Exh. JP-1T
Docket UE-21____
Witness: Jack Painter

BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP dba PACIFIC POWER & LIGHT COMPANY Respondent.	Docket UE-21____

PACIFICORP

DIRECT TESTIMONY OF JACK PAINTER

June 2021

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ATTACHED EXHIBITS

Q. Please state your name, business address, and present position with PacifiCorp dba Pacific Power & Light Company (PacifiCorp or Company).

A. My name is Jack Painter and my business address is 825 NE Multnomah Street, Suite 600, Portland, Oregon 97232. My title is Net Power Cost Specialist.

QUALIFICATIONS

Q. Briefly describe your education and professional experience.

A. I received a Bachelor of Arts degree in Business Administration with a Finance major from Washington State University in 2007. I have been employed by PacifiCorp since 2008 and have held positions in the regulation and jurisdictional loads departments. I joined the regulatory net power costs group in 2019 and assumed my current role as a net power cost specialist in 2020.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have previously provided testimony to the public utility commissions in Utah, Wyoming, Idaho, and Oregon.

PURPOSE OF TESTIMONY

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

A. My testimony presents and supports the Company's calculation of the Power Cost Adjustment Mechanism (PCAM) for the 12-month period from January 1, 2020, through December 31, 2020 (Deferral Period). More specifically, I provide the following:

- Background on the PCAM and an accounting of how the PCAM balance was calculated for the Deferral Period;

- Discussion of the main differences between adjusted actual net power costs (Actual NPC) and net power costs in rates (Base NPC), both allocated on a West Control Area Inter-Jurisdictional Allocation Methodology (WCA) basis;[1]

- Discussion about the Company's participation in the energy imbalance market (EIM) with the California Independent System Operator (CAISO) and the benefits from EIM that are passed through to customers.

Q. Please explain the settlement stipulation in PacifiCorp's last general rate case in Docket UE-191024 (2021 Rate Case).

A. The parties to the 2021 Rate Case originally settled the proceeding in July of 2020, and agreed to an update to the NPC baseline calculation that would occur in October of 2020 (October Update). The October Update reflected a $17.5 million increase to baseline NPC over the approximately $102 million that was estimated in the original settlement. The settlement originally specified that an increase in baseline NPC "as a result of the October Update will be offset by the balance in the deferral account for the 2020 PCAM."[2] However, the PCAM deferred balancing account only had a balance of $9.5 million at the time. Since the October Update NPC increase was greater than the balance of the PCAM deferred balancing account at that time, to make up for the shortfall between the NPC baseline from the October Update and the estimated baseline established in the Stipulation, the Parties proposed and the Commission approved the reflection of this difference in the PCAM deferred balancing account.

[1] While the new Washington Inter-Jurisdictional Allocation Methodology was approved in the Company's last general rate case in Docket UE-191024, it is effective beginning January 1, 2021. The Deferral Period in this year's PCAM will be the last year that the WCA methodology is used to allocate net power costs.
[2] NEED FOOTNOTE.

Q. How is the incremental increase in NPC baseline from the October Update reflected in the PCAM deferral account?

A. A step is added to the calculation of the 2021 PCAM deferral balance to include the deferred portion of the NPC baseline: the Deferred NPC Baseline Adjustment (DNBA). The DNBA is equal to the $/megawatt-hour (MWh) difference between the October Update (NPC Baseline) and NPC baseline in the Stipulation (NPC in Rates) multiplied by the actual sales.

$$Deferred\ NPC\ Baseline\ Adjustment$$
$$= (NPC\ Baseline_{\$/MWh} - NPC\ in\ Base\ Rates_{\$/MWh}) \times Actual\ Sales_{MWh}$$

The DNBA is calculated and added to the PCAM balance monthly. This amount does not run through the dead and sharing bands but is added in after the bands are applied. Interest accrues monthly consistent with the past operation of the PCAM.

Q. Is the DNBA calculation included in this PCAM (2020 PCAM)?

A. No; the DNBA calculation will be included in the 2021 PCAM.

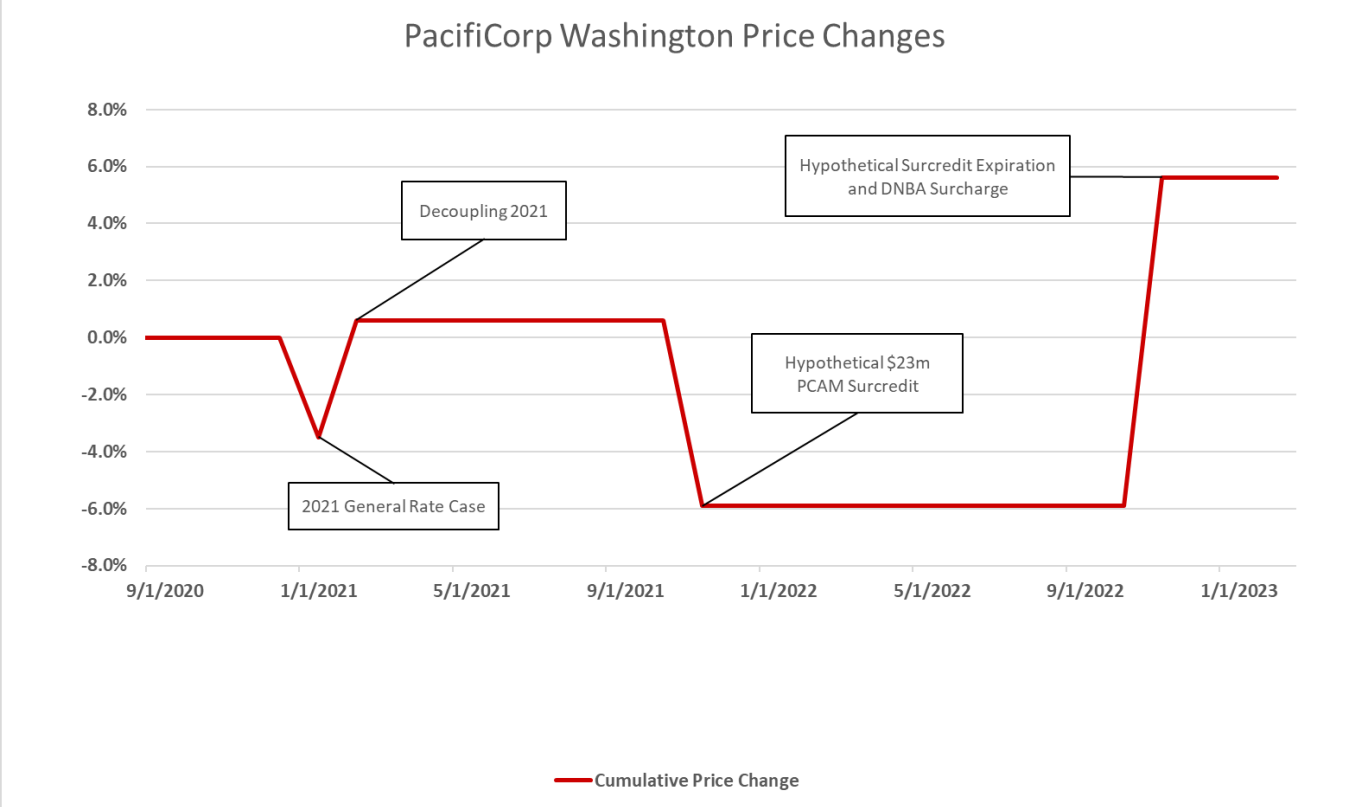
Q. Are you proposing a rate change to Schedule 97 as part of this proceeding?

A. No. Normally, if the cumulative PCAM deferred balancing account meets the surcharge or credit threshold of $17 million, there would be a proposed change to Tariff Schedule 97. While the ending balance in the 2020 PCAM deferred balancing account is a $23.1 million credit, the Company proposes to roll this balance forward to the 2021 PCAM to recover the DNBA of $17.5 million from the stipulation in the 2021 Rate Case. The Company is proposing to offset the ending balance in the deferred balancing account with the balance of the DNBA.

Q. Is rolling the balance of the 2020 PCAM deferred balancing account beneficial for Washington customers?

A. Yes. While using the current balance in the deferred balancing account to trigger a credit to Washington customers would be beneficial in the short term, the $17.5 million DNBA balance may trigger a surcharge for Washington customers in 2022. Rolling over the $23.1 million credit from the 2020 PCAM deferred balancing account to the 2021 PCAM will avoid significant rate fluctuations for customers. Please see Figure 1 below for a depiction of the potential rate volatility if the PCAM deferred balance is not reserved for the $17.5 million DNBA.

Figure 1



SUMMARY OF THE PCAM DEFERRAL CALCULATION

Q. Please briefly describe the Company's PCAM authorized by the Washington Utilities and Transportation Commission (Commission).

A. The Commission's Order 09 in Docket UE-140762 approved the PCAM to allow the Company to track unexpected variations in power costs in the PCAM deferral account. In most years if the cumulative positive or negative balance in the PCAM deferral account, including monthly interest, exceeds $17 million, either a surcharge or sur-credit is triggered. As described above, and due to the unique circumstances around the 2021 Rate Case, PacifiCorp is proposing a slightly different treatment this year.

Q. Please summarize the Company's calculation of the PCAM deferral for the Deferral Period.

A. For the Deferral Period the cumulative PCAM differential was a $19.5 million credit before application of the deadband and asymmetrical sharing bands. After application of the deadband and asymmetrical sharing bands, the filing results in a deferral credit of $13.7 million, including interest.

Q. Have you provided detailed support for the calculation of the PCAM balance with your testimony?

A. Yes. Exhibit No. JP-2 includes a detailed calculation of the Company's 2020 PCAM deferral on a monthly basis. Detailed confidential workpapers supporting Exhibit No. JP-2 are provided separately.

2020 PCAM CALCULATION

Q. Please describe the Company's calculation of the PCAM deferral for the Deferral Period.

A. As previously noted, the PCAM deferral is calculated on a monthly basis as the difference between Base NPC collected through general rates and Actual NPC, including actual non-NPC EIM costs. The accrued PCAM variance is subject to the following parameters:

- Symmetrical Deadband: Any PCAM difference between negative $4 million and positive $4 million will be absorbed by the Company.
- Asymmetrical sharing of the PCAM difference as follows:
  - Between $4 and $10 million; shared 50 percent by customers and 50 percent by the Company;
  - Greater than $10 million; shared 90 percent by customers and 10 percent by the Company;
  - Between -$4 and -$10 million; shared 75 percent by customers and 25 percent by the Company; and
  - Less than -$10 million; shared 90 percent by customers and 10 percent by the Company.
- Amortization of Deferral: The amortization of PCAM variances are deferred until the balance of the deferral balancing account results in either a surcharge or credit greater than $17 million.

For the Deferral Period, the PCAM differential was a $19.5 million credit. After application of the deadband and asymmetrical sharing bands, the Company is seeking approval to credit the PCAM balancing account with $13.7 million including interest. A summary of the deferral calculation is shown in Table 1.

Table 1
Summary of PCAM Account Balance

Calendar Year 2020 PCAM Deferral		
Actual PCAM Costs ($/MWh)	$	26.96
Base PCAM Costs ($/MWh)		31.76
PCAM Cost Differential ($/MWh)		(4.80)
Washington Sales (MWh)		4,065,151
Total PCAM Differential*	$	(19,497,996)
Total Deferrable ABOVE Deadband		-
Total Deferrable BELOW Deadband		(15,497,996)
Washington Deferral after Sharing		(13,048,196)
Interest Accrued through December 31, 2020		(612,592)
Requested PCAM Recovery	**$**	**(13,660,788)**

* *Calculated monthly*

Q. How is the PCAM differential calculated on a monthly basis?

A. The PCAM differential is calculated by subtracting the NPC collected in base rates from the PCAM Adjusted Actual Costs as shown in the formula below:

$$PCAMC - (Base\ NPC_{\$/MWh} \times Actual\ Sales) = PCAM\ Differential$$

Where:

PCAMC - Adjusted actual WCA NPC costs allocated to Washington using allocation factors calculated with actual jurisdictional load plus Washington allocated actual non-NPC EIM costs

Base $NPC_{\$/MWh}$ - Base NPC unit cost; calculated by dividing Washington-allocated NPC as established in a rate proceeding by the Washington sales-at-meter used to set rates in the rate proceeding

Actual Sales - Actual Washington retail sales at the meter

The cumulative PCAM variance is first compared against the symmetrical deadband. Cumulative amounts in excess of the symmetrical deadband are then subject to the sharing bands. The customer portion of the PCAM variance is tracked in the deferral balancing account and monthly balances accrue interest at the current Federal Energy Regulatory Commission (FERC) interest rate. A rate change is triggered when the customer surcharge or credit exceeds $17 million.

Q. What were the total-Company adjusted Actual NPC for the Deferral Period and how were they determined?

A. The total-Company adjusted Actual NPC in the Deferral Period were approximately $482 million on a WCA basis. This amount captures all components of NPC as defined in the Company's general rate case proceedings and modeled by the Company's Generation and Regulation Initiative Decision Tool (GRID) model. Booked NPC are adjusted to reflect a balanced WCA consistent with the methodology used in Docket UE-140762. Specifically, it includes amounts booked to the following FERC accounts:

Account 447 - Sales for resale;

Account 501 - Fuel, steam generation; excluding fuel handling, start-up fuel (gas and 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; and

Account 565 - Transmission of electricity by others.

Q. What adjustments are made to Actual NPC and why are they needed?

A. The Company adjusts Actual NPC to reflect the ratemaking treatment of several items, including:

- out of period accounting entries booked in the Deferral Period that relate to operations before implementation of the PCAM on April 1, 2015;
- reductions to coal costs for legal fees related to fines and citations; and
- revenue from a contract related to the Leaning Juniper wind resource.

Q. Please state the amount of the adjusted Actual NPC that were allocated to Washington and describe how the amount was calculated.

A. Washington-allocated Actual NPC were approximately $109.5 million during the Deferral Period. To arrive at this value, the Company applied the allocation methodology approved by the Commission using actual allocation factors from calendar year 2020.

Q. Please summarize the calculation of the Washington-Allocated Actual Non-NPC EIM Costs.

A. The Company has included in the PCAM actual non-NPC EIM costs of $89,000 that are not otherwise included in NPC. These EIM costs include the return on rate base, ongoing operations and maintenance expense, and depreciation expense. This treatment was approved by the Commission to match recovery of EIM costs and benefits.[3] As described in more detail later in my testimony, the EIM provides benefits to customers in the form of reduced Actual NPC.

[3] *Wash. Utils and Transp. Comm'n v. PacifiCorp*, Docket UE-152253, Order 12 at 74 (September 1, 2016).

Q. How much of base PCAM costs did the Company collect from Washington customers during the Deferral Period?

A. During the Deferral Period, the Company received $129 million in base PCAM revenue from Washington customers, $19.5 million more than Washington-allocated Actual NPC and EIM Costs combined.

Q. What was the total amount of the deferral over the Deferral Period?

A. After application of the deadband and asymmetrical sharing bands, the deferral was $13.7 million credit including interest, as shown in Table 1.

Q. Please describe how the interest on the PCAM deferral balance was determined.

A. Interest is accrued monthly on the PCAM deferral balance at the FERC interest rates that are published quarterly. Over the Deferral Period, the PCAM balance accrued $613,000 of interest refundable to customers.

Q. Is the Company requesting a rate change with this filing?

A. No. While the PCAM balancing account does exceed the customer surcharge or credit threshold of $17 million, the Company is requesting the balance be rolled forward to the 2021 PCAM to accommodate the $17.5 million DNBA balance. See Table 2 for a summary of the deferred balancing account.

Table 2
Deferred Balancing Account

	Washington Customers
Balancing Account Activity	
Beginning Deferral Balance	$ (9,450,998)
2020 PCAM Deferral	(13,048,196)
Interest	(612,592)
Activity Through December 31, 2020	(23,111,786)
December 31, 2020 Ending Balance	$ (23,111,786)

DIFFERENCES IN NPC

Q. On a WCA basis, what was the difference between Actual NPC and Base NPC for the Deferral Period?

A. Actual NPC for the Deferral Period were $482 million, which was $68 million less than Base NPC for the Deferral Period. Table 3 below provides a high level summary of the difference between the Base NPC and Actual NPC by category on a WCA basis.

Table 3

Net Power Cost Reconciliation ($millions)

Base NPC	$	551
Increase/(Decrease) to NPC:		
Wholesale Sales Revenue		56
Purchased Power Expense		(61)
Coal Fuel Expense		(60)
Natural Gas Expense		(10)
Wheeling and Other Expense		7
Total Increase/(Decrease)		(68)
Adjusted Actual NPC	$	482

Q. Please describe the Base NPC the Company used to calculate the NPC component of the PCAM deferral.

A. The Base NPC of $551 million was established in Docket UE-140762 using a test period of April 2015 through March 2016. This is the last year that this Base NPC will be used for the PCAM. The Base NPC was reset in the 2021 Rate case, effective January 1, 2021.

Q. Please describe the differences between Actual NPC and Base NPC.

A. Actual NPC were lower than Base NPC due to a $61 million reduction in purchased power expense, a $60 million reduction in coal fuel expense, and a $10 million reduction in natural gas fuel expense. These reduced expenses were partially offset by a $56 million decrease in wholesale sales revenues and a $7 million increase in wheeling and other expenses.

Q. Please explain the changes in wholesale sales revenue.

A. Wholesale sales revenue declined relative to Base NPC due to lower market prices. The average price of actual market sales transactions was $10.15/MWh, or 27 percent, lower than the average price in Base NPC. Lower market prices were partially offset by an increase in wholesale sales volume of market transactions (represented in GRID as short-term firm and system balancing sales).

Q. Please explain the changes in purchased power expense.

A. Purchased power expense decreased due to an $87 million decrease in long-term purchase power contracts. The expiration of the Hermiston power purchase agreement and the Georgia-Pacific Camas contract resulted in lower purchased power costs of $85.7 million. Lower long-term purchased power was partially offset by a

$27.6 million increase in market transactions (represented in GRID as short-term firm and system balancing purchases).

Actual market purchases were approximately 2,254 gigawatt-hour (GWh), or 71 percent, higher than Base NPC. The increased volume was partially offset by the lower average price of actual market purchase transactions which was $7.59/MWh, or 25 percent, lower than Base NPC.

Q. Please explain the changes in coal fuel expense.

A. Coal fuel expense decreased due to lower coal generation volumes that was partially offset by an increase in the average cost of coal generation. The average cost of coal generation increased from $23.53/MWh in Base NPC to $26.00/MWh in the Deferral Period. Coal-fired generation decreased 3,324 GWh, or 31 percent.

Q. Please explain the changes in natural gas fuel expense.

A. The total natural gas fuel expense in Actual NPC decreased by $10.1 million compared to Base NPC due to a decrease in the average cost of natural gas generation from $39.03/MWh in Base NPC to $21.31/MWh, or 45 percent in the deferral period. This price decrease was partially offset by increased natural gas volumes of 1,495 GWh, or 63 percent, higher than Base NPC during the Deferral Period.

IMPACT OF PARTICIPATING IN THE EIM

Q. Are the actual benefits from participating in the EIM with CAISO included in the PCAM deferral?

A. Yes. Participation in the EIM provides benefits to customers in the form of reduced Actual NPC. The EIM benefits are embedded in Actual NPC through lower fuel and purchased power costs. The Company is able to calculate the margin realized on its

EIM imports and exports, which is the inter-regional benefit. The Company's EIM inter-regional benefit for the deferral period was approximately $46.7 million, or $20.4 million on a WCA basis.

Q. How does the Company calculate its actual EIM benefits?

A. Using actual information from the EIM, including five- and 15-minute pricing, the Company identifies the incremental resource that could have facilitated the transfer to an adjacent EIM area or the CAISO in each five-minute interval. The benefit is then calculated as the difference between the revenue received less the expense of generation assumed to supply the transfer. In the event of an import, the benefit is equal to the cost of the import minus the avoided expense of the generation that would have otherwise been dispatched.

OTHER ISSUES

Q. Are there any other issues that you would like to address?

A. Yes. PacifiCorp is transitioning NPC forecasting models from GRID to AURORA, which requires a license for individual intervenors in PacifiCorp's NPC forecast cases (like the power cost only rate case (PCORC) or a general rate case) to have access to the model. PacifiCorp is planning to propose the inclusion of those costs from the PCORC, which is currently projected to be about $20,000 total, in the 2021 PCAM balance as a separate line item outside of the deadbands and sharing bands. However, the Company is open to alternatives for recovering these costs, for the PCORC proceeding as well as any future power cost filings, and is in discussions with parties and Staff on this issue.

Q. Does this conclude your direct testimony?

A. Yes.