BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP d/b/a PACIFIC POWER AND LIGHT COMPANY, Respondent.	DOCKETS UE-230172 and UE-210852 (Consolidated)
In the Matter of ALLIANCE OF WESTERN ENERGY CONSUMERS' Petition for Order Approving Deferral of Increased Fly Ash Revenues	

POST-HEARING BRIEF OF COMMISSION STAFF

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I. INTRODUCTION

1 On December 15, 2023, the settling parties in this case filed a partial multiparty settlement agreement.[1] The settlement, if accepted, would resolve all issues in the case except for power cost issues. This brief addresses those remaining contested issues: the power cost forecast for 2024, and the proposed changes to the power cost adjustment mechanism (PCAM). In rebuttal, the Company proposed a 2024 net power forecast of $190.2 million, while commission staff (Staff) recommends a forecast of $184.8 million.[2] Staff also recommends implementing changes to the power cost adjustment mechanism beginning in 2026. At the start of 2026, the Commission should modify the PCAM by eliminating the dead bands, replacing the current sharing bands with a 90/10 customer/company sharing band, and lowering the rate adjustment threshold to $7 million from the current threshold of $17 million. Staff further recommends that if the rate adjustment threshold is met, then recovery of only 50 percent of the deferral balance take place over the following year.[3]

2 Finally, Staff recommends the Commission order PacifiCorp to remove coal from net power cost rates by filing a power cost only rate case (PCORC) in April of 2025, with rates effective January 1, 2026, concurrent with removal of the related non-NPC coal-fired resource costs.[4] In contrast, PacifiCorp recommended an update to NPC through a compliance filing to be filed in the fourth quarter of 2025, with a January 1, 2026 effective date.[5] Staff does not address this last issue further in this brief. As noted in the response testimony of Staff witness McGuire,

[1] WAC 480-07-730(3)(b).
[2] In this brief, all NPC forecast figures refer to Washington allocations unless otherwise specified.
[3] Wilson, Exh. JDW-1CT at 37:16-38:4.
[4] Settlement stipulation at 5, ¶ 13.
[5] Cheung, Exh. SLC-1T at 16:8-9 (“The Company is proposing a compliance filing be made in the fourth quarter of 2025, in advance of January 1, 2026, to remove coal-fired generation costs from rates.”).

this issue is fairly straightforward.[6] It is simply a matter of whether the Commission believes the Company's proposal guarantees sufficient time for review, or not.[7] Staff agrees on a compliance filing in late 2024 to update the power cost baseline going into Rate Year 2.

II. BACKGROUND

3 The Company filed this rate case on April 19, 2023. In initial testimony, the Company indicated a 2024 NPC forecast of about $199 million. PacifiCorp also proposed modifying the PCAM by eliminating "the deadband and asymmetrical sharing bands from the PCAM due to the difficulty in accurately forecasting [NPC]."[8] The PCAM is a tool adopted in the settlement of the Company's 2014 GRC.[9] It is a risk sharing mechanism designed to equitably distribute the risks of fluctuating power costs between the customer and Company, and to encourage effective management and reduction of power costs. The Company noted that between 2016 and 2021, there was only one year of under-recovery; the remaining five years saw over-recovery where customers lost out on receiving at least some money in refunds due to the deadband.[10]

4 In response testimony, Staff recommended a net power cost baseline for 2024 of $198,432,643, which is a $554,774 reduction from PacifiCorp's request of $198,987,417.[11] However, based on information received after the deadline to file cross-answering testimony, Staff has changed its recommendation for the net power cost baseline, as outlined below. Staff's response testimony further recommended modifying the PCAM as described in the section above, and this remains Staff's recommendation. AWEC witness Mullins contends in response testimony that the mechanism is functioning as intended and that circumstances have not

[6] McGuire, Exh. CRM-1T at 16:9-21.
[7] *Id*. at 55:17-56:6.
[8] Painter, Exh. JP-1T at 1:18-21.
[9] *Id*. at 2, FN 1.
[10] *Id*. at 8, Figure 1.
[11] Wilson Exh. JDW-1T at 7:10.

substantially changed to warrant revising the mechanism.[12] Public Counsel witness Earle argues that power costs still within the Company's control remain a large portion of NPC,[13] long-term contract and hedging are still within the Company's control,[14] and changing the mechanism reduces incentive to control costs.[15] Sierra Club witness Binz testifies to concerns about fuel expenses being one of the largest portions of the Company's NPC.[16]

5 On rebuttal, the Company lowered its recommended 2024 NPC forecast to about $190.2 million and adopted Staff's position on the proposed modifications to the PCAM.[17] In its rebuttal testimony, the Company accepted all the net power cost (NPC) adjustments proposed by Staff in response testimony.[18] In cross-answering testimony, Staff recommended changing the NPC forecast to reflect the rate year rather than the calendar year in 2024.[19] This change reflects Staff's agreement with AWEC's response testimony on the issue.[20] The Company's rebuttal testimony contested AWEC's position on issue of calendar year vs. rate year for the NPC forecast. Staff maintains that forecasting on the rate year rather than the calendar year is more likely to lead to an accurate NPC forecast and reduce the need for significant fluctuations in rates. Sierra Club, NWEC, and Public Counsel maintained their position regarding proposed modifications to the current PCAM in cross-answering testimony.

[12] Mullins, Exh. BGM-1CT at 67:14-15.
[13] Earle, Exh. RLE-1CT at 4:14-19, 6:17-20.
[14] *Id.* at 7:11-12
[15] *Id.* at 8:1-22.
[16] Binz, Exh. RJB-1T at 8:2-9:3.
[17] Painter, Exh. JP-2T at 2:4-8.
[18] Mitchell, RJM-3CT at 1:17-21.
[19] Wilson, Exh. JDW-24T at 6:8-11.
[20] Mullins, Exh. BGM-1T at 20:1-21:2.

III. DISCUSSION

A. NPC Forecast

6 The Commission should reject the Company's forecast for Rate Year 1 (RY1) and accept Staff's new NPC forecast of $184.8 million.[21] The primary difference between these recommendations is that the Company's position is based on calendar year 2024, while Staff's recommendation is based on the likely effective date of RY1, and therefore reflects the actual rate year. As Staff witness Wilson stated in cross-answering testimony, "[t]he Commission should require use of forecast NPC that is as closely aligned with the effective period of NPC rates as practicable, and should not approve PacifiCorp's proposed forecast NPC that is based on a calendar year forecast because it unreasonably results in higher power cost rates."[22]

1. Legal Principles

7 The Commission is charged with determining rates that are "just, reasonable, or sufficient" and fixing those rates by order.[23] When a public service company is seeking an increase to "any rate [or] charge . . . the burden of proof to show that such increase is just and reasonable" is on that public service company seeking the increase.[24] Under commission rules, "variable power costs . . . may be calculated directly based either on test year normalized demand and energy load, or on future rate year demand and energy load factored back to test year load."[25]

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[21] This is a revised recommendation from that in Staff's cross-answering testimony.
[22] Wilson, Exh. JDW-24T at 2:2-5.
[23] RCW 80.28.020.
[24] RCW 80.04.130(4).
[25] WAC 480-07-510(3)(c)(ii).

2. Analysis

8 The primary difference between PacifiCorp's forecast presented in rebuttal and Staff's current recommendation is the use of calendar year vs. rate year. The Company's current forecast NPC is based on calendar year 2024. However, since the suspension date in this matter is March 19, 2024, it is reasonable to assume that rates would go into effect on or around April 1, 2024, resulting in a rate year of April 1, 2024 to March 31, 2025.[26] The Company's current forecast NPC is not based on either a test year or the rate year, in violation of WAC 480-07-510(3)(c)(ii). That subsection states: "Pro forma fixed and variable power costs, net of power sales, may be calculated directly based either on test year normalized demand and energy load, or on the future rate year demand and energy load factored back to test year loads." This offset from the rate year used in forecast NPC is significant, as noted by AWEC witness Mullins.[27] Jim Bridger Units 1 and 2 are scheduled to be removed from service in January 2024 for conversion, a process anticipated to take several months. This results in a net short position for Washington, and which raises Washington-allocated NPC.[28] According to AWEC witness Mullins, and verified and agreed with by Staff witness Wilson, most of the elevated cost will occur before the rate effective date (late March or early April).[29] This is not a situation where the difference between the forecasted period and the rate year results in minimal change to the forecast; this offset results in significant inaccuracy in forecasted power costs for Washington customers. This mismatch in rate year and the 12 months used to forecast NPC results in a scenario where the Company is more likely to overcollect revenues, and with the current PCAM structure, any

[26] The Commission has in the past interpreted the suspension date to be the date that the Commission is required to issue an order, not the date by which new rates go into effect.
[27] Mullins, Exh. BGM-1CT at 20:4-12.
[28] *Id.*
[29] *Id. See also* Wilson, Exh. JDW-24T at 4:2-5:3.

refund to customers would not be 100 percent.[30] This could result in a windfall to the Company.[31] Additionally, the use of the calendar year as opposed to the rate year misstates the benefits of wind facilities that are coming online during that time.[32]

9 Adjusting the forecast to reflect the rate year as opposed to the calendar year resulted in a further $5,419,503 decrease in net power costs beyond what the Company accepted in rebuttal testimony. The Company argues that forecasting NPC on the rate year as opposed to the calendar year may see rates increase in RY2 because this timeframe sees the exit of coal in 2026.[33] However, the goal of the forecast is not to minimize costs, but to accurately forecast NPC. Forecasting NPC based on the rate year gives the most accurate forecast and limits the future need to for fluctuating rates as a result of a true-up. The Company may also argue that the Commission has accepted calendar year forecasts in the past, which is true. However, it is important to highlight again that the difference between a rate year forecast and calendar year forecast is significant in this case, while in most other cases the difference is likely negligible.

10 The Company argues that:

> …it is less important that the forecasts period match the rate effective period, but more important that within the forecast period, costs and benefits are properly matched. It is also my understanding that the Commission addressed this issue in PacifiCorp's most recent PCORC filing, where there was a mismatch between the NPC baseline year and the rate year. The Commission determined that this mismatch did not cause any issues and rejected AWEC's arguments that this would be a departure from Commission practice.[34]

11 However, this comparison is misleading. The Company cites Order 06 of Docket UE-210402 to support the assertion that in past cases the Commission was not overly concerned

[30] Wilson, Exh. JDW-24T at 6:2-6.
[31] *Id.*
[32] Mullins, Exh. BGM-1CT at 35.
[33] RCW 19.405.030.
[34] Cheung, Exh. SLC-8T at 69:16-22.

about a mismatch between the twelve months used for an NPC forecast and the rate year. But in that case the Commission was evaluating a settlement proposal where only power costs were at issue. And it is clear from the paragraphs cited by PacifiCorp that the Commission was considering whether the errors alleged by AWEC in that case "renders PacifiCorp's modeling unreliable or otherwise warrants rejecting the Settlement[]",[35] not whether the use of the forecasted months was ideal. The Commission's acceptance of a settlement does not signal that each individual term or aspect of that settlement is what the Commission would have decided had the case been fully contested. Further, a review of Order 06 indicates that the arguments made by AWEC that the Commission rejected were not primarily focused on a mismatch between the months used for the NPC forecast and the effective date.[36]

12 The Company further argues that the real issue with moving the NPC forecast to match the rate year is that the Company's revenue requirement for RY 1 and 2 is based on calendar years 2024 and 2025, and therefore moving the NPC forecast off of calendar year 2024 would create a mismatch between costs and benefits.[37] This of course ignores the fact that the Company chooses when to file its rate cases, it chooses the proposed test year, it proposes the effective date for the initial rate year of the MYRP, and it chooses what provisional pro forma it proposes to include as part of a MYRP. The Company could have aligned its other revenue requirement elements with the actual rate years in the initial filing, but it did not. The misalignment between underlying capital investment assumptions and the NPC forecast is a result of the Company choosing to base its revenue requirement figures on calendar years 2024 and 2025 when the company filed in March/April of 2023. The Company explains this choice by stating that it used

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[35] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-210402, Order 06, p. 36, ¶ 137 (March 29, 2022).
[36] *See Id*. at 7, ¶ 28 - 9, ¶ 36.
[37] Cheung, Exh. SLC-8T at 69:16-18.

the calendar year in order to "better facilitate subsequent filing requirements",[38] a concern that Staff believes should be secondary to ensuring an accurate NPC forecast. The Company's decision has placed the Commission in a position where it will need to choose between two mismatches, one is between the forecasted NPC and the rate year, and the other is between the forecasted NPC and the other revenue requirement elements.

13 As stated above, the goal of an NPC forecast is to set a baseline that is as accurate as possible. Under the specific circumstances presented in this case, Staff believes that this can only be achieved with a forecast that covers the actual rate years. The Company may be correct that "[t]his change would also conceivably result in higher costs for Washington customers in RY2."[39] But this argument works backwards from a result, while the Commission's goal is an accurate forecast. If it is indeed the case that adding the 2026 months into RY2 would increase net power costs, that is what the Commission should approve because that would be an accurate reflection of forecasted net power costs over that rate year. Ensuring that power costs are reasonable is instead the function of the PCAM, which Staff addresses below.

B. PCAM

14 The Commission should modify the PCAM in accordance with Staff's recommendation, eliminating the dead bands and instituting a 90/10 customer/company sharing band. As the Company transitions to the extended day-ahead market (EDAM) a smaller portion of the decisions impacting NPC will be in its control, and thus reduced risk sharing is proper. Additionally, there is evidence that under the current structure, customers are routinely losing out on refunds because of the dead and asymmetric sharing bands. If the Commission adopts Staff's

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[38] Cheung, Exh. SLC-8T at 69:3.
[39] *Id*. at 71:4-8.

recommendation on the deadband and sharing bands, then the credit-surcharge threshold should also be revised to $7 million rather than the current level of $17 million.[40] It is Staff's position that its proposed PCAM structure start on January 1, 2026 to align with the Company's planned entry to the EDAM.[41]

1. Legal Principles

15 Power cost mechanisms, like the Company's PCAM, are "useful mechanisms that allocate appropriately between shareholders and ratepayers" the risks associated with power costs.[42] The mechanism is intended to motivate IOUs to "effectively manage or even reduce" power costs.[43] The mechanism works by sharing costs and benefits between the IOU and the customers when the actual power costs deviate from the baseline established in a prior rate case.[44]

2. Analysis

16 As demonstrated by the evidence submitted by the Company, the current PCAM structure has historically not accomplished the cost sharing purpose as initially intended.[45] In five of the six years between 2016 and 2021, customers lost out on between $4 million and $6.5 million each year in refunds because of the deadband structure.[46] 2021 was the only year where the Company under collected and had to file for a surcharge.[47] Additionally, the Company indicated that it will be joining the EDAM in 2026,[48] which will take some control away from the

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[40] Wilson, JDW-1CT at 37:16-18.
[41] *Id.* at 39:3-4.
[42] *In the Matter of the Petition of Avista Corp. for Continuation of the Company's Energy Recovery Mechanism, with Certain Modifications*, Docket UE-060181, Order 03, 9, ¶ 23, Finding of Fact 3 (June 16, 2006).
[43] *Id.*
[44] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-011570 & UG-011571, Twelfth Supplemental Order, 11, ¶ 22 (June 20, 2002).
[45] Painter, Exh. JP-1T at 5:1-4.
[46] *Id*. at 8 Table 1.
[47] *Id.*
[48] Wilson, Exh. JDW-24T at 19:10 (citing Wilson, Exh. JDW-31, PacifiCorp response to WUTC DR 159).

Company, limiting the power cost decisions within its control.[49] The Company will still be responsible for things such as fuel costs, variable O&M, and some power purchases; but, dispatch choices will be left to CAISO.[50] Since some NPC factors are still within the Company's control, Staff believes a sharing band is still justified. This simplified sharing band incents the Company to strategically make choices within its control after entering EDAM, while also accounting for the reduced control the Company has over NPC.[51]

17 Staff's suggested changes to the PCAM are partially due to the Company's planned participation in EDAM. The extended day-ahead market (EDAM) is an initiative created by the California Independent System Operator (CAISO) which aims to economically dispatch resources by performing an analysis to determine which resources from participants can be used most efficiently and economically, achieving optimal dispatch. EDAM forecasts energy demand on a day-ahead, hour-ahead, and inter-hour basis, and positions power supply from participating utilities to meet that demand.[52] EDAM connects diverse resources through transmission expansion across the western United States.[53] As stated by CAISO, the EDAM builds on the principals and benefits observed in the Western Energy Imbalance Market (WEIM).[54] As described by Company witness Painter, under the EDAM "the Company's generation units will be optimally scheduled and dispatched using the CAISO's state of the art unit commitment and economic dispatch models" hopefully reducing NPC through more efficient economic dispatch of resources.[55] Because CAISO will control certain dispatch decisions, once the Company joins

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[49] Wilson, Exh. JDW-1T at 23:5-13.
[50] *Id*. at 22:13-19.
[51] *Id*. at 36:19-21.
[52] California ISO, *EDAM Extended Day-Ahead Market*, CAISO (Jan. 8, 2024, 11:55 AM). *Available at*: https://www.caiso.com/Documents/extended-day-ahead-market-edam-fact-sheet.pdf.
[53] *Id.*
[54] *Id.*
[55] Painter, Exh. JP-1T at 25:17-26:2.

EDAM PacifiCorp will have less control over some aspects of its net power costs. What control the Company does maintain was addressed in testimony by multiple parties.[56]

18 The Commission should accept Staff's proposal to change the rate adjustment threshold.[57] Staff recommends the threshold be changed to "$7 million with revenue recovery set to 50 percent of the deferral account balance."[58] The current threshold risks relatively few, but large rate adjustments, lowering the threshold and limiting recovery to 50 percent of the balance ensures that adjustments would be less impactful to monthly customer bills. This approach will result in fewer drastic fluctuations while also permitting recovery of costs for the Company and refunds to customers.

19 While the Company supports Staff's PCAM revision proposal, other parties do not. AWEC, NWEC, and Sierra Club all support maintaining the PCAM in its current form. In terms of the impact on the proposed two year rate plan, the difference between Staff's position and the other noncompany parties' position is minimal. Staff's proposal is to implement the recommended changes in 2026, at the end of the rate plan, leaving the current mechanism in place for 2024 and 2025. Still, Staff does recommend making these changes at the end of the rate plan while other parties believe that the mechanism should be maintained in its current form. While the non-Company parties do highlight important considerations, Staff's recommendations are based on recent credit-surcharge data and probable changes given the Company's entrance to EDAM and the loss of control of certain NPC factors. Deciding to alter the mechanism now ensures that risk sharing is adjusted upon the Company's entrance into EDAM, while simultaneously ensuring that customers' bills are not subject to sharp fluctuations. Staff's

[56] Mullins, Exh. BGM-1CT at 70:17-71:2; Earle, Exh. RLE-1CT at 4:13-19; Wilson, Exh. JDW-1CT at 24, Table 3.
[57] Wilson, Exh. JDW-1CT at 3:8-11.
[58] *Id.*

proposal for the PCAM balances the need to incentivize the Company to effectively manage or reduce costs while also acknowledging that entrance to the EDAM does mean the Company has less power to control NPC. Lowering the threshold for rate adjustments also means that the costs and benefits of over- or under-forecasting will be shared with customers without causing drastic fluctuations in bills. As illustrated in Table 6 to Staff witness Wilson's testimony, implementing these changes results in more frequent adjustments, but they are smaller and less likely to result in rate shock.[59]

20 Staff believes that the current PCAM structure can be improved. Staff is aware of the fact that the Commission has rejected similar proposals to change the PCAM in the past, as noted by other noncompany parties in cross-answering testimony. However, Staff believes that the Commission should reconsider these proposed changes for two reasons. First, as previously noted, PacifiCorp entering the EDAM does change the level of control the Company has over power costs.[60] While joining the EDAM does not eliminate the Company's control, it does reduce it. One goal of power cost mechanisms is, all else equal, to incentivize IOUs to keep power costs down. When a utility's ability to influence net power cost outcomes diminishes, the effectiveness of a power cost mechanism is reduced because the incentive is less likely to produce the desired result. Second, Staff believes that the Commission should consider the historical results produced by the current mechanism.

21 To be clear, Staff is not suggesting that the mechanism should change simply because (to date) the current PCAM resulted in a net positive for the Company and a net negative for customers. In itself, the results of the current PCAM do not indicate that the mechanism's design should be changed. But historical results are relevant. A mechanism that regularly results in a

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[59] Wilson, Exh. JDW-1CT at 39, Table 6.
[60] *See Id*. at 23:5-13.

positive outcome for the utility at the expense of customers may simply be luck, but it could also indicate that the utility was able to regularly produce outcomes favorable to it, and therefore the mechanism should be altered. The PCAM is a tool to reduce power costs in light of information asymmetry; but to date, those costs have been disproportionately carried by ratepayers. The PCAM is a newer mechanism. Such mechanisms should be reevaluated from time to time to ensure they are serving their purpose, especially in light of changed circumstances. Adjusting the bands is a necessary step to bring the PCAM closer to its ultimate goal of adequately sharing costs that differ from the power cost forecast. Staff believes that reasonable minds can differ with respect to whether the PCAM's current mechanisms should be left in place or altered as recommended by Staff, but ultimately recommends that the Commission reevaluate specific aspects of the current mechanism. Staff also recognizes that issues related to cost or risk sharing mechanisms are likely to be reassessed as part of the Commission's transition to performance based regulation in Docket U-210590, which could also impact the Commission's decision on whether or not to modify the PCAM in the current case.

IV. CONCLUSION

22 The Commission should adopt Staff's recommended changes to the PCAM and Staff's recommendation for the power cost forecast. Staff maintains that forecasting NPC on the rate year rather than the calendar year promises the most accurate forecast. While calendar year forecasts have been permitted in the past, the differences between rate and calendar year in those cases were likely negligible. That is not the situation here. Between Jim Bridger gas outages and coal leaving rates, the differences between a calendar versus rate year forecast are substantial and approving these forecasts would likely result in the need for a substantial true-up. Staff recommends that if the Commission orders the Company to use the rate year for the forecast, that the Commission also order the Company to submit a compliance filing with updated forecast numbers accounting for a rate year, rather than calendar year forecast.

23 The PCAM requires adjustment to maximize its effectiveness. Staff's recommended changes are adjustments to improve the PCAM given the mechanism's performance to date. Paired with a reduced adjustment threshold, these modification will help stabilize rates and reduce significant fluctuations between years. Finally, the changes to the PCAM will reflect the Company's reduced control over some power cost factors when it enters the EDAM in 2026. Staff suggests that its recommended changes to the PCAM be enacted in 2026, simultaneous with the Company entering the EDAM.

Respectfully submitted, this 12th day of January, 2024.

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