BEFORE THE WASHINGTON

UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant,

v.

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

Respondent.

DOCKET UE-230482

CROSS-ANSWERING TESTIMONY OF ROBERT L. EARLE
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT

EXHIBIT RLE-7CT

May 2, 2024

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Exhibit RLE-9	Berkshire Hathaway 2023 Annual Report
Exhibit RLE-10	PacifiCorp Response to Public Counsel Data Request No. 10

I. INTRODUCTION / SUMMARY

Q. Please state your name and business address.

A. My name is Robert L. Earle. My business address is 1388 Haight St. #49, San Francisco, CA, 94117.

Q. Are you the same Robert L. Earle who previously filed testimony in this proceeding?

A. Yes. On March 28, 2024, I filed Response Testimony on behalf of the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel) which was designated as Exhibit RLE-1T.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Public Counsel Unit of the Washington State Attorney General's Office.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

Exhibit RLE-8	Wyoming Public Service Commission Docket No. 20000-642-EM-23, Rocky Mountain Power Stipulation and Settlement Agreement
Exhibit RLE-9	Berkshire Hathaway 2023 Annual Report
Exhibit RLE-10	PacifiCorp Response to Public Counsel Data Request No. 10

Q. Please give an overview of your testimony.

A. My Cross-Answering testimony addresses the response testimony of UTC Staff (Staff) witness Wesley Yeomans[1] and Alliance for Western Energy Consumers (AWEC) witness Bradley G. Mullins.[2]

Q. What are your recommendations to the Washington Utilities and Transportation Commission?

A. My recommendations to the Washington Utilities and Transportation Commission (Commission) remain the same as they were in my Response Testimony[3] with the addition of a recommendation that if the Commission declines to reject PacifiCorp's request for $71.5 million, the Commission should it decrease the Power Cost Adjustment Mechanism (PCAM) balance by $47,114,112 as of December 31, 2023, based on the imprudence of PacifiCorp's hedging practices.[4]

1. The Commission should reject PacifiCorp's request for $71.5 million to be recovered through PCAM.[5] PacifiCorp imprudently did not perform long-term procurement or hedging separately on behalf of its Washington customers. The consequences of this include higher power costs for Washington customers. Moreover, PacifiCorp did not even attempt to show, despite the Commission's directive, that even within its own system-optimizing framework, its actions were prudent. The $71.5 million

[1] Direct Test. of Wesley Yeomans, Exh. WY-1CT.
[2] Direct Test. of Bradley G. Mullins, Exh. BGM-1CT.
[3] Resp. Test. of Robert L. Earle, Exh. RLE-1T at 3:18–5:2.
[4] In Wyoming, PacifiCorp agreed to reduce its request for its Energy Cost Adjustment Mechanism because of its hedging practices. See, Earle, Exh. RLE-8 ¶ 3 (Stipulation and Settlement Agreement, Docket No. 20000-642-EM-23, Record No. 17279, Joint Exhibit A).
[5] Direct Test. of Jack Painter, Exh. JP-1T at 4:21–22.

disallowance is an approximate consequence for its recent actions. The lack of long-term procurement for Washington will show up in future costs, and has already shown up in $110 million of elevated Net Power Costs (NPC) in 2021 and 2022.

2. The Commission should find that PacifiCorp has been imprudent by not hedging for Washington customers separately and that PacifiCorp should be ordered to separately hedge for Washington customers going forward. In the event that the Company maintains its position that it either cannot or will not hedge for Washington customers separately, or does not do so, the Commission should order that an independent entity should be established to hedge for Washington customers at PacifiCorp shareholder expense.
3. The Commission should find PacifiCorp's actions regarding long-term planning imprudent because it has not considered the interests of Washington ratepayers separately in its long-term planning. Moreover, despite the Commission's warnings about PacifiCorp making Washington ratepayers overly reliant on market, the Company has persisted in its policy.
4. The Commission should order PacifiCorp to reform its Integrated Resource Plan (IRP) process so that it optimizes on behalf of Washington ratepayers within the framework of an inter-jurisdictional utility. In the event that the Company maintains its position that it either cannot or will not hedge for Washington customers separately, or does not do so, the Commission should order that an independent entity should be established

to perform resource procurement for Washington customers at PacifiCorp shareholder expense.

5. In the event that the Commission declines to disallow all of PacifiCorp's request of $71.5 million to be recovered through the PCAM, the Commission should disallow $47,114,112 of the PCAM balance as of December 31, 2023, comprised of [redacted] for imprudence in gas hedging adopting Mr. Mullins' proposal[6] and [redacted] for imprudence in power hedging.

II. STAFF WITNESS YEOMAN'S TESTIMONY

Q. Do you agree with Staff witness Yeoman's conclusion that PacifiCorp's "energy risk management program is prudent, reasonable, and effective?"[7]

A. No, I do not. Mr. Yeoman performed a limited review of PacifiCorp's energy risk management program. Mr. Yeoman first describes from his experience "what are the necessary, important characteristics of a prudent energy risk management program."[8] He then reviews PacifiCorp's energy hedging program and concludes its design is prudent.[9] This is followed by Mr. Yeoman looking at examples of PacifiCorp practices in the areas of maintaining updated input data, risk model

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[6] Mullins, Exh BGM-3C (230482-AWEC-Mullins-Exh-BGM-3C-03-28-2024.xlsx). The figure in Mr. Mullin's testimony includes interest through September 30, 2024.
[7] Yeomans, Exh. WY-1CT at 5:5–7.
[8] *Id.,* at 5:14–7:10.
[9] *Id.,* at 7:12–9:15.

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and risk reporting, and execution of risk models. From this Mr. Yeoman concludes that PacifiCorp's hedging program is prudent in its operation.[10]

Mr. Yeoman did not address impacts on Washington customers of PacifiCorp's hedging policy and practices even though the question of the impact of PacifiCorp's hedging practices on Washington customers is central to this Docket.[11] Fundamentally, his perspective does not impact the development of the case. Like two ships passing in the night, the ahoys from one may be heard, but do not change the course of the other.

III. AWEC TESTIMONY

Q. Please give an overview of the testimony of AWEC witness Bradley G. Mullins.

A. AWEC witness Mullins examines PacifiCorp's gas and power hedging practices and the impacts of those hedging practices on Washington-allocated NPC included in the 2022 PCAM. As a result of his analysis, he recommends that the PCAM balance be reduced by $26,173,777.[12] The $26,173,777 reduction in the PCAM balance is composed of a reduction of [redacted] due to PacifiCorp's gas hedging practices[13] and a reduction of [redacted] due to PacifiCorp's electric power hedging practices.[14] I discuss witness Mullins' recommendations to reduce the PCAM balance based on gas and power hedging below.

[10] *Id.,* at 11:1–14:5.
[11] *See, Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 06, ¶ 108 (Mar. 29, 2022).
[12] Mullins, Exh. BGM-1CT at 1:20–2:5. Mullins' figures are based on application of interest through the 3rd quarter of 2024.
[13] *Id.,* at 3:9–20.
[14] *Id.,* at 4:3–16.

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Q. Does Mr. Mullins address PacifiCorp's long-run resource procurement on behalf of Washington?

A. AWEC witness Mullins briefly addresses long-run resource procurement to address Washington's net short position and concludes that PacifiCorp's reluctance to invest in Washington's portfolio is "reason to disallow the entire PCAM balance."[15] Mr. Mullins cites PacifiCorp suspending its 2022 All Source Request for Proposal and Warren Buffet's recent shareholder letter. Mr. Buffet states "[i]t will be many years until we know the final tally from BHE's forest-fire losses and can intelligently make decisions about the desirability of future investment in vulnerable western state."[16]

Q. What is your analysis of Mr. Mullins' recommended reduction to the PCAM balance due to its imprudence in power hedging?

A. It is too low. Under his approach, hedges for Washington do not reach the 75 percent minimum. His recommendation therefore does not constitute a minimum reasonable reduction to the PCAM balance. As detailed below, the reduction due to PacifiCorp's imprudence in power hedging should instead be [redacted]

Mr. Mullins develops a counterfactual scenario using the hedges actually made by PacifiCorp to calculate what the incremental power hedging benefits would be if Washington had been more hedged. The result is a benefit of

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[15] *Id.,* at 4:19–5:9.
[16] *Id.,* at 5:36. It is further concerning that Mr. Buffet appears to think that electric utilities have a "promise of fixed return on equity." Earle, Exh. RLE-9 (Berkshire Hathaway, 2023 Annual Report, p. 13). There is no such promise. Electric utilities are given the opportunity to earn a return on equity. However, that opportunity is not a *promise* that the return will be achieved.

[redacted] in incremental power hedging benefits that should be reflected in Washington rates.[17] Mullins then applies the 90 percent sharing band followed by an application of interest at the FERC interest rate for a [redacted] reduction to the PCAM balance.[18]

I adjusted Mr. Mullins' analysis in two ways. First, I used prices from the Official Forward Price Curve (OFPC) to create two price scenarios to price hedges in my sensitivities. [redacted] actual average hedging cost.[19] [redacted] One scenario evenly spread hedges over eight quarters up to three months before the start of delivery quarter.[20] The second scenario evenly spread hedges over eight quarters up to the last day before the start of the delivery quarter.[21]

Second, I created two hedging scenarios. [redacted]

[17] Mullins, Exh. BGM-1CT at 55:10–56:10. Mullins applies interest through the third quarter of 2024. See 230482-AWEC-Mullins-Exh-BGM-10C-03-28-2024.xlsx.
[18] Mullins, Exh. BGM-1CT at 57:2–9.
[19] *Id.,* at 56, Table 10 (Confidential).
[20] This means that for January 2022 delivery, the last hedge was priced as of September 30, 2021.
[21] This means that for January 2022 delivery, the last hedge was priced as of December 31, 2021.

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These adjustments to Mr. Mullins' analysis are conservative and likely underestimate the amount that Washington customers would have saved had PacifiCorp hedged prudently. First, [redacted] Second, they apply the 90 percent sharing band to the entire amount, whereas as some of the hedges would have been in place by the time rates were established. Third, the hedge amounts are based on the average need, not the peak load day of each month as required in PacifiCorp's guidelines.[22] As a result, the hedge amounts (and hence the savings) are lower than they would be had peak load data been available.

Table 1 Outcome of Hedging Scenarios

[redacted]

As shown in Table 1, the combination of the pricing and hedging scenarios resulted in gains for Washington customers of [redacted] before application of the sharing band and interest, and [redacted] after the application of the 90 percent sharing band and interest through December 2023. I recommend the Commission adopt the average of the

[22] "New Power & Gas Limits Program, Washington, April 19, 2021, PacifiCorp Presentation. Exh. BGM-8C at 12. It should also be noted that PacifiCorp does not even bother to calculate position limits for Washington customers. Earle, Exh. RLE-10 (PacifiCorp Response to Public Counsel Data Request No. 10).

sensitivities for a reduction in the PCAM balance of [redacted] as of December 31, 2023, due to imprudence in power hedging.

Q. Why do your adjustments result in a more reasonable recommended reduction to the PCAM balance?

A. My analysis provides an estimate of costs incurred if PacifiCorp had adopted prudent hedging practices from the beginning, whereas Mr. Mullins' analysis extrapolates based on PacifiCorp's actual hedging costs resulting from imprudent hedging practices. Mr. Mullins' analysis takes for granted that PacifiCorp faced an average hedge price of [redacted], and reallocates incremental hedges based on that price to increase hedges for Washington. However, this hedge price is based on the hedges actually made by PacifiCorp, which were often belated as well as insufficient. My analysis calculates the hedge prices that PacifiCorp would have faced under prudent hedging practices, with each scenario evenly spreading hedges over some period of eight quarters before delivery.

Q. Does that conclude your testimony?

A. Yes, it does.