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)* **SIERRA CLUB CLOSING BRIEF**

SIERRA CLUB CLOSING BRIEF

January 12, 2023

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I. Introduction and Relief Requested

1 In its proposed two-year rate plan, PacifiCorp ("Company") seeks to increase rates by approximately $13.8 million in year one and $21.1 million in year two,[1] in large part due to a 74 percent (total Company)/37 percent (Washington allocated) increase in its net power costs ("NPC").[2] NPC, in turn, has drastically increased due to a spike in natural gas prices. As Sierra Club expert witness Ronald Binz explained, the Company's own data "shows that the increase in NPC is driven by increased cost of natural gas and purchased power expense" and that "both of those factors are driven by changes in the price of natural gas."[3] Indeed, the average weekly natural gas price at Henry Hub increased from $2.03/MMBtu in 2020 to $6.44/MMBtu in 2022.[4]

2 Natural gas prices have long been known to be volatile, swinging both up and down[5] and significantly impacting the Company's NPC. Accordingly, since 2006, when the Washington Utilities and Transportation Commission ("Commission") first considered whether the Company's NPC could be recovered through an annual adjuster clause rather than a rate case, the Commission has made clear that PacifiCorp's shareholders must share in the risk with customers that power and fuel costs will be higher than anticipated. In 2015, the Commission implemented this requirement when it approved a Power Cost Adjustment Mechanism ("PCAM") for PacifiCorp with a +/- $4 million deadband and asymmetrical sharing bands. After accounting for the deadband and when customers are

[1] Exh. JT-1T, PacifiCorp, Staff, AWEC, TEP, NWEC & Walmart, Joint Test. at 6:20-7:2. The rate increases in both year one and year two are significantly reduced, as a result of a partial stipulation. The Company originally requested to increase rates by approximately $26.8 million in year one and $27.9 million in year two. *Id.* at 3:11-13.
[2] Exh. MDM-1T, PacifiCorp, Direct Test. of Matthew D. McVee at 8:18-9:2 [hereinafter "Exh. MDM-1T"]. The 37 percent increase is compared to NPC as set in the Company's 2022 Power Cost Only Rate Case.
[3] Exh. RJB-1T, Direct Test. of Ronald J. Binz on Behalf of Sierra Club at 8:2-5 [hereinafter "Exh. RJB-1T"].
[4] Exh. RJB-1T at 13, Figure 3.
[5] *Id.* at 12:10-11.

owed a credit, up to $10 million is split 75/25 between customers and the Company and amounts over $10 million are split 90/10. When a surcharge is necessary, amounts outside of the deadband up to $10 million are split 50/50 between customers and the Company and amounts above $10 million are split 90/10.[6]

3 The current deadband and asymmetrical sharing bands appropriately balance risk between shareholders and ratepayers, while also providing incentives to the Company to prudently manage its NPC through operations and maintenance, integrated resource planning, hedging agreements, efficiency measures, and other initiatives. And when Actual NPC spikes well above the Forecast NPC, as is the case here, the deadband and asymmetrical sharing bands work to protect customers from bearing the entire burden, as customers neither selected the resources relied upon nor had any control over NPC management.

4 The Company nevertheless asks this Commission to eliminate these cost sharing mechanisms (as it has many times before) in order to ensure dollar-for-dollar recovery for its shareholders. The Commission has repeatedly rejected identical requests from PacifiCorp and should do so again here. Instead, the Commission should retain the current PCAM structure in full, with its current deadband and asymmetrical sharing bands. If the Commission is inclined to consider modifications to the PCAM, as suggested by Staff, the Commission should, at a minimum, retain the current deadband and a meaningful sharing band that ensures that the Company continues to have some "skin in the game" when managing its NPC.

[6] *Id.* at 10, Figure 1.

II. PROCEDURAL HISTORY: PACIFICORP'S REPEATED AND UNSUCCESSFUL REQUESTS FOR AN NPC MECHANISM PROVIDING ANNUAL, DOLLAR-FOR-DOLLAR RECOVERY

5 As the Company has many times before, it once again asks this Commission to authorize yearly, dollar-for-dollar recovery of its NPC, outside the confines of a rate case.[7] This request has been brought to the Commission five separate times. Each time, the Commission has recognized the significant benefits that adjuster mechanisms provide to utility shareholders and the resulting shifting of risk onto ratepayers. As a result, the Commission has been steadfast that PacifiCorp's PCAM must include ratepayer protections in the form of deadbands and sharing bands.

6 PacifiCorp first requested a PCAM in its 2005 general rate case ("GRC"). There, PacifiCorp argued that a PCAM was justified, in part, due to the volatility of NPC and because a fuel adjuster mechanism would lower the cost of borrowing money as well as the risk of a credit downgrade.[8] Fuel adjuster mechanisms are able to offer these benefits because they facilitate faster recovery of fuel costs, thereby reducing risks to cash flow.[9] As Alliance of Western Energy Consumers ("AWEC") witness Brad Mullins explained, "[r]elative to traditional ratemaking, in which utilities would be entirely exposed to fluctuations in power costs between rate cases," adjuster mechanisms provide utilities "with a buffer against that volatility[.]"[10] Fuel adjuster mechanisms, however, do not reduce the level of NPC volatility; they simply "pass[] [the] volatility risk onto

[7] While PacifiCorp indicates on rebuttal that it is willing to accept Staff's proposal to eliminate the deadband and reduce the sharing band to 90/10, the Company has been clear that its intention is to ultimately secure 100 percent cost recovery. *See, e.g.,* Exh. JP-2T, PacifiCorp, Rebuttal Test. of Jack Painter at 2:18-19 [hereinafter "Exh. JP-2T"].
[8] Exh. MDM-11X, Order 04, UE-050684 & Order 03, UE-050412 at 28, para. 71, 29, para. 72 (Apr. 17, 2006) [hereinafter "Exh. MDM-11X].
[9] *Id.* at 34-35, para. 91 (finding that a PCAM should result in "[r]atepayers [receiving] the benefit of a reduction in cost of capital, as a power cost adjustment introduces rate stability for ratepayers and earnings stability for stockholders."
[10] Exh. BJM-10T, Cross-Answering Test. of Bradley G. Mullins on Behalf of All. of W. Energy Consumers at 2:7-10 [hereinafter "Exh. BJM-10T"].

ratepayers."[11] In this first request for a PCAM, PacifiCorp suggested that the Commission approve the mechanism with a 90/10 sharing band, no deadband, and a +/- $5 million balancing account that would be triggered prior to a refund or surcharge,[12] not dissimilar to what Staff has proposed in this case.[13]

7 Carefully considering PacifiCorp's request, the Commission established several principles and requirements that must be met before a PCAM could be authorized. First, a PCAM should: "recognize variability in the cost of operating existing power supply resources as a result of abnormal weather conditions that are out of a utility's control[;]" "address short-run cost changes resulting from unusual weather[;]" result in "a reduction in cost of capital, as a [PCAM] introduces rate stability for ratepayers and earnings stability for stockholders[;]" and "not interfere with least cost planning, conservation, or other regulatory goals."[14] Second, a PCAM "should also apportion risk equitably between ratepayers and shareholders."[15] The Commission recognized that "[d]eadbands and sharing bands are useful mechanisms, not only to allocate risk, but to motivate management to effectively manage or even reduce power costs."[16] Concluding that PacifiCorp's PCAM proposal did not meet these standards, the Commission rightfully rejected the request. Regarding the appropriate level of risk sharing, the Commission explicitly concluded that PacifiCorp's proposal—a 90/10 sharing band and no

[11] Exh. BJM-10T at 2:7-10.
[12] Exh. MDM-11X at 29, para. 73; *Id.* at 30, para. 76.
[13] Exh. JDW-1CT, Test. of John D. Wilson on Behalf of Staff of Wash. Utils. and Transp. Comm'n at 3:7-11 [hereinafter "Exh. JDW-1CT"]. As discussed below, Staff recommends that the Commission modify the PCAM to eliminate the deadband and reduce the asymmetrical sharing bands to a single, symmetrical 90/10 sharing band. The amortization trigger would be reduced from $17 million to $7 million under Staff's proposal.
[14] Exh. MDM-11X at 34-35, para. 91.
[15] *Id.* at 37, para. 96.
[16] *Id.*

deadband—"[did] not adequately balance risks and benefits between shareholders and ratepayers."[17]

8 Within months of the Commission's rejection of PacifiCorp's first PCAM proposal, the Company filed a new request, again citing the volatility of NPC as justification for a fuel adjuster mechanism. In this request, the Company proposed a deadband (+/- $3 million) and two sharing bands (60/40 for NPC variance up to $7.4 million and 90/10 for NPC variance above $7.4 million).[18] Analyzing PacifiCorp's request anew, the Commission noted that "[t]his case illuminates a point not analyzed in our prior consideration of PCAMs—the distribution of net power costs may not be symmetrical, but skewed and not statistically normal."[19] Because the distribution of net power costs is asymmetric, "any symmetrical PCAM design will shift some level of risk to ratepayers, because the probabilistic benefit ratepayers receive from good water conditions [that reduce wholesale power costs] does not equal the probabilistic risk customers will incur from poor hydrologic conditions [that increase wholesale power costs]."[20] Accordingly, the Commission concluded that "[a]n optimally designed PCAM would recognize the inequality between upside and downside risk in its design of deadbands and sharing bands[,]"[21] and that a PCAM that did not include deadbands and sharing bands accounting for this asymmetric risk "arguably needs to be accompanied by a modification to the Company's return to compensate"[22] for the shift in risk to ratepayers. Because

[17] Exh. MDM-11X at 38, para. 99.
[18] Exh. MDM-12X, Order 08, UE-061546 & Order 08, UE-060817 at 18, Table 2 (June 21, 2007) [hereinafter "Exh. MDM-12X"]. Staff recommended a similar proposal, even as Staff acknowledged that "its proposed PCAM design nonetheless 'shifts significant risk to ratepayers.'" *Id.* at 22, para. 81.
[19] Exh. MDM-12X at 23, para. 85.
[20] *Id.*
[21] *Id.* at 23, para. 86.
[22] *Id.* at 23, para. 87.

PacifiCorp's proposal did not meet the Commission's standards, it was once again rejected. The Commission directed any subsequent PCAM request to "reflect [the] asymmetry of power cost distribution."[23]

9 PacifiCorp came back to the Commission with a third PCAM proposal during its 2012 GRC. Incredibly, despite the Commission's prior clear and explicit direction, PacifiCorp requested approval of a PCAM to account for NPC volatility with neither deadbands nor sharing bands.[24] The Commission's final order did not parse words. The Commission, once again, determined that deadbands and sharing bands 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[;]"[25] that PacifiCorp's "perfunctory response that dead bands and sharing bands are poor regulatory policy and that its power costs are increasingly beyond the Company's ability to control is simply not acceptable[;]"[26] and that "[a] properly designed PCAM includes dead bands and sharing bands so that the Company continues to bear some risk of under-recovery, and some opportunity to benefit from savings achieved via power cost management practices."[27] The Commission again emphasized its willingness to consider a PCAM for PacifiCorp but found that "the Company's proposal in this case really is nothing more than a request for a power cost tracker and true-up mechanism that will guarantee the Company full recovery of its power costs on a continuing basis."[28] PacifiCorp's third request for a PCAM was

[23] Exh. MDM-12X at 29, para. 111.
[24] Exh. MDM-13X, Order 05, UE-130043 at 67, para. 164 (Dec. 4, 2013) [hereinafter "Exh. MDM-13X"].
[25] *Id.* at 69-70, para. 170.
[26] *Id.* at 70, para. 171.
[27] *Id.* at 70, para. 172.
[28] *Id.* at 70-71, para. 173.

rightfully rejected. A year later, PacifiCorp filed its fourth request for a PCAM-like mechanism, this time calling it a Renewable Resource Tracking Mechanism ("RRTM") that would provide a dollar-for-dollar annual true-up between forecast and actual power costs for the Company's renewable resource generation.[29] At this point in PacifiCorp's PCAM saga, the Commission found that "the Company has yet to come forward with a proposal that includes the properly designed elements the Commission has clearly said it requires" and that "[t]his is no longer acceptable . . .".[30] As a result, the RRTM was denied and the Commission ordered an "expedited proceeding" in order to implement an appropriate PCAM for PacifiCorp.[31] The Commission's direction here finally resulted in a fifth proposed PCAM, agreed upon by PacifiCorp, Staff, and other parties, that properly included both a deadband and asymmetrical sharing bands. Reviewing these elements, the Commission concluded that the proposed PCAM could be implemented in the public interest and thus approved the PCAM that is in operation today, with its +/- $4 million deadband, asymmetric sharing bands, and $17 million amortization trigger for surcharges or credits.

III. THE COMMISSION SHOULD REAFFIRM ITS PRIOR PRECEDENT BY RETAINING THE DEADBAND AND ASYMMETRICAL SHARING BANDS IN PACIFICORP'S PCAM, AS BOTH MECHANISMS PROTECT CUSTOMERS AND APPROPRIATELY BALANCE RISK BETWEEN SHAREHOLDERS AND RATEPAYERS

10 As detailed above, this Commission has strongly and repeatedly advised PacifiCorp that any authorized PCAM must include deadbands and sharing bands. No compelling justification has been provided to warrant an abrupt change of course of moving from a

[29] Exh. MDM-14X, Order 08, UE-140762, UE-140617, UE-131384, UE-140094 (Consol.) at 51, para. 108 (Mar. 25, 2015) [hereinafter "MDM-14X"].
[30] *Id.* at 56, para. 121.
[31] *Id.*

risk-sharing mechanism to a cost-tracking mechanism. Thus the current deadband and asymmetrical sharing bands should be maintained. If, however, the Commission is inclined to consider modifications to the PCAM, the Commission should not adopt Staff's recommendations, which directly contradict the Commission's prior orders and do not adequately protect customers.

A. The Current Deadband and Asymmetrical Sharing Bands Achieve Their Purposes and No Compelling Reason Has Been Raised to Eliminate or Modify Either.

11 PacifiCorp raises three arguments that supposedly justify transforming the PCAM from a risk-sharing mechanism with customer protections to a cost tracker that maximizes shareholder profits: (1) the PCAM's deadband and sharing bands are harming customers;[32] (2) the variability of NPC is outside of the Company's control and increasing due to higher penetrations of renewable energy;[33] and (3) the Company's NPC will be driven as low as possible by the anticipated Extended Day-Ahead Market ("EDAM").[34] None of these arguments has merit.

12 **First,** the Company's current PCAM is working appropriately to balance risk between ratepayers and shareholders. **Second**, NPC variability is a primary reason for why the Commission authorized PacifiCorp's PCAM in the first place and does not warrant changes to the current PCAM structure. **Finally**, even following the Company's eventual participation in the EDAM, the Company will continue to retain significant control over its NPC.

[32] Exh. JP-1T, PacifiCorp, Direct Test. of Jack Painter at 7:13-18 [hereinafter Exh. JP-1T"].
[33] *See, e.g., id.* at 20:8-22.
[34] *Id.* at 28:13-20.

1. The PCAM's deadband and sharing band are appropriately balancing risk between ratepayers and shareholders.

13 For the majority of utility expenses, rates are set in a rate case and the utility bears 100 percent of the risk—or the reward—that actual costs will be higher or lower than the approved rates. Until the 1973 Oil Embargo, fuel costs were also largely included in base rates, where the level remained fixed until the next rate case.[35] However, the Oil Embargo caused fuel market prices to become much more volatile, and utilities began to request faster recovery—outside of rate cases—for their fuel costs.[36] Faster recovery reduces financial risk to the Company[37] because it can remove cost pressures that would be typical for a non-regulated, non-monopoly business that is exposed to the market. It is thus unsurprising that PacifiCorp does not propose eliminating the current PCAM, as it provides significant benefits to the Company by shifting financial risk of fluctuating fuel costs to customers.[38]

14 While fuel adjuster mechanisms benefit utilities, they can increase risks for customers. Because the utility has significantly reduced its exposure to volatile fuel prices—which typically account for 50-60 percent of total operating costs[39]—its incentive to remain efficient and reduce costs can be reduced or even eliminated.[40] Additionally, without required cost sharing, as through a deadband or sharing band, the utility no longer has an economic stake in a major resource decision: the extent to which it should rely on fossil resources with volatile fuel prices. As a result, the utility is more likely to ignore fossil

[35] Exh. RJB-1T at 6:12-17.
[36] *Id.* at 6:16-23.
[37] Exh. AEB-1Tr, PacifiCorp, Direct Test. of Ann E. Bulkley at 56:5-22 [hereinafter "Exh. AEB-1Tr"] (discussing fuel adjuster mechanisms and the increased risk when the utility is not provided full recovery).
[38] Exh. RJB-1T at 21:6-9 (noting that without sharing mechanisms, customers shoulder all the risk of fluctuations in fuel costs and bear all the cost risk of a resource decision that they were not party to).
[39] Exh. AEB-1Tr at 56:19-20.
[40] Exh. RJB-1T at 7:10-15.

fuel price volatility because it knows, regardless of price fluctuations, that it will be made whole by ratepayers. This, in turn, is likely to result in a "moral hazard,"[41] where one party (PacifiCorp) is willing to engage in risky behavior or fail to act in good faith because it knows that another party (the ratepayer) bears the economic consequences of its behavior.[42]

15 These negative consequences can be addressed through cost sharing mechanisms as this Commission has long required, because these mechanisms provide an incentive for the utility to reduce costs and to factor in volatile fuel pricing when making its resource decisions while also protecting ratepayers from extraordinary price increases by requiring that the utility absorb some fluctuation in fuel costs. Indeed, PacifiCorp's current deadband and asymmetrical sharing bands are acting as intended. Between 2016 and 2020, base NPC was overestimated, resulting in a refund to customers.[43] While PacifiCorp was permitted to retain a portion of the over-collection, this is precisely built into the PCAM as an incentive to encourage PacifiCorp to reduce costs, which even Staff witness John Wilson, who proposes changes to the PCAM, concedes appears to be working.[44] In 2021, the Forecast NPC was underestimated, triggering a surcharge on customer bills, which was "very likely caused by the increase in natural gas prices."[45] Again, this demonstrates that the PCAM is working, as customers were not charged the entirety of the sharp increase in fuel costs; rather, PacifiCorp was required to absorb some of those costs. Moving forward, it is likely that Forecast and Actual NPC will not

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[41] Exh. RJB-1T at 22:3-11.
[42] *Id.* at 22:13-16.
[43] Exh. RJB-8T, Cross-Answering Test. of Ronald J. Binz on Behalf of Sierra Club at 8:3-6 [hereinafter "Exh. RJB-8T"].
[44] Exh. JDW-1CT at 34:9-11.
[45] Exh. RJB-8T at 8:8-9.

perfectly align, but the evidence in this case does not establish a bias one way or the other.[46]

16 Moreover, the PCAM's current operation does not indicate that either the Company or customers receive a "windfall" in any given year.[47] Instead, the PCAM balances risk—and reward—between shareholders and ratepayers.[48] Notably, both the deadband and asymmetrical sharing bands have a lesser impact on total NPC today than originally intended when established. As AWEC witness Bradley Mullins explained, the +/- $4 million deadband was established "as a percentage equal to 3.45% of PacifiCorp's NPC at the time of the 2014 GRC."[49] However, because PacifiCorp's NPC is larger than it was during the 2014 GRC, that percentage has gone down. The same is true for both the asymmetrical sharing bands and the amortization trigger.[50] If the Commission wished to keep the deadband, sharing bands, and amortization trigger at the same percentages today, the deadband should be increased to +/- $6.9 million; the first asymmetrical sharing band from +/- $4 million and +/- $10 million to +/- $6.5 million and +/- $17.2 million; and the amortization trigger to $22 million.[51]

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[46] Exh. BGM-1T, Resp. Test. of Bradley G. Mullins on Behalf of All. of W. Energy Consumers at 68:12-69:3 [hereinafter "Exh. BGM-1T"]; Exh. RJB-8T at 8:3-8 (noting that five of the last six PCAM adjustments have resulted because NPC projections have been too high, with only one year where NPC projections were too low). Notably, while Staff witness John Wilson originally stated that he anticipated future Forecast NPC will underestimate Actual NPC, Exh. JDW-1CT at 27:5-7, he later changed his position and opined that the opposite is likely to be true. Exh. JDW-24T, Cross-Answering Test. of John D. Wilson on Behalf of Staff of Wash. Utils. and Transp. Comm'n at 17:8-13 [hereinafter "Exh. JDW-24T"].

[47] Exh. JDW-1T at 22:3-4.

[48] Exh. BGM-10T, Cross-Answering Test. of Bradley G. Mullins on Behalf of All. of W. Energy Consumers at 10:2-9 [hereinafter "Exh. BGM-10T"] (explaining that the PCAM recognizes the assumption of risk whereas the concept of a "windfall" suggests "receipt of something that is not earned[;]" yet, the PCAM allows PacifiCorp to retain some NPC savings when Forecast NPC exceeds Actual NPC because "PacifiCorp is also assuming the risk of under-recovery.").

[49] *Id.* at 3:3-10.

[50] *Id.* at 3:11-4:2.

[51] *Id.* at 3:8-4:2.

2. NPC variability is neither a new phenomenon nor primarily driven by the increased penetration of renewable energy.

17 In opposition to the PCAM's deadband and asymmetrical sharing bands, PacifiCorp argues that NPC volatility results in an inaccurate Forecast NPC,[52] that the volatility is outside of the Company's control,[53] and, as a result, the Commission should remove the PCAM's deadband and asymmetrical sharing bands.[54] The Company then goes to great lengths to assert that NPC volatility is worsening and will continue to worsen due to increased renewable energy, particularly wind.[55] NPC volatility does not warrant eliminating customer protections but rather supports their inclusion. Moreover, NPC volatility is primarily driven by natural gas prices, not renewable energy. As Mr. Binz noted, "Mr. Painter's claimed connection between the difficulties in NPC forecasting and the merits of the PCAM sharing mechanisms is extremely strained, basically a non-sequitur."[56] The Commission should reject PacifiCorp's argument that the PCAM should be modified due to NPC volatility.

18 First, NPC has long experienced volatility and is, in fact, one of the primary reasons why the Commission authorized PacifiCorp's PCAM, with its required deadband and asymmetrical sharing bands.[57] As noted above, in each of the many times that PacifiCorp requested authorization for a fuel cost adjuster mechanism, the Company cited NPC volatility as justification for an adjuster mechanism,[58] and the Commission noted in its

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[52] *See, e.g.,* Exh. JP-1T 8:3-7.
[53] *Id.* at 31:3-6 (arguing that "no improvement or benefit can be expected or incentivized" through cost sharing mechanisms).
[54] *Id.* at 8:3-9:3.
[55] *See, e.g., id.* at 11:9-12:1, 13:10-13.
[56] Exh. RJB-1T at 19:6-8.
[57] Exh. MDM-14X at 56, para. 121.
[58] *See, e.g.,* Exh. MDM-13X at 64, para. 157 ("PacifiCorp argues that it 'needs a PCAM in Washington to address its substantial NPC variability, which is caused primarily by factors outside the Company's control.'").

2007 decision that "PacifiCorp's circumstances include significant exposure to variability in power costs and this variability is sufficient to justify a PCAM."[59] Indeed, if NPC were completely under PacifiCorp's control, there would be little reason to authorize recovery of fuel costs outside of a rate case because NPC volatility would be significantly reduced.[60] It is precisely because NPC is variable that a PCAM is warranted, and Commission precedent has long established that approval of a fuel cost adjustment mechanism requires cost sharing through deadbands and sharing bands. Simply put, NPC's variability does not provide justification for removing the current deadband and asymmetrical sharing bands; it only provides justification for establishing a PCAM at all.

19 Second, NPC variability has been and continues to be driven by natural gas—not renewable resources.[61] PacifiCorp attempts to distinguish NPC variability when the PCAM was originally authorized from the variability seen today by arguing that the increased penetration of renewable energy exacerbates the volatility,[62] and, according to the Company, it should be protected from the risk of under-recovery. But the evidence in this case demonstrates that NPC swings are caused by movement in the natural gas market, which is often unpredictable and influenced by global events.[63] As Mr. Binz explained, "[h]igher natural gas prices affect almost every element of the NPC

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[59] Exh. MDM-12X at 16-17, para. 59.
[60] Exh. BGM-10T at 11:14-18 ("In fact, if PacifiCorp had complete control over NPC, that would be a stronger argument for removing the PCAM because NPC would be much more predictable. It is precisely because PacifiCorp does not control all aspects of NPC (and the size of NPC relative to PacifiCorp's overall revenue requirement) that the PCAM exists.").
[61] *See, e.g.,* Exh. RJB-1T at 16:5-6 ("To be sure, there is some effect [of renewable resources], but it is small and swamped by the biggest factor: variability in the price of natural gas.").
[62] *See, e.g.*, Exh. JP-1T at 11:7-12:3 (arguing that regional power market price forecasts in the western interconnection have become less accurate because the western interconnection "has evolved from one dominated by controllable thermal generation to one dominated by intermittent weather-dependent generation…").
[63] Exh RJB-1T at 13:3-7 (noting the war in Ukraine's impact on natural gas).

calculation[,]"[64] and markets have seen average week-to-week prices swing from a low of $1.34 to a high of $14.49.[65] This type of volatility has both a dramatic effect on gas fuel costs as well as the clearing price for markets. For example, "a $2.00 change in the price of a MMBtu of gas will change the cost of electricity by about $14.00/MWh for a [combined cycle gas turbine] plant."[66] Renewable energy, on the other hand, drives NPC *down*. PacifiCorp testimony in a recent Wyoming proceeding explained that the 2024 NPC forecast would be $343 million (total Company) higher without new renewable energy resources acquired since 2000,[67] and Mr. Mitchell explained in this case that "regional power market prices," which are a major component of total NPC, "are lowered on average by increased penetration of renewable resources across the western interconnection."[68]

20 The Company's primary complaint is that increasing levels of renewable energy cause variances between Forecast and Actual NPC.[69] While it may be true that accurately forecasting renewable energy availability in the short term is difficult and can therefore impact Forecast versus Actual NPC, the Company greatly exaggerates the total impact.[70] Renewable generation benefits from geographic diversity,[71] and output becomes more

[64] Exh. RJB-1T at 13:3-4.
[65] *Id.* at 17:7-9; *see also id.* at 11, Figure 2 (depicting average weekly natural gas prices from 1997-2023 at the Henry Hub as of Sept. 6, 2023).
[66] Exh. RJB-1T at 17:6-7.
[67] *Id.* at 18:6-16 (quoting PacifiCorp witness Ramon Mitchell testimony in PacifiCorp's 2023 GRC in Wyoming).
[68] Exh. RJM-1CTr, PacifiCorp, Redacted Direct Test. of Ramon J. Mitchell at 8:3-4 [hereinafter "Exh. RJM-1CTr"].
[69] *See, e.g.,* Exh. JP-1T at 8:3-7.
[70] Staff witness John Wilson also agrees that PacifiCorp's predictions regarding renewable energy's impact on NPC fluctuation is overstated. *See* Exh. JDW-1CT at 27:8-11 ("However, I think that the effect [of renewable energy on variances between Forecast and Actual NPC] will be somewhat less than Company witness Painter implies because he does not place the effect of increasing renewables on NPC in context: By replacing portions of other resources currently in NPC, the variability of those resource costs (e.g., fuel and market power) will be reduced.").
[71] Exh. RJB-1T at 15:7-11. While PacifiCorp notes that "huge areas can and will experience similar weather conditions," Exh. JP-1T at 20:3-4, it is largely undisputed that geographic diversity is a great benefit to renewable energy, which the EDAM will significantly help to realize. *See, e.g.,* Exh. BGM-11, Brattle EDAM Simulations: PacifiCorp Results at 5, 14 (finding that the EDAM will result in 2.4 TWh in reduced renewable generation

regular over long periods of time.[72] As a multi-state utility covering a vast geographic area, PacifiCorp is in a unique position to capitalize upon geographic diversity for its renewable operations and will realize further benefits as it enters into region-wide markets, like the EDAM (discussed below). This means that the Company can reasonably rely on renewable forecasts over longer (e.g., annual) time horizons.

21 In the shorter term (days or hours), PacifiCorp is correct that forecasting exact renewable output is difficult, particularly for wind. However, the hours of the year in which this forecasting difficulty will have much significance on total NPC is limited. As Mr. Binz explained, in a typical system load duration curve, the vast majority of the year falls into average system load.[73] Periods of truly peak hours are relatively few, making up only 6 percent of total number of hours in the year in Mr. Binz's illustrative example in Cross-Answering Testimony.[74] Because "[u]tility planners know that wind generation tends not to track with peak demand[,] they assign a low capacity-value to wind" and, if they are acting prudently, plan to meet peak demand with resources with higher capacity factors.[75] "This means that any potential large cost impact of variation in renewable generation will be restricted to those hours when demand is high and, even then, the effect is likely to be muted by the availability of peaking resources."[76]

22 Accordingly, any variability between Forecast and Actual NPC caused by renewable energy is small and not outside the scope of normal NPC fluctuation. The Commission

curtailments and will decrease the reserve requirement by about 2 GW/hr "due to the diversity benefit achieved by the EDAM footprint").

[72] Exh. RJB-1T at 15:12-13; *see also* Exh. JP-1T at 13, n.12.
[73] Exh. RJB-8T at 6:3-5.
[74] *Id.* at 6:5-7.
[75] *Id.* at 6:8-7:4.
[76] *Id.* at 7:5-7.

has already found that shielding a utility from the risk of under-recovery, "even that due to the ordinary variability in power costs due to normal and foreseeable changes in fuel costs, ordinary variance in hydro conditions, normal variations in weather, and so forth,"[77] would mark a much expanded role for fuel adjuster mechanisms in the state.

3. Participation in the Extended Day-Ahead Market does not warrant modifications to the PCAM.

23 In another attempt to conjure up changed circumstances that might warrant changes to the current PCAM structure, PacifiCorp points to its anticipated participation in the EDAM, a future day-ahead, hour ahead, and intra-hour market for the West.[78] As a preliminary matter, PacifiCorp's entrance into the EDAM is not anticipated until, at the earliest, 2026,[79] which is outside the test period for this rate proceeding. More importantly, however, is the fact PacifiCorp's anticipated participation in the EDAM does not warrant modifications to the PCAM.

24 PacifiCorp argues that once the Company enters the EDAM it will "no longer control the economic dispatch of its resources" and "the deadband and asymmetrical sharing bands [will] no longer [be] effective or necessary to incentivize the Company to effectively manage or reduce power costs."[80] However, Mr. Binz explained that although the EDAM will economically dispatch PacifiCorp's generating resources, the Company will still have control over what mix of resources it brings to the EDAM, and it is the mix of resources that largely determines NPC.[81] In other words, PacifiCorp will continue to control how it manages total NPC and responds to NPC variability. "Simply pointing to

[77] Exh. MDM-13X at 70, para. 172.
[78] Exh. JP-1T at 25:7-8.
[79] Exh. JDW-24T, Cross-Answering Test. of John D. Wilson on Behalf of Staff of Wash. Utils. And Transp. Comm'n at 19:8-10 (citing PacifiCorp response to WUTC DR 159) [hereinafter "Exh. JDW-24T"].
[80] Exh. JP-1T at 6:1-5.
[81] Exh. RJB-1T at 24:8-21.

the fact that there are uncertain elements involved in managing NPC, while ignoring PacifiCorp's responsibility for managing NPC in response to those uncertain elements, is like letting go of the steering wheel while driving on the freeway."[82]

25 Indeed, the Company's view that it will largely relinquish control over NPC once it enters the EDAM is troubling not only because the Company will continue to control which resources it relies upon but also because the Company will continue to control short- and long-run management choices, which, if properly done, could lower power costs even further than what the EDAM can accomplish.[83] PacifiCorp's EDAM argument amounts to little more than a disavowal of its control over NPC—a common theme in the Company's request for a dollar-for-dollar true up mechanism.[84] In 2013, the Commission noted that this type of argument "suggests a loss of perspective on the Company's responsibility to manage its power costs using integrated resource planning, carefully structured hedging practices, conservation initiatives, and other means available to PacifiCorp and other utilities."[85] These same practices are applicable both before and after entrance into the EDAM. As Public Counsel witness Robert Earle explained, "whether units are bid into EDAM or not, there is still optimization for the Company to perform in terms of scheduling maintenance outages, optimal maintenance of equipment to maximize capacity factors and minimize forced outages, and improving heat rates at plants that burn fuel."[86] Staff witness John Wilson came to similar conclusions, noting

[82] Exh. BGM-10T at 11:3-6.
[83] Exh. RJB-1T at 25:20-26:4.
[84] *See, e.g.,* Exh. MDM-11X at 29, para. 72 (PacifiCorp arguing that net power costs may vary due to factors outside of the Company's control).
[85] Exh. MDM-13X at 70, para. 172.
[86] Exh. RLE-1CT, Resp. Test. of Robert Earle on Behalf of the Wash. State Off. of the Att'y Gen., Pub. Couns. Unit at 6:4-7.

that "several significant drivers will remain within PacifiCorp's control[,]" including plant operating practices, operating and maintenance practices, and resource planning.[87] Finally, "organized markets are expected to increase the predictability and reduce the volatility [of] NPC."[88] This should in turn help to increase the accuracy of PacifiCorp's forecasting, leading to less deviation between Forecast NPC and Actual NPC.

B. If the Commission is Inclined to Modify the PCAM, It Should Retain the Current Deadband and a Reasonable Sharing Band.

26 As explained above, Sierra Club does not support modifying the PCAM, which is currently operating as intended and appropriately balancing risk between shareholders and ratepayers. However, should the Commission wish to consider modifications to the PCAM, the Commission should retain the current deadband and, at a minimum, an 80/20 sharing band. Staff's proposal to eliminate the deadband and reduce the sharing band to 90/10 directly contradicts Commission precedent[89] and is insufficient to protect ratepayers from extraordinary NPC increases or to incentivize the Company to reduce costs and judiciously manage its resource decisions.

27 First, the +/- $4 million deadband reasonably mimics PacifiCorp's position prior to establishment of the PCAM. As would be the case if PacifiCorp only recovered its NPC through rate cases, the deadband rewards the Company for keeping costs low and requires the Company to share with ratepayers some of the expense when NPC is high. As a result, the deadband provides an incentive for the Company to reduce costs. Moreover, as noted above, the effect of the current +/- $4 million deadband has already

[87] Exh. JDW-1CT at 24:11-12; *id.* at Table 3.
[88] Exh. BGM-1T at 71:4-5.
[89] Exh. MDM-11X at 37-38, para. 99.

been diminished due to the increase in PacifiCorp's NPC when the deadband was first established. Accordingly, the Commission should keep the current deadband.

28 Second, the Commission should retain a reasonable sharing band, even if it chooses to simplify the current structure. As AWEC witness Mr. Mullins noted, NPC risk will continue to be asymmetric because "[t]here are practical lower limits to NPC, but no upper limit."[90] This supports maintaining the current asymmetric sharing bands; however, as Mr. Binz explained, the current PCAM has a relatively complex sharing formula and the subtleties introduced by the complexity "probably do not translate to the utility or to customers."[91] Accordingly, Sierra Club would not oppose collapsing the sharing band percentages into a single symmetric sharing band, outside of the deadband. However, a sharing band, particularly if it is not asymmetric, should continue to require that PacifiCorp have a reasonable financial stake in its NPC management, which would not be accomplished by a mere 90/10 split. At a minimum, the Commission should require an 80/20 split, which is currently required in Wyoming,[92] and would be well justified in considering higher percentages more aligned with the current sharing bands.

29 Finally, Staff recommends that the Commission reduce the amortization trigger from $17 million to $7 million and spread surcharges or sur-credits over two years. Sierra Club does not oppose lowering the amortization trigger but recommends that the Commission retain its authority to determine on a case-by-case basis whether to spread surcharges or sur-credits over multiple years.

[90] Exh. BGM-10T at 7:19.
[91] Exh. RJB-8T at 9:17.
[92] Exh. RJB-8T at 10:2-6.

IV. CONCLUSION

30 For the reasons set forth above, the Commission should reaffirm its long-standing precedent and retain the deadband and asymmetrical sharing bands in PacifiCorp's PCAM. These cost sharing mechanisms fairly allocate risk between shareholders and ratepayers while also incentivizing PacifiCorp to reduce its NPC through judicious resource procurement, prudent operating and maintenance practices, and other cost saving measures.

Respectfully submitted,

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