Exh. MGW-6Tr
Docket UE-210402
Witness: Michael G. Wilding

BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP dba PACIFIC POWER & LIGHT COMPANY Respondent.	Docket UE-210402

PACIFICORP

REVISED REBUTTAL TESTIMONY OF MICHAEL G. WILDING

REVISED January 7, 2022

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Q. Are you the same Michael G. Wilding who previously submitted direct testimony, supplemental testimony, and joint testimony supporting the settlement in this proceeding on behalf of PacifiCorp dba Pacific Power & Light Company (PacifiCorp or the Company)?

A. Yes.

I. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to testimony from the Alliance of Western Energy Consumers (AWEC) and recommends that the Washington Utilities and Transportation Commission (Commission) adopt the Stipulation that is proposed by the settling parties. Specifically, I will address the following issues raised by AWEC:

- The importance of updating net power costs (NPC) before the rate effective date;
- That customers will receive the benefits of the Nodal Pricing Model (NPM) through actual NPC;
- Fly-Ash Revenues are not appropriate for inclusion in a power cost proceeding;
- PacifiCorp does not oppose AWEC's adjustment on the allocation of non-firm wheeling expense.

II. UPDATING NET POWER COSTS

A. Description of the Update

Q. Will you please briefly describe the update as contemplated in the Stipulation?

A. The Stipulation includes an update through the compliance filing process as described in the Commission's regulations.[1] This update will be calculated in the same manner as the baseline that was used to derive the revenue requirement in the Stipulation.

[1] WAC 480-07-880.

This update will be based on the most recent Official Forward Price Curve (OFPC) available,[2] and will also reflect the Company's latest electric and gas hedging and contract positions. The purpose of this update is to use the latest and most accurate information to set the baseline going forward.

Q. Can you please describe the steps in detail that are necessary to complete the update?

A. Yes. First, forward prices for natural gas and electricity will be updated in Aurora itself. In addition, hedge positions for power and gas will be updated based on the most recent month-end hedge positions available, and any mark-to-market values will be updated to reflect the use of the same OFPC that was described in the first step. Any new power purchase agreements and Qualifying Facility contracts will be included in the model, and any required updates to contracts that were previously included will be made. Finally, Energy Imbalance Market (EIM) transfer and greenhouse gas (GHG) benefits will be reforecast, also based on the same OFPC, in order to synchronize the model inputs for the most accurate output.

Q. As described above, does PacifiCorp's update use the same methodology from the original filing with standardized inputs and an updated forecast or actuals used for the cost inputs described above?

A. Yes.

[2] This will likely be the March 2022 OFPC.

B. The Policy behind updating net power costs

Q. How do you respond to Mr. Mullins's claims that the update is inconsistent with Commission precedent?

A. First, I want to start off by saying that I am not an attorney and assessing whether or not the update as proposed is legally appropriate is probably best done through the briefing process. However, I do want to address certain factual and policy concerns raised by AWEC regarding the update process.

Q. Why is it good policy to conduct a power cost update?

A. NPC is recovered by setting a forecast baseline in a general rate case or power cost only rate case (PCORC) and then using the Power Cost Adjustment Mechanism (PCAM) to account for variations in actual NPC. Using the latest and most accurate information to set the power cost baseline (which is a forecast) makes sense, because it allows for the costs set in the baseline to be more accurate and reflective of the current market information.

Q. AWEC claims that "there is no reason to believe that an update performed at any period during the pendency of this case will be any more or less accurate than the NPC baseline PacifiCorp identified in its initial filing over the entire period that this baseline will be in effect."[3] Is this an accurate statement?

A. No, it is completely false. Updating NPC in recognition of changing market conditions allows the forecast to be based on the most recent market feedback. That recency is of paramount importance because those prices represent a market consensus regarding what 2022 supply and demand conditions are expected to be

[3] Exh. BGM-1CT at 9:15-18.

like. Put simply, market participants will know more and have more reasonable expectations regarding physical conditions in the western energy markets at the end of 2021 or the beginning of 2022 than they did in March 2021 (the study accompanying the direct filing in this proceeding was supported by OFPC of that vintage). The decrease in uncertainty regarding expected hydro conditions, anticipated weather patterns, natural gas storage inventories, and resource availabilities means that the use of more recent prices should produce a more accurate NPC baseline. While the direction and magnitude of any NPC update is difficult to predict, I strenuously support the use of the most recent data available in pursuit of producing an accurate and reasonable forecast.

Q. Is AWEC's position here consistent with its prior advocacy?

A. No. The Industrial Customers of Northwest Utilities (ICNU), AWEC's predecessor, has argued in favor of updating prices and executed contracts because doing so creates a more accurate forecast. For example, in Docket Nos. UE-111048 and UG-111049, ICNU argued:

> The Commission should require PSE to update its power costs to include current forward gas prices and short term sales and purchases because it will result in a substantial reduction in projected power costs. Gas prices have dropped considerably, and ICNU and PSE agree that projected rate year power costs should be updated to reflect more recent gas prices, just prior to rates going into effect and in the manner with which they have been updated in the past and in this proceeding. Therefore, the Commission should require PSE to make a power cost update *because it will result in more accurate power costs* and could significantly lower costs.[4]

[4] *WUTC v. Puget Sound Energy,* Docket Nos. UE-111048 and UG-111049, ICNU Post-Hearing Brief at 40 (Mar. 16, 2012) (internal quotations omitted) (emphasis added).

Q. Does PacifiCorp routinely update power costs in other jurisdictions?

A. Yes. Oregon has an annual power cost forecast proceeding, the Transition Adjustment Mechanism (TAM), that contains strict timelines for conducting required updates after an order is issued in that proceeding. After the Public Utility Commission of Oregon (OPUC) issues its final order in the TAM, PacifiCorp is required to update the NPC forecast based on the latest OFPC and executed contracts, just like the update that is included in the settlement here. In the TAM, the update occurs over the course of two weeks following the order and the power cost forecast resulting from the update is used to set retail customer rates for the next year and sets the pricing for direct access customers.[5] Prompt review of NPC updates in compliance filings is a necessary part of that proceeding and AWEC has a long history of reviewing compliance filing updates in the TAM that are substantively the same as the updates included in the Stipulation.

Q. Does the compliance filing as proposed allow enough time for review of the power cost update?

A. Yes; it is my understanding that compliance filings under the Commission's regulations generally allow for five days of review.[6] The settlement provides an additional week to raise an issue. Additionally, it is my understanding that if there is a dispute about the compliance filing, there is a process through which it can be handled that is provided in the Commission's regulations.[7]

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[5] *In the Matter of PacifiCorp dba Pacific Power, 2009 Transition Adjustment Mechanism*, Docket No. UE 199, Order No. 09-274 at 4-5 (Jul. 16, 2009).
[6] WAC 480-07-880 (4).
[7] WAC 480-07-880(6).

Q. AWEC claims it is unclear what cost items are being updated.[8] Is this accurate?

A. No; PacifiCorp is conducting a power cost update in the same manner as the updates in last year's general rate case. The same cost inputs are being updated.

Q. Are EIM benefits included in the update?

A. Yes. The Company will include an EIM benefit forecast that will be based on the same OFPC as the NPC forecast. The Company will also be updating GHG benefits based on the newly available history at the time of filing in the compliance update.

Q. AWEC claims that the update prevents the Commission from evaluating whether new contracts that are proposed in the update are prudent.[9] Does the update prevent the review of PacifiCorp's actual power costs and an evaluation of whether new power cost contracts are prudent?

A. No; PacifiCorp has a PCAM, which allows for the review of PacifiCorp's actual incurred NPC. This PCORC sets a baseline, and actual NPC can be reviewed for prudence when PacifiCorp makes its annual PCAM filing. Contrary to the testimony of AWEC,[10] PacifiCorp is not proposing to update any coal contracts from Jim Bridger or Colstrip.

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[8] Exh. BGM-1CT at 12:3-4.
[9] Exh. BGM-1CT at 13:18-20.
[10] Exh. BGM-1CT at 12:17-18.

C. PacifiCorp's Hedging Practices

Q. AWEC provides an analysis of the hedges that were included in PacifiCorp's initial filing. This analysis claims that PacifiCorp is unreasonable and imprudent in its hedging practices.[11] Is this analysis accurate?

A. No. First, the Company hedges its entire system holistically. There is no separate hedge book for transactions allocated to Washington specifically. As was noted in the joint testimony supporting the stipulation, "Washington's allocation of generation resources remains short against Washington loads after the allocation of hedges and resources. As a consequence, more than 20 percent of Washington load has to be satisfied using modeled market interactions."[12] In an environment where prices are increasing at the rate observed between March and September, it is reasonable to assume that costs will increase as well. Returning more specifically to AWEC's claim of imprudence, total-Company NPC actually *decreased* in the update that was prepared in advance of joint testimony, which should make it clear that the Company's hedging practices are prudent and not driving the NPC increase. PacifiCorp hedges for actual market risk and volatility to reliably serve load across the system. However, Washington is allocated a greater share of market purchases based on its load and the resources in its rates. This makes Washington uniquely vulnerable to market price volatility.

Q. Can you provide a brief overview of how PacifiCorp hedges for its system?

A. Typically, the Company hedges ratably over time, with hedges increasing as time to expiration decreases. The most actively managed hedging period is the prompt 12-

[11] Exh. BGM-1CT at 14:13-18.
[12] Exh. JT-1CT at 12:7-9.

month window at any given point in time. For perspective, the hedges included in the Company's initial filing were from March 31, 2021. That means that most of the test period was outside of that actively managed hedging window. However, the hedges in the test period have increased over time in keeping with the Company's practice of ratable hedging. Oddly enough, it would be those incrementally executed hedges that AWEC seeks to keep out of the model by insisting that updates are not required, or by seeking to exclude contracts.

Q. AWEC claims that an update would not be necessary if PacifiCorp had hedged.[13] Is this logical?

A. No; an update is necessary to fully capture all of the Company's hedging activities. As described above, as PacifiCorp moves closer to the rate effective date, more of the Company's hedging activities can be incorporated into the NPC forecast.

Additionally, AWEC's contention that there would be no significant change to NPC if PacifiCorp were hedged is flawed. As explained above, the reason that Washington NPC has increased since the initial filing is due to the resource mix for the state of Washington not producing sufficient power to satisfy Washington demand. Increased hedging would not have resulted in further generation.

D. Setting a baseline with forecast and actual data

Q. Please explain the process identified in the stipulation for setting the baseline and how it will be reflected in the PCAM.

A. It may be helpful to start with how this will flow through customer rates. If the Commission approves the stipulation, on May 1, 2022, rates will be updated to the

[13] Exh. BGM-1CT at 15:18-19.

new NPC baseline. That new NPC baseline will be calculated based on an Aurora run that includes some actual data for cost inputs for January 2022 to April 2022 and forecast data for the rest of the year. In the Company's PCAM, the NPC baseline will be the NPC baseline set in the last general rate case (with the deferred NPC balancing account) for January 1, 2022, through April 30, 2022, and the new baseline will take effect on May 1, 2022, until the baseline is reset in a subsequent general rate case.

Q. AWEC claims that this is a new methodology and that there are "complications using hybrid forecast and actual data."[14] Do you agree?

A. No; there is no change to methodology being proposed. The cost inputs are simply using the most accurate data available for the rate period (which is calendar year 2022). For example, using actual market prices as inputs to the model does not fundamentally change the model itself or the optimization logic that informs its results. It simply removes a source of uncertainty by using actual prices in lieu of a forward curve.

Q. AWEC claims that actual inputs are not normalized and that the incorporation of non-normalized costs into the forecast is inappropriate.[15] How do you respond to this argument?

A. The specific components that would be replaced by actual data were never normalized to begin with. Those components would be market prices, purchase and sale transactions, and contracts. All of those inputs are based on data that is specific to the test period contemplated by the study, not a set of normalized inputs. AWEC's objection is a red herring.

[14] Exh. BGM-1CT at 16:12-17:2.
[15] Exh. BGM-1CT at 16:20-17:2.

Q. AWEC further contends that this approach makes the Day-Ahead/Real-Time Modeling adjustment inapplicable.[16] Is this accurate?

A. If the intention was to replace forecast data entirely with actual results and make that a part of the baseline NPC, AWEC may have a cogent argument. However, as explained above, that is not what the Stipulation calls for. The intention is to update model inputs to reflect the most recent market intelligence and hedging activity, then allow the model to forecast NPC. To make this point absolutely clear, I should point out that short-term firm transactions do not include real-time balancing transactions, as was suggested in AWEC's testimony.[17] In fact, the process for importing transactions into the model is specifically limited to power purchases and sales in a portfolio reserved for deals that are not a part of day-ahead or real-time balancing efforts.

Q. AWEC also suggests that PacifiCorp could perform an update using the December 31, 2021 OFPC.[18] Is this possible?

A. Yes. However, with a proposed May 1 rate effective date, using the December 31 OFPC would not employ the most accurate data for the update. The purpose of the update is to use the most up-to-date cost inputs and that would not be the case if PacifiCorp is required to use the December 31, 2021 OFPC for an update that would occur on May 1, 2022.

[16] Exh. BGM-1CT at 17:15-18:2.
[17] Exh. BGM-1CT at 17:17-19.
[18] Exh. BGM-1CT at 18:8-10.

Q. Is there an alternative approach if the Commission does not want to use actual data for the forecast to set the NPC baseline?

A. Yes; the Commission could require the Company to forecast the baseline for the forecast period of May 1, 2022, to April 30, 2023. The Company does not have an objection to this approach.[19]

Q. What is your recommendation to the Commission?

A. I recommend the Commission reject AWEC's proposal to disallow an update and adopt the stipulation as filed.

III. NODAL PRICING MODEL

Q. AWEC claims that PacifiCorp retains all of the nodal pricing benefits for shareholders and withholds benefits from customers.[20] Is that accurate?

A. No; as noted by Mr. Mullins in his quote of PacifiCorp testimony, NPM results in a "more efficient day ahead set-up [which] results in fewer change between the day-ahead schedule and real-time dispatch, which lowers actual NPC by avoiding those changes."[21] The benefits of NPM are already incorporated into the forecast for NPC, because NPC models dispatch in a single step, so there is already no change between day-ahead schedules and real-time dispatch. Therefore, the costs of the changes between day-ahead schedules and real-time dispatch do not exist in the model. Since those costs do not exist in the model, there are no costs to avoid or benefits to be imputed.

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[19] If the Commission were to adopt this approach, PacifiCorp notes that it would require updating the production factor.

[20] Exh. BGM-1CT at 22:4-13.

[21] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-191024, Exh. MGW-1CT at 41:15-21 (Dec. 13, 2019).

However, these costs are seen in actual NPC because there is a difference between the day-ahead schedules and real-time dispatch in actual operations. NPM incrementally reduces that difference in actual operations and those benefits are embedded in actual NPC.

Q. Has PacifiCorp's position on these benefits ever changed?

A. No, PacifiCorp specifically explained these benefits in the 2021 general rate case last year. Specifically, these benefits are secondary to the primary benefit of NPM, which is being able to track and allocate NPC as states move to unique generation portfolios as is contemplated in the framework issues currently being discussed in the Multi-State Process.[22] Additionally, PacifiCorp specifically identified that the more granular day-ahead setup information will be impossible to accurately and precisely track.[23] AWEC's position is confusing, because they are a signatory to the 2020 Inter-Jurisdictional Allocation Protocol[24] and the NPM Memorandum of Understanding[25] where this issue has been explained previously.

Q. Is AWEC mischaracterizing the order from the Oregon TAM?

A. Yes; the OPUC specifically premised its order on certain limitations in the Generation and Regulation Initiative Decision Tool (GRID), which was used to forecast NPC in the TAM.[26] As I explained in previous rounds of testimony, PacifiCorp is not using GRID to forecast rates in this case. The OPUC explicitly acknowledged "[t]his

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[22] Exh.No. DRS-3T at 4:20-5:4 (citing Docket No. UE-191024, Exh. MGW-1CT at 41:10-13).
[23] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-191024, Exh. MGW-1CT at 41:15-21 (Dec. 13, 2019).
[24] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-191024, Exh. EL-3 at 50 (Dec. 13,2019).
[25] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-191024, Exh. EL-3 at 113 (Dec. 13, 2019).
[26] *In the Matter of PacifiCorp dba Pacific Power, 2022 Transition Adjustment Mechanism*, Docket No. UE 390, Order No. 21-379 at 33 (Nov. 1, 2021) (The Company contested these assertions from Oregon Staff).

adjustment is limited to the 2022 TAM as we anticipate nodal pricing model benefits across PacifiCorp's two BAAs will be captured with the implementation of Aurora for planning in the 2023 TAM."[27] As I have discussed in previous rounds of testimony, PacifiCorp has used Aurora to forecast NPC in this proceeding.

Q. What is your recommendation to the Commission?

A. I recommend the Commission reject AWEC's proposal on the NPM.

IV. BRIDGER FLY-ASH REVENUES

Q. What is Fly-Ash?

A. Fly-ash is the finely divided residue that results from the combustion of pulverized coal by coal-fired electric and steam generating plants and is used in a variety of construction applications. PacifiCorp's coal-fired plants produce fly-ash, which is then sold through various contracts for use in those engineering applications. Fly-ash sales are reflected in PacifiCorp's base rates through Federal Energy Regulatory Commission (FERC) account 456.

Q. Has PacifiCorp traditionally included fly-ash in the FERC accounts identified for power costs in the order establishing the PCAM?

A. No.

Q. Is it appropriate to include fly-ash in this PCORC as an element related to power costs as requested by AWEC?[28]

A. No. Just like many other elements in base rates, fly-ash production (but not necessarily fly-ash sales) may fluctuate based on how often our plants generate. However, there are other elements like chemical costs that fluctuate based on

[27] *Id.*
[28] Exh. BGM-1CT at 24:10-15.

generation that still remain in base rates. Identifying a single variable to pull out of base rates to include in the PCORC, when it has not traditionally been included in the past solely because it will reduce NPC is not appropriate.

Q. Has AWEC made a similar recommendation in other proceedings?

A. Yes. In PacifiCorp's recently concluded Oregon TAM proceeding, AWEC made an identical recommendation to impute fly-ash revenues into an NPC update. In that case, the OPUC flatly rejected AWEC's recommendation, in part, because "PacifiCorp's increased fly ash revenues are correlated with construction demand and not power production."[29] PacifiCorp recommends the Commission reject this adjustment.

Q. AWEC compares the fly-ash adjustment to the provision in the Multi-Party Stipulation to increase the production tax credit (PTC) rate.[30] Is this an appropriate comparison?

A. No. The value of the PTCs is determined by the IRS and directly provided to PacifiCorp based on the generation of its owned wind facilities. However, fly-ash revenue is dependent on the market for fly-ash, and not directly tied to power costs. Additionally, as part of the settlement approved by the Commission in the 2021 general rate case, PTCs receive separate accounting treatment and are trued up annually to return them to customers in a manner that matches the actual PTCs received by the Company.[31] The benefit of the updated PTC rate will be passed on to

[29] *In the Matter of PacifiCorp dba Pacific Power, 2022 Transition Adjustment Mechanism*, Docket No. UE 390, Order No. 21-379 at 36 (Nov. 1. 2021).

[30] Exh. BGM-1CT at 24:14-15.

[31] *WUTC v. Pac. Power & Light Co.*, Docket Nos. UE-191024, UE-190750, UE-190929, UE-190981, and UE-180778 (consolidated), Final Order 09 / 07 / 12 at ¶ 70 (Dec. 14, 2020).

customers whether it is updated in the PCORC or deferred and passed back in the following year.

V. WHEELING ALLOCATION

Q. AWEC proposes that PacifiCorp should use the system energy (SE) factor for non-firm wheeling costs.[32] Does PacifiCorp oppose this adjustment?

A. No. This issue was not raised to the Company before AWEC filing its testimony in this proceeding. The Washington Inter-Jurisdictional Allocation Methodology allows for non-firm wheeling transactions to be allocated on either a system generation or SE factor.[33] However, since allocating non-firm wheeling transactions on the SE factor is consistent with how this issue is handled in other states, PacifiCorp does not oppose this adjustment from AWEC.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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[32] Exh. BGM-1CT at 25:1-14.

[33] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket No. UE-191024, Exhibit MGW-2 at 16 (Dec. 13, 2019) (Showing the allocations for FERC Account 565, which contains non-firm wheeling costs).