projected to be online in December 2024. McGraw, Exh. No. RDM-1CT at 5:3-4.

⁴⁸ Wilson, Exh. No. JDW-24T at 5:10-15 (citing WAC 480-07-510(3)(c)(ii)).

24

PacifiCorp’s assertion that it would need to roll forward the historical test period and “recalculat[e] the Company’s filing in its entirety” is incorrect and misleading.⁴⁹ There is no requirement that the NPC forecast period and the in-service period for capital investments be aligned. For example, power cost only rate cases, in which an NPC forecast is considered in isolation from capital investments considered in general rates, have frequently been adjudicated before the Commission. Contrary to PacifiCorp’s assertions, RCW § 80.28.425(3)(d) makes clear that the “commission may use any standard, formula, method, or theory of valuation reasonably calculated to arrive at fair, just, reasonable, and sufficient rates.” PacifiCorp claims that “[m]any things could happen” if it rolled forward its capital forecast to the rate year and that the changes “could possibly increase Washington customer rates.”⁵⁰ But PacifiCorp did not actually quantify the impact of doing this, so there is nothing in the record to demonstrate whether modifying the capital forecast period to align with the rate year would increase or decrease rates. More to the point, there is nothing in the record to demonstrate that maintaining the existing capital forecast period while modifying the NPC forecast to align with the rate year would result in unjust and unreasonable rates.

25

Moreover, PacifiCorp’s argument ignores the unique aspect of NPC, which is the PCAM. Because the PCAM trues up NPC on a calendar year basis (subject to the deadbands and sharing bands), PacifiCorp’s argument that there will be a mismatch of NPC and capital is incorrect. Assuming NPC is lower in rate year 1 if calculated on a rate-year basis as opposed to a calendar-year basis, customers receive that benefit in rate year 1 rates. Conversely, if a calendar

⁴⁹ Cheung, Exh. No. SLC-8T at 70:1-10.

⁵⁰ *Id.* at 70:11-71:14.

year is used to calculate NPC, that same benefit will be absorbed by the deadbands and sharing bands, with the remainder held in the deferral account to benefit customers only potentially years later. Because there are known benefits to customers from calculating rate year 1 NPC on a rate year basis as compared with a calendar year basis – namely the Jim Bridger outage and the new wind and transmission projects – AWEC believes customers should realize those benefits at the same time that they occur.

26 Second, while AWEC initially proposed to calculate rate year 2 NPC over the second rate year, given CETA’s requirement to remove coal from rates by January 1, 2026, AWEC would not oppose using calendar year 2025 for the rate year 2 update provided that rates went into effect on January 1, 2025. Extending the NPC forecast for rate year 2 into 2026 creates a mismatch of costs and benefits because, as explained below, this update would need to remove coal from rates but would not make more holistic adjustments necessary to ensure a just and reasonable power cost forecast. In order to ensure a timing match, however, AWEC recommends that the rate year 2 NPC update take effect on January 1, 2025 instead of the rate year 2 rate-effective date. A rate year 2 NPC update is necessary because the second rate year will include the costs of substantial new transmission and wind resources, which will be included in customer rates.⁵¹ The matching principle requires that customers receive the NPC benefits associated with these new resources.

27 Third, AWEC opposes the limited update PacifiCorp proposes to remove coal from rates on January 1, 2026. As Mr. Mullins testifies, “[r]emoving Jim Bridger Units 3 and 4

⁵¹ In addition to the Gateway transmission projects and the Rock Creek I wind project, a second 400 MW Rock Creek II wind project is projected to come online in September 2025. McGraw, Exh. No. RDM-1CT at 5:4-5.

and Colstrip will have a major impact on NPC. Reviewing that impact in a stand-alone update is not reasonable because it will not consider other aspects of revenue requirement that may offset the increases to NPC.”⁵² Mr. Mullins specifically notes the rapidly declining depreciation of PacifiCorp’s wind facilities, which would partially offset the NPC increase likely to occur from removing coal from rates.⁵³ Given the significance of removing coal from rates, PacifiCorp should be required to perform a full power cost update through a power cost only rate case (“PCORC”). PacifiCorp should file this PCORC no later than April 1, 2025. Further, AWEC recommends that parties be given the opportunity to propose adjustments to incorporate offsetting benefits expected during the PCORC period which will mitigate the impact of removing coal from rates.

28 Again, Commission Staff’s recommendation on this point aligns with AWEC’s.⁵⁴ Mr. McGuire notes that removing coal from rates will also require PacifiCorp to include replacement power in Washington rates, which will necessitate “a proceeding wherein parties have an opportunity to examine and challenge new costs that the Company would seek to recover through the updated rates.”⁵⁵ AWEC agrees with Mr. McGuire’s testimony on this point.

29 Finally, for the 2024 and 2025 NPC updates, PacifiCorp proposes to “update[e] elements of the NPC forecast as approved by the Commission in the 2022 PCORC.”⁵⁶ Although not entirely clear, AWEC understands that this would include updates to the following:

⁵² Mullins, Exh. No. BGM-1CT at 22:13-16.

⁵³ *Id.* at 22:16-21.

⁵⁴ McGuire, Exh. No. CRM-1T at 16:9-21.

⁵⁵ *Id.* at 16:13-16.

⁵⁶ Mitchell, Exh. No. RJM-3CT at 7:16-17.

- Total-Company load;
- Contracts for wholesale sales and purchases of electricity, natural gas, and wheeling;
- Market prices for electricity and natural gas or the official forward price curve;
- Coal fuel expenses;
- Transmission capability;
- Characteristics of the Company's generation facilities; and
- Planned outages and forced outages of the Company's generation resources.⁵⁷

AWEC first recommends that, to the extent not already assumed above, that updates to these items exclude any complex modeling changes. Such a restriction is necessary to ensure other parties are not prejudiced in their review of the NPC update, given the limited time between the update and the rate-effective date.

30 Further, in addition to the items above, AWEC recommends that PacifiCorp be required to update the production tax credit ("PTC") rate and the amount of PTCs expected for 2025. The PTC rate will increase to 2.9 cents/KWh in 2024, and is virtually certain to increase again to 3.0 cents/KWh in 2025. By the time of PacifiCorp's 2025 NPC update, this increase will be known with near certainty, and PacifiCorp should be required to value its PTCs consistently with the most current information on what the rate will be. Furthermore, the amount of PTCs PacifiCorp will generate will also increase significantly due to the new Rock Creek wind facilities. The 2025 NPC update should reflect the expected volume of PTCs from PacifiCorp's facilities.

⁵⁷ Docket UE-210402, Staples, Exh. No. DRS-1CT at 4:22-5:11.

31 PacifiCorp should also update expected increases in wheeling revenues it will receive when the new Gateway transmission lines go into service. PacifiCorp earns wheeling revenues from third parties that use its transmission system pursuant to the Company’s Open Access Transmission Tariff (“OATT”). These wheeling revenues are based on PacifiCorp’s annual transmission revenue requirement (“ATRR”), which is updated annually through the Company’s formula rate.⁵⁸ The inclusion of the Gateway transmission projects in PacifiCorp’s ATRR through the formula rate process will significantly increase the Company’s wheeling revenues from third parties, which should be passed back to customers at the same time that customers begin paying for these new transmission lines.

C. Washington’s obligations related to Bridger Mine depreciation and reclamation costs were settled in PacifiCorp’s 2020 GRC and thus are not appropriately updated in this case.

32 In this case, PacifiCorp updated post-2023 depreciation and reclamation costs for the Bridger Mine relative to the depreciation and reclamation costs settled in PacifiCorp’s 2020 GRC by both updating Bridger Mine costs based on BCC Operating Budgets⁵⁹ and making an adjustment to Bridger’s assumed operational life from 2037 to 2028,⁶⁰ even though that adjustment already occurred in the 2020 GRC.⁶¹ The Company also “recalibrated” how these updated costs would be recovered from customers by moving incremental depreciation and

⁵⁸ See PacifiCorp OATT, Attachments H through H-2.

⁵⁹ Mullins, Exh. BGM-7C.

⁶⁰ Cheung, Exh. SLC-8T at 27:10-11 and 28:8-9.

⁶¹ Exh. RJM-14X at 12:3-11; Hearing Tr. at 133:15-134:3 (Witness Cheung agreeing that the Company’s 2020 GRC testimony reflects an operational life of 2028 and conceding that she is unable to reconcile the Company’s position in this case with its testimony in the 2020 GRC).

reclamation costs for 2024 and 2025 from the regulatory liability to NPC.⁶² PacifiCorp's updates to incremental Bridger Mine depreciation and reclamation costs are both procedurally and substantively unsupported and flawed, and should therefore be rejected by the Commission. This results in a \$6,178,041 reduction to PacifiCorp's proposed NPC in this case, or \$6,491,783 in revenue requirement.⁶³ AWEC is agnostic as to whether post-2023 incremental depreciation and reclamation amounts agreed to in the 2020 GRC are recovered from customers through NPC or the regulatory liability for 2024 and 2025.

i. Washington's obligations related to Bridger Mine depreciation and reclamation costs were settled in PacifiCorp's 2020 GRC and thus are not appropriately updated in this case.

33 There is no disagreement that PacifiCorp agreed to the total amount of incremental depreciation and reclamation costs to be recovered from customers for the years 2024 through 2030 as part of the settlement agreement in its 2020 GRC. In that case, the "stipulated revenue requirement...includes recovery of additional, incremental reclamation and depreciation over 10 years (2021 through 2030) in the amount of \$11,815,290 per year (total company), for Bridger Mine reclamation and depreciation costs beyond 2023...Washington's share of these costs will be recorded in a balancing account that will be part of rate base."⁶⁴ The Washington-allocated portion of these costs is \$2,549,408,⁶⁵ and were calculated based on an

⁶² Cheung, Exh. SLC-8T at 29:20-30: Illustration A; Hearing Tr. at 136:1-138:18.

⁶³ Mullins, Exh. BGM-1CT at 34:17-35:2.

⁶⁴ Cheung, Exh. SLC-20X at 11.

⁶⁵ Cheung, Exh. SLC-4 at 208.

assumed operational life for the Bridger Mine of 2028.⁶⁶ This cost recovery mechanism was agreed to because, as PacifiCorp notes, at that time, Washington planned to exit from Bridger operations starting January 1, 2024, and therefore customers would no longer pay for Bridger Mine depreciation and reclamation costs through NPC rates.⁶⁷

34 In this case, however, PacifiCorp argues that Washington continuing to receive service from Bridger through 2025 means that it should no longer be bound to the incremental reclamation and depreciation costs agreed to as part of its 2020 GRC, and inexplicably, that an adjustment to Bridger Mine’s assumed operational life is again necessary in this case despite the adjustment in the Company’s 2020 GRC. This results in recovery of an additional \$27,320,265 (total-Company) in depreciation and reclamation expenditures in 2024 for coal sourced through the Bridger Mine, in addition to the amounts recovered through the regulatory liability.⁶⁸ This update to previously stipulated costs is procedurally contrary to the 2020 GRC settlement agreement, of which PacifiCorp was a signatory, and thus should be denied. The 2020 GRC set forth the framework for Bridger Mine depreciation and reclamation costs after 2023, regardless of whether Jim Bridger continued to operate and with the understanding that operations at Bridger Mine could continue beyond 2028.⁶⁹ As noted by Mr. Mullins, “[a]ssuming any extra depreciation or reclamation costs beyond the amounts agreed in the 2020 GRC would result in subsidizing coal costs for other states, or potentially PacifiCorp’s merchant operations.”⁷⁰ More

⁶⁶ Mitchell, Exh. RJM-14X at 12:3-11.

⁶⁷ Cheung, Exh. SLC-8T at 28:12-17.

⁶⁸ Mullins, BGM-1CT at 33:9-12.

⁶⁹ *Id.* at 33:14-34:5.

⁷⁰ *Id.* at 34:13-16.

substantively, as discussed below, PacifiCorp’s calculation is also flawed.

ii. The Company has not provided evidence supporting the correctness or prudence of updated Bridger Mine costs included in this case.

35 As noted above, the Company’s “recalibration” of Bridger Mine depreciation and reclamation costs was more than moving stipulated dollars out of the regulatory liability account and into NPC for 2024 and 2025. The Company also adjusted the Bridger Mine operational life from 2037 to 2028, *even though that adjustment already occurred as part of the Company’s 2020 GRC*, and updated depreciation and reclamation costs in this case based, presumably, on updated coal volumes produced from the Bridger Mine’s surface operations based on calculations done by the Company’s fuels resource group, although this is uncertain as the Company sponsored no witness to support these cost changes.⁷¹

36 AWEC’s testimony demonstrates that, because the adjustment to Bridger Mine’s operational life already occurred in PacifiCorp’s 2020 GRC, PacifiCorp’s failure to make an adjustment to exclude the depreciation and reclamation costs beyond 2023, which are already being recovered as part of the regulatory liability, results in a double-payment of costs by customers.⁷² In response, PacifiCorp argues that the post-2023 costs being recovered by customers are not correct, because the operational life for Bridger Mine was assumed to be 2037 and not 2028. PacifiCorp’s position is demonstrably incorrect. As evidenced by the Company’s own testimony in the 2020 GRC, the adjustment to a 2028 operational life was assumed in that

⁷¹ See Hearing Tr. at 140:18-141:5.

⁷² Mullins, Exh. BGM-1CT at 32:18-33:13.

case when depreciation and reclamation costs were calculated.⁷³ At hearing, PacifiCorp’s witness agreed with AWEC’s understanding of the 2020 GRC testimony and could not explain why the Company’s testimony in the present case conflicts with its testimony in the 2020 GRC.⁷⁴ There is simply no evidence in this case to support PacifiCorp’s assertion that an adjustment to Bridger Mine’s operational life is necessary, and that performing it does not result in a double-payment of costs from its Washington ratepayers.

37 Regarding PacifiCorp’s updated Bridger Mine depreciation and reclamation costs, no PacifiCorp witness in this proceeding addressed the details or prudence of costs included in NPC or set to be recovered via the regulatory liability. Witness Cheung’s testimony generally addressed Bridger Mine depreciation and reclamation costs for the Company, but Witness Cheung testified that she was “not equipped to speak to what has been built into the Net Power Cost in this case”⁷⁵ and opined that Witness Mitchell “would be closer to it than [Witness Cheung] is.”⁷⁶ However, Witness Mitchell’s only testimony in response to AWEC’s adjustment to BCC costs was to defer discussion of these costs, including those assumed in NPC, to Witness Cheung.⁷⁷ Interestingly, the only “driver” of the significant increase in cost per ton for BCC coal (nearly 33%) cited to by PacifiCorp is the Ozone Transport Rule,⁷⁸ which was subsequently

⁷³ Exh. RJM-14X at 12:5-10 (PacifiCorp Witness Wilding stating that “The 2014 Rate Case assumed the BCC surface mine would continue to produce coal through 2037 and the underground mine would produce coal through 2023. The test period projects surface coal deliveries cease in 2028 and underground mine production terminates in 2021. Early closure of mining operations increased final reclamation and contribution amounts and increased depreciation expense expressed on a cost per ton basis.”).

⁷⁴ Hearing Tr. at 133:15-134:3.

⁷⁵ *Id.* at 140:16-17.

⁷⁶ *Id.* at 140:23-24.

⁷⁷ Mitchell, Exh. RJM-3CT at 8:1-5.

⁷⁸ Mitchell, Exh. RJM-1CT at 36:14-17.

removed from PacifiCorp's NPC calculation in the Company's rebuttal case.⁷⁹ Witness Cheung admitted that no Company witness had testified as to the cause or reasonableness of cost changes associated with the Bridger Mine.⁸⁰ Accordingly, the Company has provided no evidence supporting its updated Bridger Mine costs, including depreciation and reclamation costs, nor has it provided a witness in this proceeding that can speak to these issues at a level that would support a prudence determination by the Commission. Even if the Commission were inclined to agree with PacifiCorp that the 2020 GRC Stipulation does not preclude updating Bridger Mine depreciation and reclamation costs, there simply is not an adequate evidentiary basis for the Commission to conclude that PacifiCorp's updated costs are prudent and will result in rates that are fair, just, reasonable and sufficient.

38 Moreover, the Commission should not be lulled into thinking that PacifiCorp's updates result in an economic benefit to customers. Witness Cheung testifies that amounts recovered through the balancing account have gone down by approximately \$500,000 per year, equaling about \$2.0 million per year instead of \$2.5 million per year.⁸¹ Amounts collected through the balancing account do not provide the complete picture of total decommissioning and reclamation costs for the Bridger Mine. Despite PacifiCorp's obligation to "track customers' contribution to BCC costs over the period of the rate plan in a manner that allows Parties to review these contributions in PacifiCorp's next general rate case,"⁸² no such information was provided in this case.

⁷⁹ Mitchell, Exh. RJM-3CT at 21:24-27.

⁸⁰ Hearing Tr. at 140:19-141:5.

⁸¹ Hearing Tr. at 139:15-140:6.

⁸² Cheung, Exh. SLC-20X at 11.

Finally, additional information would be needed to ensure that PacifiCorp’s calculation of uncredited balancing account amounts is correct. When asked to explain the Company’s \$250,000 correction to the calculation of the Bridger Mine reclamation and depreciation adjustment, Witness Cheung testified that the Company’s calculation “neglected to take into account the amounts that had already been collecting in the balancing account”⁸³ and later clarified that “in the initial filing, the company had neglected to include that balance as an offset altogether.”⁸⁴ However, Witness Cheung also testified that in years 2021, 2022 and 2023 – the years in which the balancing account has been in place – the Company “accumulated an annual amount of approximately two and a half million dollars a year.”⁸⁵ In effect, it appears that customers have been credited with \$750,000 over a period that rates were set to collect \$7.5 million. PacifiCorp provides no detail as to this discrepancy, further calling into question whether the Company’s proposed incremental Bridger Mine depreciation and reclamation costs sought in this case are accurate.

D. PacifiCorp’s change to the DART Adjustment method was improperly raised in rebuttal and is unsupported by the record evidence.

For the first time in its Rebuttal Testimony, PacifiCorp implemented a complicated and significant change to the DART Adjustment method that materially increases Washington’s net power costs.⁸⁶ PacifiCorp attempted to mask this change as a simple

⁸³ Hearing Tr. at 142:4-7.

⁸⁴ *Id.* at 142:15-17.

⁸⁵ *Id.* at 137:6-8; *see also* Hearing Tr. at 138:6-8.

⁸⁶ Mitchell, Exh. RJM-3CT at 18:9-12:6.

“correction.”⁸⁷ However, the reality is that the modeling change would otherwise result in a substantial deviation in how the DART adjustment has been consistently implemented and approved by the Commission since it was first introduced in Washington in PacifiCorp’s 2019 general rate case. By implementing it in Rebuttal Testimony, PacifiCorp has denied other parties and the Commission an adequate opportunity to review and respond to the reasonableness of this change. The DART modeling change increases total-Company power costs by approximately \$60 million⁸⁸ and Washington-allocated power costs by \$5.2 million.⁸⁹ Such a material increase to Washington customer rates – due entirely to a modeling change, not a change in PacifiCorp’s contracts or market position – is not justified by the scant Rebuttal Testimony PacifiCorp offered to support this modeling change. PacifiCorp has not met its burden of proof that the DART modeling changes introduced in Rebuttal Testimony are reasonable. Therefore, AWEC recommends the Commission reject this modeling change and require PacifiCorp to justify it in its direct case in a future filing so that parties can review and respond to it.

41 As it was first described by Mr. Wilding for PacifiCorp in the 2019 general rate case, the DART Adjustment was implemented to account for the pricing and volume differences in real-world market transactions relative to modeled transactions. According to PacifiCorp, the GRID model (which PacifiCorp used as its power cost forecasting model in the 2019 general rate case) “calculates the least-cost solution to balance the Company’s load and resources to fractions of a megawatt for each hour.”⁹⁰ Thus, “system balancing transactions are calculated for each

⁸⁷ *Id.*

⁸⁸ Hearing Tr. at 123:5-6.

⁸⁹ Mitchell, Exh. RJM-3CT at 21:5-6.

⁹⁰ Exh. No. RJM-13CX at 4:15-16.

hour independently and are for the precise volume required by the model,” while “prices are input into the model and do not change based on the volume of the system balancing transactions.”⁹¹ In reality, Mr. Wilding testified, PacifiCorp must continuously balance its system, so it enters into more transactions than the GRID model forecasts.⁹² Mr. Wilding also testified that PacifiCorp has historically made more sales in low-priced hours and more purchases in high-priced hours than is assumed using the static pricing in GRID.

42 Accordingly, the DART Adjustment has two components: a pricing component and a volume component. For purposes of this case, the volume component is relevant. Mr. Wilding testified that the volume component of the DART adjustment “reflects additional volumes to account for the use of monthly, daily, and hourly products” to reflect that “the Company must continuously purchase or sell additional volumes to keep the system in balance.”⁹³

43 In its 2021 Power Cost Only Rate Case (“PCORC”), PacifiCorp replaced the GRID model with AURORA; however, it maintained the need for the DART Adjustment, including the volume component, and described what it was and why it was needed in substantially identical terms to Mr. Wilding’s testimony from the 2019 rate case.⁹⁴ The DART Adjustment was used without substantial adjustment to forecast NPC in both the 2019 general rate case and the 2021 PCORC.

⁹¹ *Id.* at 4:21-5:4.

⁹² *Id.* at 5:5-7:10.

⁹³ *Id.* at 7:12-19.

⁹⁴ *Compare* Exh. No. RJM-13CX *with* Exh. No. RJM-14CX; Hearing Tr. at 104:11-16.

In this proceeding, the DART Adjustment was well enough established that Mr. Mitchell did not describe it at all in his Direct Testimony except to explain a change PacifiCorp proposed to the adjustment's pricing component.⁹⁵ In Rebuttal Testimony, however, Mr. Mitchell described what he termed a "correction" to the DART Adjustment's volume component. While Mr. Mitchell described the volume component similarly to Mr. Wilding and Mr. Staples, he stated that the volume component now included "unsupported artificial arbitrage revenue,"⁹⁶ a phrase that, to AWEC's knowledge, has never been used within the context of the DART Adjustment. Mr. Mitchell's entire basis for claiming the existence of "artificial arbitrage revenue" was his position that the volume component of the DART Adjustment is designed to "add[] additional volumes and associated cost to the NPC forecast" and the volume component in the model was instead producing revenues.⁹⁷ Mr. Mitchell claimed that this formulaic error has always been embedded in the DART Adjustment, but agreed that neither Mr. Wilding in the 2019 general rate case nor Mr. Staples in the 2021 PCORC implemented Mr. Mitchell's "correction."⁹⁸ Indeed, Mr. Mitchell admitted that the Company has never made this "correction" in any of its jurisdictions other than in Mr. Mitchell's rebuttal testimony this year.⁹⁹ The Wyoming Public Service Commission recently rejected this modeling change, finding that "[PacifiCorp] failed to adequately explain the changes to the DA/RT adjustment and consequently, there is insufficient evidence in the record to support [PacifiCorp's] position."¹⁰⁰

⁹⁵ Mitchell, Exh. No. RJM-1CT at 27:13-29:2. As with the 2021 PCORC, PacifiCorp uses AURORA to forecast power costs in this proceeding.

⁹⁶ Mitchell, Exh. No. RJM-3CT at 18:11-12.

⁹⁷ *Id.* at 19:9-23.

⁹⁸ Hearing Tr. at 123:9-21.

⁹⁹ *Id.* at 123:23-124:7.

¹⁰⁰ Wyoming PSC Docket No. 20000-633-ER-23, Memorandum Opinion, Findings and Order ¶ 212 (Jan. 2, 2024).

While the Oregon Public Utility Commission did accept this correction over AWEC’s objection, it did so as part of the approval of a broader, “black box,” settlement agreement and without substantive analysis of the modeling change.¹⁰¹

45 WAC § 480-07-510(3) requires a utility to “include in its initial testimony and exhibits ... sufficient detail, calculations, information, and descriptions necessary to meet its burden of proof.” For this reason, “the Commission expects parties to include all relevant information in their initial filing. Submitting new information at the rebuttal phase is generally disfavored because it may prejudice other parties.”¹⁰² “It remains today a disfavored practice for a utility to limit other parties’ opportunity to examine a proposal by waiting until rebuttal to present it.”¹⁰³

46 It is undisputed that the DART adjustment PacifiCorp presented in its initial case is not the same as the adjustment it presented on rebuttal. As demonstrated at the hearing, the “correction” to the volume component PacifiCorp implemented goes far beyond a simple number fix or formula error – it required PacifiCorp to implement an entirely new and highly complex formula that effectively zeros out the revenues the volume component calculated using the DART methodology the Commission has approved on two previous occasions. Under the existing methodology, the Company’s workbook uses a relatively simple formula to calculate the purchase and sales volume components, which collectively net to the “HLH-LLH Adjustment” amount that equals the difference of the modeled and historical NPC impact.¹⁰⁴ By contrast, the

¹⁰¹ OPUC Docket No. UE 420, Order No. 23-404 at 5-6 (Oct. 27, 2023).

¹⁰² Docket No. TP-190976, Order 08 ¶ 23 (Aug. 7, 2020).

¹⁰³ Docket Nos. UE-160228/UG-160229, Order 04 ¶ 12 (Oct. 10, 2016).

¹⁰⁴ Hearing Tr. at 113:3-117:22; Conf. Exh. No. RJM-11CX (STF DA-RT Tab, rows 63-67 & 210-223).

workpaper supporting the Company’s rebuttal case uses a highly complex, multi-line, formula that reduces the volume component’s revenues to less than \$ [REDACTED] – far below the \$ [REDACTED] [REDACTED] that would have resulted from implementation of the DART Adjustment as approved in prior cases and as proposed by PacifiCorp in its direct testimony in this proceeding.¹⁰⁵

PacifiCorp’s change to the volume component fundamentally changes the DART Adjustment. Mr. Mitchell testifies that the complexity of the new formula is primarily due to “quality analysis and quality control checks,”¹⁰⁶ but he does not dispute that it is different,¹⁰⁷ and the point is that no party has had the opportunity to evaluate how it is different, why it is different, and whether the change is reasonable and justified.

47 Nor has any party had the opportunity to evaluate PacifiCorp’s claim that “artificial arbitrage revenue” is causing the purported error. Again, the only basis the Company gives for this conclusion is its position that the volume component is producing revenue when it should be producing a cost.¹⁰⁸ There are many reasons why that could be happening, including the fact that PacifiCorp continues to use the DART Adjustment unchanged between the GRID model and AURORA, or that current, unusual, market conditions render the output of the volume component reasonable. In short, without the opportunity for a full review, the Commission should not accept such a significant modeling change in PacifiCorp’s rebuttal testimony that is justified only by the application of a term that has never before been used

¹⁰⁵ Hearing Tr at 118:1-121:23; Conf. Exh. No. RJM-12CX (STF DA-RT Tab, rows 63-67 & 207-220).

¹⁰⁶ Hearing Tr. at 121:12-13.

¹⁰⁷ *Id.* at 121:17-23.

¹⁰⁸ Exh. No. RJM-3CT at 19:15-20:10.

within the context of the DART Adjustment and is little more than an *ex post* explanation for a result PacifiCorp disagrees with.

E. Additional power cost adjustments

48 In addition to the items above, AWEC also provided testimony on the following NPC subjects: (a) the “Washington Balancing Adjustment”; (b) market capacity limits; and (c) the Ozone Transport Rule. Given the complexity of these issues and the need to more substantively address PacifiCorp’s rebuttal testimony, AWEC withdraws its recommendations with respect to the Washington Balancing Adjustment and the market capacity limits, but reserves its right to raise these issues again in a future proceeding. With respect to the Ozone Transport Rule, AWEC agrees with PacifiCorp’s decision to adopt AWEC’s proposed removal of costs associated with Ozone Transport Rule compliance for purposes of NPC in this case.¹⁰⁹

III. CONCLUSION

49 The record in this case demonstrates that PacifiCorp’s PCAM should remain intact, with the modifications advocated for by either PacifiCorp or Staff. Related to NPC, given the issues and concerns raised by AWEC regarding PacifiCorp’s proposals on when and how to update NPC, AWEC’s proposed process should be adopted. The record also demonstrates that PacifiCorp has not carried its burden with regard to depreciation and reclamation costs for the Bridger Mine and modeling changes to the DART adjustment, and thus AWEC’s recommended adjustments to NPC related to these issues should be adopted.

¹⁰⁹ Rao, Exh. EVRR-1T at 4.

Dated this 12th day of January 2024.

Respectfully submitted,

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