Agenda Date: September 26, 2024
Item Number: A4

Docket: UE-240461
Company: PacifiCorp d/b/a Pacific Power and Light Company

Staff: Kody McConnell, Regulatory Analyst

Recommendation

Commission Staff believes that presently prudency cannot be providently determined in this filing pending regulatory guidance in Docket UE-230482 and accordingly recommends that the Commission motion and approve setting this matter over for adjudicated proceeding.

Filing Purpose

PacifiCorp d/b/a Pacific Power & Light Company (Company) must file a report on its preceding calendar year annual Power Cost Adjustment Mechanism (PCAM) and Production Tax Credit (PTC) activities in a review filing with the Washington Utilities and Transportation Commission (Commission) by June 1 of each following year. [1] The Company provided this 2023 annual review filing to the Commission late on June 14, 2024. Commission Staff (Staff) and interested parties received a 90-day period to evaluate the reasonableness of deferral period PCAM net power cost (NPC) variances and PTC tracker adjustments.[2] The proposed revised tariff sheets seek total NPC variance recovery with interest of $84.5 million[3] representing a 20 percent bill increase to all Schedule 97 affected ratepayers and a PTC variance recovery of $1.2 million representing a 17.7 percent bill increase or $23.57 per month for the average residential ratepayer under Schedules 16, 17, and 19.

Procedural Background

On May 26, 2015, the Commission entered Order 09 in Dockets UE-140762, *et al.(consolidated)* authorizing the Company to implement a PCAM that guardrails adjustments to rates by tracking and recovering NPC variances that exceed an authorized deadband and accrete to an established surcharge or rebate balancing account threshold of $17 million.[4] Variance excursions for NPC beyond the authorized deadband penetrate two sharing bands that extend equidistantly from forecasted baselines and provide proportionally asymmetric distribution of said variances.[5] The Company determines its monthly NPC variances by calculating the difference between actual and authorized NPC. Net variance values receive deferred accounting treatment and accrue

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[1] WUTC v. Pac. Power & Light Co., Docket UE-140762 (consolidated UE-140617, UE-131384, UE-140094), Order 09 at ¶35 (May 26, 2015).
[2] See id. at ¶35.
[3] All million-dollar figures ($MM) described in this memorandum are rounded approximates.
[4] WUTC v. Pac. Power & Light Co., Docket UE-140762 *(consolidated UE-140617, UE-131384, UE-140094)*, Order 10 (June 8, 2015).
[5] See Figure 1: PacifiCorp Power Cost Adjustment Mechanism Visual Model.

interest at the quarterly FERC rate, currently 8.5 percent. The terms of the PCAM establish a 12-month amortization period for the recovery of a ratepayer surcharge or the distribution of a ratepayer rebate.[6] On March 29, 2022, the Commission entered Order 06 in Docket UE-210402 requiring forecast baseline NPC to reflect a Production Factor Adjustment[7] of 99.437 percent.[8] The Company also makes adjustments to actual NPC to reflect 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 in 2015, reductions for coal costs for legal fees related to fines and citations, contract revenue from the Leaning Juniper wind resource, expenses related to Western Resource Adequacy Program (WRAP) participation, and for the costs of fees assessed by the Western Energy Imbalance Market (WEIM) Body of State Regulators (BOSR) and charged to the Company for Commission-related work as a participant in the WEIM.

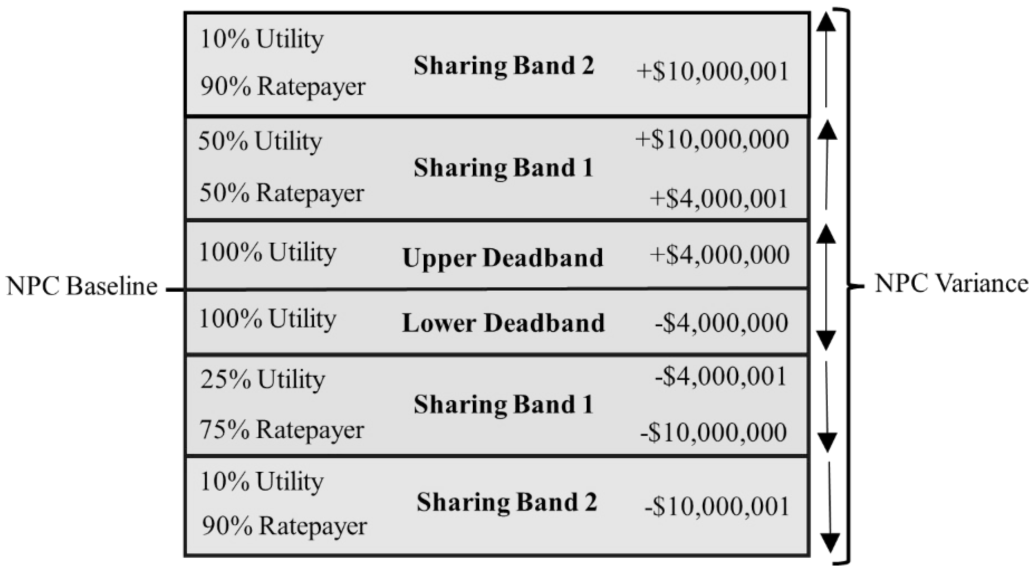

Figure 1: PacifiCorp Power Cost Adjustment Mechanism

On December 14, 2020, the Commission entered Final Order 09/07/12 in Dockets UE-191024, *et al. (consolidated)* directing PTC variances to receive separate accounting treatment and annual true-up without revenues or expenditures flowing through the PCAM or accruing in the deferral balancing account.[9] On January 18, 2022, the Commission entered Order 06/03 in Docket UE-210532, *et al. (consolidated)* resulting in a one-time refund to ratepayers for delays of in-service

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6 WUTC v. Pac. Power & Light Co., Docket UE-140762 *(consolidated UE-140617, UE-131384, UE-140094)*, PCAM Settlement, at ¶18 (May 8, 2015).
7 Before calculating a final NPC baseline rate and forecasted revenue deficiencies, PacifiCorp applies a “production factor adjustment” to proposed NPC baselines to reduce forecasted power cost for the rate year to the test year level.
8 WUTC v. Pac. Power & Light Co., Docket UE-210402, Order 06 at ¶180 (March 29, 2022).
9 WUTC v. Pac. Power & Light Co., Docket UE-191024 *(consolidated UE-190750, UE-190929, UE-190981, UE-180778)*, Final Order 09/07/12 at ¶69 (December 14, 2020).

dates for PTC eligible plants without addressing related at-the-time PTC variances for which it now seeks rate recovery.[10] On March 29, 2022, the Commission entered Order 06 in Docket UE-210402 updating the PTC calculation rate from 2.5 cents per kWh to 2.6 cents per kWh.[11]

<u>NPC Variance Analysis</u>

Forecast Baseline v. Actual

The Company calculates NPC through applying the Washington Interjurisdictional Allocation Methodology (WIJAM) approved by the Commission and using actual allocation factors from the relevant calendar year.[12] Currently applicable forecast baseline WIJAM-allocated NPC was set in Docket UE-210402 at $145.2 million[13] along with forecast baseline annual meter sales of 4,081,607 MWh establishing a forecast baseline dollar per megawatt-hour NPC of $35.57. The Company reports actual adjusted 2023 WIJAM-allocated NPC of $224.4 million along with total actual annual meter sales of 3,850,048 MWh establishing actual dollar per megawatt-hour NPC of $58.28. Actual adjusted 2023 WIJAM-allocated NPC per megawatt-hour increased 64 percent from the approved forecast baseline. In 2023, the Company received $137 million in actual adjusted NPC revenue from Washington ratepayers. This amount was $8.2 million below the forecast baseline NPC revenue and $87.5 million below actual 2023 NPC.[14] The deferral period WIJAM balancing adjustment of $65.5 million is 29 percent of $224.4 million in actual adjusted Washington-allocated 2023 NPC. This is comprised of a $55.8 million increase in short-term power purchase expenses plus a short-term power sales revenue reduction of $9.6 million.[15]

PCAM Calculation

When the $87.5 million 2023 WIJAM-allocated NPC variance flows through the PCAM deadband and sharing band calculations, the Company must absorb approximately $15 million of the 2023 WIJAM-allocated NPC variance. Including the $5 million in total interest accrual on the rate adjustment balancing account during the January 1, 2023, through September 30, 2024, deferred accounting period, the requested NPC recovery amount is approximately $81 million.[16] When including anticipated accrued interest of $3.5 million on the rate adjustment balancing account during the amortized 12-month recovery period, the Company requested NPC recovery amount reaches approximately $84.5 million. The total adjusted 2023 WIJAM-allocated NPC

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[10] WUTC v. Pac. Power & Light Co., Docket No. UE-210532 *(consolidated UE-210328)*, Order 06/03 at ¶42 (January 18, 2022).
[11] WUTC v. Pac. Power & Light Co., Docket No. UE-210402, Order 06 at ¶180 (March 29, 2022).
[12] WUTC v. Pac. Power & Light Co., Docket No. UE-191024 *(consolidated UE-190750, UE-190929, UE-190981, UE-180778)*, Final Order 09/07/12 at ¶92 (December 14, 2020).
[13] WUTC v. Pac. Power & Light Co., Docket No. UE-210402, Commission Compliance Letter (April 29, 2022).
[14] See id. at 7:20-22
[15] WUTC v. Pac. Power & Light Co., Docket No. UE-240461, WP3 at tab "Net Position Balancing" (June 14, 2024).
[16] WUTC v. Pac. Power & Light Co., Docket No. UE-240461, Exh. JP-2 PCAM Calculation (June 14, 2024).

variance alone far exceeds the $17 million rate adjustment balancing account trigger by $64 million and surpasses the PCAM ratepayer surcharge recovery or rebate relief event horizon.

Coal Supply Constraint

The Company asserts that geological, logistical, and financial challenges impacted coal fuel supply in 2023 and caused significant production difficulties among some Wyoming mines. Total state coal production has declined by nearly half since its 2008 peak[17] while the primary long-term coal fuel supplier to the 2,442 MW Jim Bridger Power Plant (JBPP) in Point of Rocks, Wyoming, the adjacent mines of the Black Butte Coal Company (BBCC),[18] have seen a significant impact to operations and personnel since its October 2023 *force majeure* declaration relating to a mine expansion application that remains before the United States Department of Interior and its Office of Surface Mining and Environmental Enforcement.[19] *Force majeure* events are not part of Company forecasts more than a year ahead of occurrence.[20] The Company describes taking action early in 2023 to assure system reliability and mitigate expected shortfalls of BBCC coal supply by adjusting the JBPP dispatch price to match coal fuel delivery schedules. Staff has requested additional data from the Company to provide a more detailed review of these operations. The Company also for the first time in history contracted for JBPP fuel supply from the North Antelope Rochelle Mine (NARM) in Gillette, Wyoming, approximately 300 miles away in the Powder River Basin, the largest low-sulfur coal source in the United States.[21] The coal fuel supply shortage increased average coal generation cost from a dollar-per-megawatt hour of $25.68 to $32.17. Company total coal generation volume dropped 400 GWh or 22 percent below forecast baseline, resulting in a decrease of $1 million in coal fuel expense. However this resource shift rippled through system-wide operations as the Company pivoted to serve ratepayer load with short-term firm market power purchases and additional natural gas generation.

Market Power Purchases

The most significant NPC variance for 2023 is a $70 million increase over the forecast baseline for net purchased power expense and a 283 GWh increase in total net purchased power volumes. The Company actual market purchased power transaction prices averaged 82 percent above

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[17] See 2008-2023 Annual Report of the State Inspector of Mines of Wyoming at Page 6.
[18] BBCC in 2011 became a joint venture between Anadarko Petroleum Corporation and Ambre Energy Limited. Occidental Petroleum Corporation acquired Anadarko Petroleum Corporation in 2019. Berkshire Hathaway, the ultimate holding company of Pacific Power and Light Company, first purchased Occidental Petroleum Corporation shares during the first quarter of 2022. In August of that year, Berkshire Hathaway received regulatory approval to purchase up to 50 percent of Occidental Petroleum Corporation. By June 18, 2024, the total equity position in Occidental Petroleum Corporation held by Berkshire Hathaway was 29 percent.
[19] *Force Majeure* clauses are meant to excuse non-performance provided the failure to perform could not be avoided or cured by the exercise of due diligence and care. Without federal approval, Black Butte Coal Company appears to be operationally incapable of the production required to meet existing coal supply contractual obligations with JBPP.
[20] WUTC v. Pac. Power & Light Co., Docket UE-230482, Exh. DRS-1CT at 34:22-23 (May 2, 2024).
[21] Annual Coal Report 2022, United States Energy Information Administration.

forecast baseline with dollar-per-megawatt hour cost increasing from $56.14 to $102.14 and purchased power volumes 30 percent above forecast baseline. The 2023 average monthly high-load-hour (HLH) dollar-per-megawatt hour market price for the Mid-Columbia energy trading hub was $85.51 which is 19 percent lower than the average actual Company market power purchase transaction price, while the 2023 average monthly HLH dollar-per-megawatt hour market price for the Four Corners energy trading hub was $81.12 which is 26 percent lower than the average actual Company market power purchase transaction price. The high forecast baseline variances are a concern for Staff and may possibly reflect a design weakness of WIJAM-allocated NPC. Actual 2023 wholesale market volumes were 353 percent higher than forecast baseline with total transmission of 34 GWh. However the average price of actual wholesale short-term firm and system balancing transactions was 31 percent below forecast baseline yet wholesale revenues were still above forecast baseline thus reducing system NPC by $2 million.

Natural Gas Generation

At the end of 2023 actual natural gas fuel expense exceeded forecast baseline by $47 million, largely the consequence of coal supply constraints and the increase of 198 GWh of natural gas generation volume, 35 percent higher than forecast baseline. Despite higher natural gas market prices, natural gas generation plants were merit dispatched by the Company on a least-cost basis over less economic market purchases. This additional total utilization of natural gas generation increased average gas generation cost from a dollar-per-megawatt hour of $44.03 to $44.20. The regional market prices of natural gas continue to trend higher, punctuated by occasional volatile upside variances during extreme cold weather liquidity events, such as in January 2023 when Sumas natural gas import prices achieved a historical high of $21.97. While average prices at the Sumas and Opal natural gas trading hubs were 48 and 43 percent lower in 2023 than in 2022, this remains 32 and 87 percent higher than market natural gas price average from 2016-2020.[22]

Meteorological Considerations

Below historical average precipitation trends continued to impact western region hydropower generation volume variances throughout 2023. Consequently, actual hydropower generation fell 13 percent below forecast baseline reducing system net power supply by 36 GWh and resulting in $3.6 million of additional WIJAM-allocated NPC. When comparing the 2016-2019 period to 2020-2023, averaged quadrennial hydropower generation decreased 18 percent. In January 2023 storms and relatively extreme cold weather for the region caused widespread power reliability issues throughout the Pacific Northwest and exacerbated Sumas natural gas trading hub liquidity constraints causing market prices to skyrocket before collapsing over 70 percent into February.

System Resource Hedging

The Company is presently in an adjudicated proceeding in Docket UE-230482 relating to system resource hedging and NPC for Washington ratepayers in the 2022 annual PCAM review filing. In addition to the emergent coal supply constraint on JBPP, the 2023 annual PCAM review filing

[22] Data source: U.S. Energy Information Administration

similarly describes significant Washington ratepayer impacts of such heavy reliance on market purchases, dismissing elevated NPC as unexpected as it continues to increase substantially. Also, the long-term challenge of decorrelation between power and gas prices resulting from renewable penetration continues to increase the difficulty of hedging power price risk with natural gas.[23] The Company provides semi-annual hedging reports to four other state regulatory commissions but not to the Washington Commission and should be encouraged to do so. In 2023 as in 2022 the Company reports short-term firm power purchases and power sales in each month while also calculating Washington's net position as being short each month.[24] Procured hedges provided some mitigation against increasing market prices but reasonably not complete protection. Staff awaits Commission guidance as to whether system-wide resource hedging practices demonstrate quantifiable direct or indirect benefits to Washington ratepayers commensurate with their cost.[25]

WEIM Participation

Participation in the WEIM offers substantive benefits to Washington ratepayers by effectively reducing actual adjusted NPC through leveraging market access to more advantageous power generation production costs and wholesale revenues. CAISO-reported WEIM participation benefits during 2023 were $154 million reaching $746 million overall since market inception.

New Renewables

From 2024-2025 the Company is committed to growing its system-wide renewable resource portfolio by 1,864 MW of which 300 MW is solar and 1564 MW is wind. These new plants are spread throughout Colorado, Wyoming, and Utah. None are being constructed in Washington.

<u>PTC Tracker</u>

For each kilowatt-hour generated at their eligible facilities the Company receives a renewable energy PTC for a duration of 10 years from start of plant commercial operations. The PTC is counted as an offset to Company federal income taxes and credited for ratemaking purposes. PTC recovery cadence parallels and is integrated into annual PCAM review filings but does not flow into annual NPC calculations. Washington-allocated 2023 actual PTC collections show a variance of $1.1 million, or 5.7 percent below forecast baseline along with $72,088 interest.

<u>Interested Parties</u>

This matter is of significant economic and policy impact and has the attention of numerous intervening stakeholders, most of whom are currently engaged in the adjudicated proceeding of the 2022 annual PCAM review filing in Docket UE-230482.

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[23] Western Interstate Energy Board, Bilateral Forward Contracting in the West (August, 2024).
[24] WUTC v. Pac. Power & Light Co., Docket UE-240461, WP3 at tab "Net Position Balancing" (June 14, 2024).
[25] WUTC v. Pac. Power & Light Co., Docket UE-050684 *(consolidated UE-050412)*, Order 04/03 at ⁋68 (April 17, 2006).

Conclusion

Staff deems the narrative testimonies and workbooks provided adequate but cannot reasonably providently determine prudency pending resolution of Docket UE-230482. Any tariff revisions to rates and related cost recovery should be fair, just, reasonable, and sufficient while furthering the essential public interest in preserving the integrity of the regulatory social construct.