

BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT  
COMPANY,

Respondent.

UE-140762 and UE-140617  
*(consolidated)*

In the Matter of the Petition of

PACIFIC POWER & LIGHT  
COMPANY,

For an Order Approving Deferral of  
Costs Related to Colstrip Outage.

DOCKET UE-131384 *(consolidated)*

In the Matter of the Petition of

PACIFIC POWER & LIGHT  
COMPANY,

For an Order Approving Deferral of  
Costs Related to Declining Hydro  
Generation.

DOCKET UE-140094 *(consolidated)*

TESTIMONY OF

David C. Gomez

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

*Power Supply Issues*

October 10, 2014

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**List of Exhibits**

- Exhibit No. \_\_ (DCG-2), Staff Pro-Forma NPC Adjustments
- Exhibit No. \_\_ (DCG-3), Summary of QF Cost Differential to Mkt./Impact of NPC vs. Contribution to Load
- Exhibit No. \_\_ (DCG-4), Summary of NPC and Revenue Requirement Impacts of QF Alternatives
- Exhibit No. \_\_ (DCG-5C), Staff PCAM Proposal Applied to Company NPC Actuals

1 I. INTRODUCTION

2  
3 Q. Please state your name and business address.

4 A. My name is David C. Gomez. My business address is the Richard Hemstad  
5 Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington 98504.

6  
7 Q. By whom are you employed and in what capacity?

8 A. I am employed by the Washington Utilities and Transportation Commission  
9 (Commission) as the Assistant Power Supply Manager in the Energy Section of the  
10 Regulatory Services Division. I attained this position on July 1, 2012. Prior to my  
11 current position, I was the Deputy Assistant Director in the Solid Waste and Water  
12 Section of the Regulatory Services Division.

13  
14 Q. How long have you been employed by the Commission?

15 A. I have been employed by the Commission since May 2007.

16  
17 Q. Please state your educational and professional background.

18 A. I hold a Bachelor of Arts degree in Business from Hamline University and a Masters  
19 of Business Administration degree from the University of Saint Thomas; both  
20 universities are located in Saint Paul, Minnesota.

21 Before joining the Commission, my relevant professional experience  
22 consisted of 29 years in a variety of fields, including management, contracting,  
23 supply chain, procurement, operations and engineering. I have attained professional

1 certifications from the Institute for Supply Management (ISM); APICS - The  
2 Association for Operations Management; Universal Public Procurement Council  
3 (UPPC); and QAI Global Institute (Software Testing).

4 While employed at the Commission, I have performed accounting and  
5 financial analysis of tariff and other filings of Commission-regulated utility and  
6 transportation companies, as well as legislative and policy analysis. I presented  
7 testimony on behalf of Commission Staff in Docket UE-121373, regarding the Coal  
8 Transition Power Purchase Agreement between Puget Sound Energy and TransAlta  
9 Centralia Generation LLC, Docket UE- 130043, Pacific Power's 2013 general rate  
10 case and Docket UE – 130617, Puget Sound Energy's 2013 Power Cost Only Rate  
11 Case (PCORC) and most recently Docket UE – 140188, Avista Corporation's 2014  
12 general rate case. I have also presented Staff recommendations to the Commission at  
13 numerous open meetings, and worked on various rulemakings undertaken by the  
14 Commission.

15  
16 **II. SCOPE AND SUMMARY OF TESTIMONY**

17  
18 **Q. What is the purpose of your testimony in this proceeding?**

19 **A.** I present Staff's recommended normalized net power costs (NPC) for Pacific Power  
20 & Light Company (Pacific Power or Company). My recommendation is shown in  
21 Adjustment 5.1.1, Net Power Cost- Pro Forma of Staff witness Jason Ball's Exhibit  
22 No. \_\_ (JLB-2). I am also providing testimony on:

- 1                   • The Company’s renewed proposal to allocate the costs of Oregon and  
2 California Qualifying Facilities (QF) Power Purchase Agreements (PPAs)  
3 to Washington ratepayers.<sup>1</sup> I also respond to Company witness Gregory  
4 Duvall’s two alternative cost allocation approaches for assigning these  
5 QF costs. The two alternatives are:
- 6                   ○ A “load-decrement” approach, which offers to remove the cost  
7 and energy of Oregon and California QF’s in exchange for an  
8 equal reduction in WCA loads used to calculate both NPC and  
9 inter-jurisdictional allocation factors; and
  - 10                  ○ A “Washington re-pricing” approach, which allocates the cost of  
11 non-Washington QF’s based on Washington’s avoided cost in the  
12 Company’s Schedule 37 in effect at the time each PPA was  
13 executed.
- 14                   • A separate Pacific Power petition, consolidated with other dockets in this  
15 case, for an order seeking approval to defer the costs related to actual  
16 hydro generation being lower than what was modeled by the Company  
17 for the rate year in the last rate case in Docket UE-130043.<sup>2</sup>
- 18                   • Finally, Staff’s proposal for Commission approval of a Power Cost  
19 Adjustment Mechanism (PCAM) for Pacific Power.

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<sup>1</sup> See *WUTC v. Pacific Power*, Docket UE-130043, Order 05 (December 4, 2013), ¶¶ 97-114. In Order 05, the Commission decided the issue in favor of continued situs allocation of the cost of Oregon and California QF contracts, reaffirming its prior decision in *WUTC v. Pacific Power*, Docket UE-061546, Order 08 (June 21, 2007), adopting the WCA inter-jurisdictional cost allocation for Washington.

<sup>2</sup> The Company’s proposed adjustment seeking recovery relating to its hydro deferral request in Docket UE-140094 is located in Company witness Natasha C. Siores Exhibit No. \_\_ (NCS-9) in Docket UE-140762.

1 **Q. Is Staff contesting any other of the Company's proposed pro forma NPC**  
2 **adjustments in this case?**

3 A. No. The Company states that a reduction in wholesale sales revenue contributed to a  
4 \$6.9 million increase in NPC compared to the amount approved by the Commission  
5 ten months ago in Pacific Power's last rate case. According to the Company, both  
6 the expiration of the contract with the Sacramento Municipal Utility District  
7 (SMUD) and a reduction in the assumed sale of power from the Company's west to  
8 east control areas were the reasons for reduced sales revenue in the rate year.<sup>3</sup> In  
9 addition, increases in per-ton fuel costs for the WCA's coal powered generation  
10 resources contributed another \$ [REDACTED] million increase to NPC from those approved in  
11 rates in 2013.

12  
13 **Q. The Company states that it has made some "refinements" to the way GRID**  
14 **models NPC from what was approved in previous cases. Does Staff contest any**  
15 **of these changes to the GRID model?**

16 A. No. The Company has made three relatively small changes to the GRID model.  
17 Staff has reviewed these changes and is not contesting them in this case. The  
18 combined total impact of these changes increases NPC by less than \$300,000  
19 annually. Otherwise, Pacific Power has modeled NPC costs in GRID consistent with  
20 prior Commission decisions.

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<sup>3</sup> To determine the assumed sale of power between east and west control areas in this case, Pacific Power used the approved methodology specified in *WUTC v. Pacific Power*, Dockets UE-061456 and UE-060817 (consolidated), Order 08 (June 21, 2007), ¶ 57 and re-affirmed in Order 05 last year.

1 **Q. Have you prepared any exhibits in support of your testimony?**

2 A. Yes, I prepared the following exhibits in support of my testimony:

- 3 • Exhibit No. \_\_ (DCG-2), Staff Pro forma NPC Adjustments;
- 4 • Exhibit No. \_\_ (DCG-3), Summary of QF Cost Differential to
- 5 Mkt./Impact of NPC vs. Contribution to Load;
- 6 • Exhibit No. \_\_ (DCG-4), Summary of NPC and Revenue Requirement
- 7 Impacts of QF Alternatives and
- 8 • Exhibit No. \_\_ (DCG-5C), Staff PCAM Proposal Applied to Company
- 9 NPC Actuals.

10

11 **III. PURCHASED POWER AGREEMENTS WITH QFs LOCATED IN OREGON**  
12 **AND CALIFORNIA**

13

14 **Q. Please explain the background behind the Company's renewed proposal in this**  
15 **case to allocate to Washington a portion of the cost of PPAs with QFs located in**  
16 **Oregon and California.**

17 A. The WCA allocation methodology was set forth in a full party settlement agreement  
18 that the Commission approved and adopted in the Company's 2006 general rate case.  
19 That agreement included a Company proposal for situs allocation of purchased  
20 power agreements with QFs. As a result, only those facilities located physically in  
21 Washington are included in the WCA.<sup>4</sup> At the same time, the Commission ordered a  
22 five-year trial period before revisiting the WCA methodology in future Company

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<sup>4</sup> *WUTC v. Pacific Power*, Dockets UE-061546 and UE-060817, Order 08 at ¶ 43 (June 21, 2007).

1 filings. The trial period was later extended to allow for a collaborative among the  
2 interested parties on interstate cost allocation.<sup>5</sup>

3 The trial period expired and the collaborative was concluded without  
4 agreement. The Company included in its 2013 case its post-collaborative report on  
5 the WCA methodology.<sup>6</sup> This report outlined the Company's concerns regarding the  
6 use of the existing WCA allocation methodology to set rates in Washington. It did  
7 not represent any conclusions or recommendations of Staff or other parties involved  
8 in the collaborative. In its report, the Company expressed its opinion that the  
9 existing WCA allocation methodology is deficient because it does not allocate to  
10 Washington any of the costs of PPAs with QFs located in California and Oregon.<sup>7</sup>

11 In the Company's last rate case, Pacific Power proposed changing the WCA  
12 allocation for QF PPAs from situs to Control Area Generation West (CAGW).  
13 Under the CAGW, Washington ratepayers would have been responsible for the  
14 allocated costs of QF facilities located in Oregon and California, as well as those  
15 located in Washington. As a result, the allocation base for Washington ratepayers  
16 was proposed to have increased by \$76.9 million for the 2014 rate year.<sup>8</sup> The  
17 expanded allocation base would have meant an increase in normalized NPC of \$10.7  
18 million for Washington ratepayers.

19  
20 **Q. What was the Company's rationale for modifying the WCA and allocating**  
21 **Oregon and California QFs to Washington?**

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<sup>5</sup> *WUTC v. Pacific Power*, Docket UE-111190, Order 07, Settlement Stipulation at ¶¶ 28-29 (February 21, 2012).

<sup>6</sup> *WUTC v. Pacific Power*, Docket UE-130043, Dalley, Exhibit No. \_\_ (RBD-2).

<sup>7</sup> *Id.* at Pages 5-6.

<sup>8</sup> The Company included \$66.8 million in non-Washington QF PPAs in its rate year NPC study in this case.

1 A. The Company's rationale for its proposed change to the WCA in the last rate case  
2 was as follows:

- 3 • The Oregon and California QF contracts physically deliver power to meet  
4 Washington load like any other resource in the WCA;
- 5 • Most of the contracts have been executed or renewed recently at current  
6 avoided cost rates for Oregon and California; and
- 7 • Excluding these resources from Washington rates is contrary to the policies  
8 underlying the Public Utility Regulatory Policy Act of 1978 (PURPA) and  
9 effectively denies the Company cost-recovery for resource acquisitions  
10 mandated by federal statute.

11  
12 **Q. Did the Commission approve the WCA changes proposed by the Company?**

13 A. No. In Order 05, the Commission rejected the Company's proposal to modify the  
14 WCA to allocate the cost of Oregon and California QF PPAs to Washington  
15 ratepayers.<sup>9</sup> In its decision, the Commission reasoned that Pacific Power's proposal  
16 to allocate the costs of Oregon and California QF contracts to Washington was  
17 tantamount to asking the Commission to abandon the WCA methodology and adopt  
18 the Revised Protocol methodology for this purpose. The Commission, however, had  
19 flatly rejected the Revised Protocol as an inter-jurisdictional cost allocation method  
20 for use in this state.<sup>10</sup>

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<sup>9</sup> *WUTC v. Pacific Power*, Docket UE-130043, Order 05 (December 4, 2013), Synopsis: "The Commission rejects PacifiCorp's and other parties' proposed revisions to the West Control Area inter-jurisdictional cost allocation methodology, authorized in Docket UE-061546 in June 2007. This means, among other things, that the cost of Qualifying Facilities under the Public Utilities Regulatory Policies Act (PURPA) will continue to be allocated to the states in which such facilities are located."

<sup>10</sup> *Id.* At ¶ 110.

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**Q. Is the Company again seeking to recover the cost of its Oregon and California QFs in this docket?**

A. Yes. On May 1, 2014, Pacific Power filed a general rate case with the Commission seeking an increase in revenues from its Washington operations of \$27.2 million. As part of its revenue increase request, the Company has asked the Commission to reconsider its decision regarding situs allocation of non-Washington QFs made in Order 05 less than 4-months prior. The Company's QF proposal alone represents almost 40 percent of the revenue increase requested in this case.

**Q. Is the Company's rationale supporting this proposal the same as what it presented to the Commission in the 2013 case?**

A. Mostly. The Company continues to assert that because Oregon and California QF PPAs physically deliver power to meet Washington load like any other resource in the WCA, all of the costs associated with these contracts should be allocated using the CAGW allocation factor in the WCA when calculating rates for Washington ratepayers. The Company also alleges these contracts provide direct benefit to Pacific Power's Washington customers. As a result, they argue that the Commission's decision in Order 05 for continued situs allocation of Oregon and California QF PPAs was wrong.<sup>11</sup> The Company also repeats its argument that the

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<sup>11</sup> Duvall, Exhibit No \_\_ (GND-1CT), Page 8:18-23.

1 Commission's decision to continue situs allocation of QF PPAs in the WCA is a  
2 violation of the Public Utility Regulatory Policy Act of 1978 (PURPA).<sup>12</sup>

3  
4 **Q. Please respond to the Company's renewed attempt to impose the full costs of**  
5 **Oregon and California QFs on Washington ratepayers?**

6 A. As with its testimony in the 2013 case, the Company again resorts to the same vague  
7 assertions regarding what, if any, benefits Washington ratepayers would receive in  
8 exchange for absorbing an additional \$9.4 million in NPC. In Order 05 the  
9 Commission rejected Pacific Power's unsupported claims that Washington's  
10 ratepayers would receive benefits in exchange for absorbing these added costs  
11 through system diversity, increased transmission reliability and reduced  
12 environmental impact.<sup>13</sup>

13 In summary, my prior testimony concluded that the allocation of the full costs  
14 of Oregon and California QFs to Washington ratepayers violated the cost allocation  
15 principles set forth in the WCA. The prices paid for the Oregon and California QFs  
16 in question are driven by policies and decisions established by the each state's  
17 respective legislatures and utility commissions – much like those same policies and  
18 regulatory decisions that establish renewable generation targets, set conservation  
19 goals and budgets, and establish rules supporting the installation of distributed  
20 generation resources. As in the Company's 2013 rate case, it seeks to impose the  
21 policy and regulatory decisions of the Oregon and California commissions on

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<sup>12</sup> This argument is a central part of the Company's lawsuit against the Commission that it filed in Thurston County Superior Court. See *Pacific Power v. WUTC*, A Petition for Judicial Review of Agency Action, Thurston County Superior Court No. 14-2-00010-1, January 2, 2014, Page 2:6-11.

<sup>13</sup> *WUTC v. Pacific Power*, Docket UE-130043, Order 05 (December 4, 2013), ¶ 100.

1 Washington ratepayers. The Commission refused to do so in the 2013 rate case and  
2 the Company has offered nothing more to change this decision.

3  
4 **Q. In his testimony, Mr. Duvall takes aim at Paragraph 110 in Order 05 and**  
5 **attempts to correct the Commission’s interpretation of its own prior order**  
6 **implementing the WCA.<sup>14</sup> Is Mr. Duvall’s testimony on point?**

7 A. No. Mr. Duvall inexplicably ignores the entirety of the Commission’s reasoning  
8 regarding the very principles of cost allocation upon which the Commission’s 2007  
9 order is based. In that order, the Commission adopted the WCA, reasoning that:

10 “The WCA method isolates the costs associated with these assets, purchases  
11 and sales, and allocates to Washington a proportionate share of the costs  
12 based on Washington’s relative contribution to the WCA’s demand and  
13 energy requirements.”<sup>15</sup>

14 This reasoning also formed the foundation for the Commission’s decision in the last  
15 rate case to continue situs allocation.<sup>16</sup>

16 The Company continues to insist that the “physical flow of power” modeled  
17 in GRID and not cost-causation should be the basis for cost allocation in the WCA.

18 The Commission explained at length in Order 05 that situs allocation of QF PPAs  
19 has nothing to do with the flow of power and everything to do with the assignment of  
20 costs.

21 “Washington ratepayers remain responsible for paying for all of the power  
22 they use, but any power attributed to an Oregon or California QF, is priced at  
23 market rates, not the higher prices from QF production in those states. At the  
24 same time, however, Washington rates include 100 percent of the costs  
25 PacifiCorp incurs in buying power from Washington QFs, whether higher or

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<sup>14</sup> Id. Page 9, at 16-25 and Page 10:1-9.

<sup>15</sup> *WUTC v. Pacific Power*, Dockets UE-061546 and UE-060817, Order 08 at ¶ 44 (June 21, 2007).

<sup>16</sup> FN 10.

1 lower than market rates, even though power from Washington QFs arguably  
2 is also serving load in Oregon and California.”<sup>17</sup>

3 Further, the Company continues to argue that it is only fair that Washington rate  
4 payers absorb the additional NPC costs resulting from non-Washington QF PPAs in  
5 spite of the fact that these added costs are directly attributable to other states’  
6 independent and varying policies when implementing PURPA. For example, the  
7 policies established by the Oregon Commission weigh heavily in favor of certain  
8 wind resources. As a result, these resources are priced significantly above market  
9 prices and the rates approved by the Commission for similar resources located in  
10 Washington. The high costs for these resources whether approved by the Oregon or  
11 California utility commissions have nothing to do with Washington ratepayers’  
12 contribution to costs.

13 In summary, Pacific Power’s argument ignores the facts presented in the last  
14 case regarding how individual state utility commissions can, and do, determine the  
15 amount and types of QF power that utilities subject to their jurisdiction must  
16 purchase. The Company’s testimony in this case therefore really offers nothing new  
17 for the Commission to consider regarding the subject of situs allocation of QF PPAs.

18  
19 **Q. In his testimony, Mr. Duvall refers to policies of Washington’s Energy**  
20 **Independence Act (EIA) as further support for Pacific Power’s proposed cost**  
21 **allocation of Oregon and California QF PPAs.<sup>18</sup> Is the Commission’s decision**  
22 **to continue situs allocation of QF PPAs in the WCA at odds with EIA policies?**

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<sup>17</sup> *WUTC v. Pacific Power*, Docket UE-130043, Order 05 (December 4, 2013), ¶ 98.

<sup>18</sup> Duvall Exhibit No. \_\_ (GND-1CT), Page 9:10-15.

1 A. Absolutely not. In his testimony, Mr. Duvall asserts that Pacific Power's QF PPA  
2 cost allocation proposal in this case is somehow consistent with EIA policy enabling  
3 the development of regional renewable resources. The Company fails to provide a  
4 specific citation to the EIA statute, rule or policy to support its statements nor do  
5 these statements square with the facts. For example, since the Commission has  
6 adopted the WCA and situs allocated non-Washington QF PPAs, the amount of  
7 MWh attributable to Oregon and California QF PPAs for Pacific Power (renewable  
8 resources) has more than doubled.<sup>19</sup>

9 "Oregon and California have implemented PURPA to carry out policies favoring  
10 renewable energy that has resulted in 74 percent of PacifiCorp's QF power for  
11 2014 coming from contracts PacifiCorp entered in the last 5 years at avoided cost  
12 rates for Oregon and California. Washington policy makers have relied less on  
13 PURPA and more on renewable portfolio standards and greater use of tax-related  
14 incentives to promote renewable energy development in this state."<sup>20</sup>

15 In the last rate case the Company relied unsuccessfully on similar claims that its  
16 proposed allocation of QF PPAs "reduces environmental impacts" and promotes  
17 "Washington's energy policies to mitigate greenhouse gas emissions and climate  
18 change."<sup>21</sup>

19 All of these statements, while sounding good, have nothing to do with the  
20 allocation of costs associated with these non-Washington QF PPAs. The Company's  
21 testimony alleging that situs allocation is somehow contrary to Washington energy  
22 policy is offered without any supporting facts or argument and should be dismissed.  
23

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<sup>19</sup> *WUTC v. PacifiCorp*, Docket UE-130043, Gomez Exhibit No. \_\_ CT (DCG-1CT), Page 12:1-5.

<sup>20</sup> *WUTC v. Pacific Power*, Docket UE-130043, Order 05 (December 4, 2013), ¶ 111.

<sup>21</sup> *Id.* ¶ 100.

1 **Q. In its testimony in the 2013 rate case, Pacific Power alleges the WCA's situs**  
2 **allocation of its QF PPAs is inconsistent with how the Commission treats the**  
3 **out-of-state QF PPA cost of another utility.<sup>22</sup> Can cost allocation methodologies**  
4 **be different among the utilities regulated by the Commission and still result in**  
5 **rates that are fair, just, reasonable and sufficient?**

6 A. Yes. Cost allocation methodologies can and do vary between regulated companies.  
7 Cost-causation is a commission's primary consideration in accepting an allocation  
8 method that best reflects the cost of serving the customers under its state jurisdiction.  
9 In Order 05, the Commission articulated this cost-causation rationale for situs  
10 allocation of Pacific Power's QF PPAs.<sup>23</sup>

11 That said, commissions may apply discretion when allocating costs. This  
12 discretion can be based on materiality. It can also be based on the degree to which  
13 state- specific policies may be driving certain costs for a multi-jurisdictional utility,  
14 so long as those policies do not result in inequitable cost shifts between  
15 jurisdictions.<sup>24</sup>

16 In the example cited by Pacific Power in its testimony in the last rate case,  
17 the utility's non-Washington QF PPAs comprise 0.6 percent of the company's total  
18 system load with the difference between nominal market and contract price  
19 comprising only 0.6 percent of system NPC. On the other hand, Pacific Power's

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<sup>22</sup> *WUTC v. PacifiCorp*, Docket UE-130043, Duvall, Exhibit No. \_\_ GND-1CT 6:13-14.

<sup>23</sup> FN 15.

<sup>24</sup> For example, in *WUTC v. The Washington Water Power Company* (a predecessor to Avista Corporation), Cause No. U-83-14, Second Supplemental Order, (November 9, 1983); the Commission rejected the Washington Water Power's proposed tariff filing seeking recovery of over \$6.1 million (Washington's allocation) from a QF PPA signed with the Potlatch Corporation. The PPA was a long-term contract for a large resource where pricing and terms were driven by Idaho state policies at the time. The ultimate decision by the Commission to reject the proposed cost allocation was based on the avoided costs methodology used to calculate the PPA's prices. As a result of this decision, the costs associated with this QF PPA were situs allocated to Idaho ratepayers. A decision which the Idaho Commission accepted.

1 non-Washington QF PPAs comprise 3.6 percent of the WCA's system load with the  
2 nominal market to contract differential impact of 7.6 percent of WCA's NPC costs in  
3 this case. Staff has prepared Exhibit No. \_\_ (DCG-3) illustrating the impacts of both  
4 Washington and non-Washington QF PPAs for both Pacific Power and Avista  
5 Corporation.

6  
7 **Q. The Company offers two alternative cost allocation approaches for Oregon and**  
8 **California QF PPAs in the WCA. Does Staff support either of them as viable**  
9 **alternatives to situs allocation?**

10 A. No. On page 4 of my testimony, I briefly describe the two alternative cost allocation  
11 methodologies for QF PPAs offered by the Company as options for the Commission  
12 to consider. Staff has prepared Exhibit No. \_\_ (DCG-4) comparing the Washington  
13 NPC and revenue requirement impacts of the Company's three proposals.

14  
15 **Q. Please describe the Company's load-decrement proposal?**

16 A. In its load-decrement proposal, the Company offers to remove the cost and energy of  
17 Oregon and California QF's in exchange for an equal reduction in WCA loads of its  
18 Oregon and California customers used to calculate both NPC and inter-jurisdictional  
19 allocation factors. The Company reasons that the Commission's situs allocation  
20 decision effectively deemed that Oregon and California QF PPAs serve only the  
21 loads in those states. If so, it goes on to conclude that the appropriate adjustment is a  
22 commensurate reduction in those states' loads used to allocate costs in the WCA  
23 leaving Washington with a proportionally higher percentage of the load. When

1 compared to situs allocation, the load-decrement proposal reduces NPC by \$611,483  
2 but it then increases the Company's overall power costs and overheads allocated to  
3 Washington customers by almost \$6 million.

4 The load-decrement proposal asks the Commission to accept the Company's  
5 already rejected argument that the flow of power to serve load is the sole basis for  
6 allocating costs in the WCA and not cost-causation. Pacific Power continues to  
7 pursue this notion in spite of the ample record and past Commission orders  
8 establishing the principles of cost allocation for the WCA.

9 Further, the load-decrement argument ignores the Commission's decision to cost  
10 the Oregon and California QFs at market prices. The Commission did not treat these  
11 QF's as being non-existent – in other words only being used to serve Oregon and  
12 California ratepayers. Rather, the Commission has acknowledged these resources  
13 serve WCA customers. It has not, however, allowed Oregon and California  
14 regulators to set the rates for Washington customers. Equitably, the Commission  
15 priced these resources allocated to Washington at market rates. It did not ignore  
16 them.

17  
18 **Q. Please describe the Company's re-pricing alternative.**

19 A. The Company's re-pricing proposal allocates the cost of Oregon and California QF  
20 PPAs on a schedule that is based on Washington's avoided cost as set forth in the  
21 Company's Schedule 37. To establish a cost for contracts executed over different  
22 periods, the Company would look to the avoided costs in effect at the time each "re-  
23 priced" PPA was executed. The re-pricing proposal increases the Company's

1 revenue requirement in this case by \$7.7 million. Basically, all the re-pricing  
2 proposal does is ask the Commission to allocate to Washington ratepayers a share of  
3 costs attributable to Oregon and California's PURPA policies<sup>25</sup> at a lesser nominal  
4 price differential above market of \$38.92 MWh versus the nominal price differential  
5 in its primary proposal of \$53.41 MWh.

6 As with the Company's load-decrement alternative, the re-pricing proposal asks  
7 the Commission to disregard its cost-causation principles foundational to the WCA's  
8 cost allocation methodology in favor of the rolled-in approach used in the Revised  
9 Protocol; albeit at a discount. Just saying that these contracts will be priced at a  
10 previously approved avoided cost rate for Washington does not make it more  
11 principled than any of the other approaches offered by the Company. Nor is it  
12 consistent with the long-established requirements of the WCA. Since the premise  
13 behind both alternatives suffer from the same infirmities as the Company's already  
14 rejected primary proposal, they should also be rejected by the Commission.

#### 15 16 **IV. PACIFIC POWER'S HYDRO DEFERRAL PETITION**

17  
18 **Q. On January 17, 2014, Pacific Power filed a petition with the Commission**  
19 **requesting authority to defer costs related to declining hydro generation.<sup>26</sup> Does**  
20 **Staff support the Company's request to defer costs due to variance in hydro**  
21 **conditions?**

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<sup>25</sup> FN 20.

<sup>26</sup> On June 24, 2014, the Commission issued Order 01, in Docket UE-140094, consolidating the Company's petition with Dockets UE-131384, UE-140762 and UE-1406171.

1 A. No. Staff opposes the Company's petition and recommends the Commission reject it  
2 in its entirety. The Company's sole basis for this petition is its statement: "[the  
3 Company has experienced]...significant declines in hydro generation due to  
4 abnormally dry weather conditions and low water availability."<sup>27</sup> Data provided by  
5 the Company fails to support this claim.

6 Supplemental responses by Pacific Power to Public Counsel's Data Request  
7 (DR) No. 2 in Docket UE-140094 show the Company's actual hydro generation  
8 (January - August 2014) and the amount forecasted for the remainder of the proposed  
9 deferral period (September - December 2014), is within 2.9 percent of the hydro  
10 generation amount included in rates. Staff believes that this variation is well within  
11 an acceptable range.<sup>28</sup> Given these facts, the extraordinary relief requested by the  
12 Company is not necessary to deal with the Company's demonstrated hydro  
13 variability.

14 Furthermore, the Commission, in Order 05, rejected the Company's proposed  
15 Power Cost Adjustment Mechanism partly on the basis that it was "nothing more  
16 than a request for a power cost tracker and true-up mechanism that will guarantee the  
17 Company full recovery of its power costs on a continuing basis."<sup>29</sup> In Staff's view,  
18 the proposed hydro deferral mechanism suffers from the same deficiency. The  
19 requested hydro deferral is nothing more than a request by the Company for a single  
20 issue/dollar-for-dollar power cost adjustment that will serve only to shield "the

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<sup>27</sup> *Pacific Power*, UE-140094, Petition for an Order Approving Deferral of Costs Related to Declining Hydro Generation, ¶ 4.

<sup>28</sup> *Pacific Power*, UE-140094, Petition for an Order Approving Deferral of Costs Related to Declining Hydro Generation, Company Response to Staff DR 2, Confidential Attachment 2-1, shows the average MWh difference between actual hydro generation and the amount of hydro generation in rates from 2007-2013 as 9.0 percent.

<sup>29</sup> *WUTC v. Pacific Power*, Docket UE-130043, Order 05 (December 4, 2013), ¶ 173.

1 Company from any risk of under-recovery, even that due to the ordinary variability  
2 in power costs due to normal and foreseeable changes in fuel costs, ordinary variance  
3 in hydro conditions (emphasis added), normal variations in weather, and so forth.”<sup>30</sup>

4 The Company’s request also misses a central concept in determining  
5 “normal” hydro conditions for the net power cost. Normal is defined by a long-term  
6 average which includes all extreme events. Periods of high water or low water do  
7 affect market prices and those effects are also reflected in total power costs.  
8 Therefore, Pacific is compensated for “abnormal” hydro variances in net power costs  
9 and needs no special accounting treatment.

10 The Commission has consistently rejected the Company’s repeated proposals  
11 for improperly designed power cost adjustment mechanisms. The Company’s hydro  
12 deferral proposal should likewise be rejected. It is not supported by the facts,  
13 improperly designed, and constitutes single-issue ratemaking in a context where the  
14 Company’s total NPC is the real issue – not a single component of it.

## 16 VI. STAFF’S PCAM PROPOSAL

17  
18 **Q. Why is Staff offering Pacific Power a PCAM at this time?**

19 **A.** In its last case, the Company offered its proposal for a PCAM to collect or credit the  
20 differences between the actual net power costs incurred to serve Washington  
21 customers and the amount of net power costs collected from Washington customers

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<sup>30</sup> Id. ¶ 172.

1 through rates.<sup>31</sup> The Commission rejected the Company's proposal in Order 05  
2 citing the lack of dead bands and sharing bands as its primary reason.

3 I discussed earlier in my testimony Pacific Power's proposal for a one-time  
4 hydro deferral through a separate petition consolidated with this case. The Company  
5 has also proposed a Renewable Resource Tracking Mechanism (RRTM) which  
6 Staff's witness Mr. Twitchell responds to in his testimony.<sup>32</sup> The RRTM seeks to  
7 recover 100 percent of the difference between the projected values of wind  
8 generation as calculated by GRID versus the actual values of its wind generation in a  
9 given year.

10 Staff recommends rejection of both power cost recovery proposals in this  
11 case. However, Staff does understand Pacific Power's power cost recovery  
12 complaint in the context of this Commission's approval of similar mechanisms for  
13 other utilities. Accordingly, we promote a PCAM proposal of our own. Staff  
14 believes that the Commission has provided more than sufficient guidance to Staff  
15 and the Company over the last nine-years on this issue to warrant action and to move  
16 forward with implementation of a PCAM once and for all.

17  
18 **Q. Has the Commission previously specified threshold requirements for a PCAM**  
19 **for the Company?**

20 **A. Yes. In Docket UE-061546 the Commission specified that any PCAM must:**

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<sup>31</sup> *WUTC v. Pacific Power*, Docket UE-130043, Duvall, Exhibit No. \_\_ (GND-1CT) at 26:1-49:2.

<sup>32</sup> Staff Witness Twitchell, Exhibit No. \_\_ (JBT-1T), 7:18 through 16:5 – provides his analysis and conclusions regarding the Company's proposed RRTM. Mr. Twitchell arrives at the identical conclusion I do in my testimony regarding the Hydro Deferral; namely that the RRTM is nothing more than an improperly designed PCAM.

- 1 • Demonstrate the process, accounting, and reliability of the computer-  
2 generated “actual costs” that the Company then-proposed to use in the annual  
3 PCAM true-up; and
- 4 • Refine the PCAM design to reflect asymmetry of power cost distribution.<sup>33</sup>

5

6 **Q. Would Staff’s proposed PCAM comply with these requirements?**

7 A. Yes. In the 2006 general rate case, the Commission rejected the Company’s use of a  
8 computer generated cost methodology (*i.e.*, costs derived from a model rather than a  
9 record of actual costs) to true-up normalized base power costs. The Commission did  
10 so because of its concern that computer-generated costs will be only estimates and  
11 could lead to a further departure from actual costs.<sup>34</sup> In the last rate case, the  
12 Company abandoned its prior proposal that relied on computer generated costs and,  
13 instead, offered to report actual NPC per its books and records. This approach  
14 resolves the first threshold hurdle to a properly designed PCAM for Pacific Power.

15 To resolve the second hurdle, Staff, in its proposal here, offers the  
16 Commission a PCAM with properly designed sharing and dead bands which were  
17 lacking in past and recent Company design proposals. I have incorporated all of the  
18 elements of Staff’s proposed PCAM in my confidential Exhibit No. \_\_ (DCG-5C).  
19 In the exhibit, I used actual NPC results provided by the Company in the last case  
20 which were updated with results from 2012 and 2013.<sup>35</sup>

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<sup>33</sup> *WUTC v. Pacific Power*, Docket UE-061546, Order 08 at ¶111 (June 21, 2007). The Commission also stated that any proposal must include a provision that a general rate case must be filed within a certain term; and must direct that any water-year adjustment for power cost normalization be consistent with the way the PCAM design reflects the asymmetric power cost distribution.

<sup>34</sup> *WUTC v. PacifiCorp*, Docket UE-061546, Order 08 at ¶77 (June 21, 2007).

<sup>35</sup> Pacific Power, UE-140094, Petition for an Order Approving Deferral of Costs Related to Declining Hydro Generation, Company Response to Staff DR 2.

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**Q. What types of costs would be included in the PCAM?**

A. In the last case, the Company proposed that the PCAM “be calculated using all components of NPC as traditionally defined in the Company’s general rate cases and modeled by the Company’s GRID model. Specifically, Base NPC and Actual NPC will include amounts typically booked to the following FERC accounts:

- Account 447—Sales for resale, excluding on-system wholesale sales and other revenues that are not modeled in GRID
- Account 501—Fuel, steam generation; excluding fuel handling, start up fuel/gas, diesel fuel, residual disposal, and other costs that are not modeled in GRID
- Account 503—Steam from other sources
- Account 547—Fuel, other generation
- Account 555—Purchased power, excluding BPA residential exchange credit pass-through if applicable
- Account 565—Transmission of electricity by others.”<sup>36</sup>

Staff offers the same energy components in this PCAM proposal. By doing so, the proposed PCAM for PacifiCorp will be very similar to Avista Corporation’s Energy Recovery Mechanism (ERM).

**Q. Will the deferral balances in the PCAM include a retail revenue adjustment like Avista’s ERM?**

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<sup>36</sup> *WUTC v. PacifiCorp*, Docket UE-130043, Duvall, Exhibit No. \_\_ (GND-1CT) at 27:1-14.

1 A. Yes. The PCAM will include a monthly retail revenue adjustment applied to the  
2 monthly NPC Actual to Base Delta.<sup>37</sup> The retail revenue adjustment reflects the  
3 power production expenses recovered through base retail revenues due to changes in  
4 retail load. Base NPC will be divided by the base load MWh to arrive at a net power  
5 cost sales factor (SF) expressed in dollars per MWh. The monthly retail revenue  
6 adjustment used in the PCAM shall be computed by multiplying the SF by the  
7 difference between actual and base monthly retail MWh sales. If actual MWh sales  
8 are greater than base, the retail revenue adjustment will reduce the PCAM deferral.  
9 If actual MWh sales are less than base, the retail revenue adjustment will increase the  
10 PCAM deferral.

11  
12 **Q. What does Staff propose in the form of a dead-band and sharing bands for**  
13 **PacifiCorp's PCAM?**

14 A. Staff proposes a dead-band of plus or minus \$25 million on a WCA basis which  
15 corresponds to about five percent of the average NPC costs for the Company on a  
16 WCA basis. Any remaining portion of the variance above or below the dead-band  
17 will be shared with customers in different proportions depending if the variance  
18 between base and actual NPC reflects a year-end surcharge or rebate. Under-  
19 recovery of NPC (that is, in the surcharge direction) will be shared on a 50/50 basis  
20 between customers and the Company. To reflect asymmetry of power cost  
21 distribution, over-recovery of NPC (that is, in the rebate direction) is shared by 75  
22 percent going to customers and the remainder retained by the Company. Customer

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<sup>37</sup> NPC Actual to Base Delta = NPC (Actual) – NPC (Base).

1 deferral balances will reflect the current WCA allocation factors for Washington  
2 approved in rates.

3  
4 **Q. Will the deferral balances include a carrying charge?**

5 A. Yes. A carrying charge on the customer's share of the Washington allocated NPC  
6 deferral balance will be calculated using the Company's actual cost of debt, updated  
7 semi-annually, and applied to the NPC deferral balance less associated accumulated  
8 deferred income taxes. Interest will be accrued monthly and compounded semi-  
9 annually. The Company will notify the Parties of the result of the semi-annual  
10 update and provide supporting workpapers upon request.

11  
12 **Q. When will the deferrals trigger a rate adjustment?**

13 A. The customer's share of the Washington allocated NPC deferral shall be allowed to  
14 accumulate until a trigger of 10 percent of base retail revenues is reached. When the  
15 trigger is exceeded, the Company shall file a tariff change to implement the  
16 surcharge or rebate through a separately established schedule. The proposed  
17 effective date of the tariff change shall provide for a 90-day review and approval  
18 process. The Company may, depending upon circumstances, propose a different  
19 effective date to minimize the number of rate changes to customers.

20 The trigger amount shall be spread to rate schedules on the same basis as  
21 power costs are allocated using base revenues approved in this proceeding, unless  
22 otherwise changed in a future rate proceeding. Within each rate schedule the rate  
23 adjustment shall apply to the energy charges on a uniform cents per kilowatt-hour

1 basis using the most recent normalized kilowatt-hours as filed annually by the  
2 Company pursuant to Commission Basis Reporting requirements. An exception is  
3 street and area light rates, which shall be adjusted by the uniform percentage. The  
4 rate adjustment shall be in effect for a twelve-month period. Only one 10% surcharge  
5 shall be in place at any given time.  
6

7 **Q. What will be the Company's reporting requirements for this PCAM?**

8 A. Staff recommends that Pacific Power be instructed to file quarterly reports of the  
9 activity in the PCAM at the same time as it files its quarterly report of actual  
10 operations. Also, the Company will be required to file annually on or before April  
11 1st of each year its PCAM deferrals from the previous calendar year. The purpose of  
12 this filing is for the Commission to confirm and approve the deferred balances<sup>38</sup> for  
13 the prior calendar year. The standard discovery rules will apply for Company  
14 responses to data requests allowing the Commission Staff and interested parties the  
15 opportunity to review the deferral information during a 90-day review period ending  
16 June 30th of each year. The 90-day review period may be extended by agreement of  
17 the parties participating in the review, or by Commission order.  
18

19 **Q. Does this conclude your testimony?**

20 A. Yes.

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<sup>38</sup> Staff is willing to work with Pacific Power on alternative filing deadlines to meet operational concerns of the Company.