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’s Post-Hearing Brief

February 11, 2022

REDACTED VERSION
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I.  INTRODUCTION

PacifiCorp dba Pacific Power and Light Company (PacifiCorp or Company) respectfully submits this Post-Hearing Brief to the Washington Utilities and Transportation Commission (Commission) in support of the Settlement Stipulation (Stipulation) reached in this Power Cost Only Rate Case (PCORC) by the Company, Commission Staff (Staff), The Energy Project, and Walmart, Inc. (collectively, the Settling Parties). The Alliance of Western Energy Consumers (AWEC) is the only party that opposes the Stipulation.

The PCORC is a narrowly tailored filing designed to update the Company’s net power cost (NPC) baseline. The goal is to set the Company’s power cost baseline “as close as possible to the forecasted power costs during the rate year, based on the most up-to-date information.” To that end, and consistent with well-established Commission precedent, the Stipulation includes a provision requiring PacifiCorp to update its NPC baseline as part of the compliance filing. The NPC update is straightforward and will use the same methodology and modeling that PacifiCorp used in the direct filing, which no party opposed. The Company will update only a handful of critical and verifiable model inputs: (1) the most recent official forward price curve (OFPC); (2) wholesale electric
sale and purchase contracts that are for long-term firm sales and purchases; (3) short-term firm sales and purchases; and (4) natural gas sales and purchase contracts. By updating these inputs immediately before the rate effective period, the forecast will set NPC “as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of” this PCORC.4

The Stipulation also includes specific adjustments to other items, including adjusting NPC by the production factor and an update of the production tax credit rate. Neither of these adjustments are contested. The Stipulation, including the update provision, is lawful, supported by an appropriate record, and consistent with the public interest.5

After initially indicating their support for the settlement, AWEC now opposes the settlement, including the NPC update. Instead of using the most up-to-date market prices—consistent with Commission precedent—AWEC recommends setting the NPC baseline using the most out-of-date market prices in the record. AWEC’s insistence on using the March 31, 2021, OFPC would result in customer rates that are out-of-date before they become effective. Intentionally setting the NPC baseline too low by using year-old market data is contrary to Commission precedent, basic ratemaking principles, and even AWEC’s prior advocacy.

AWEC also proposes additional adjustments by imputing Nodal Price Model (NPM) benefits to Aurora and including non-NPC fly ash revenue in the PCORC. Neither adjustment finds support in the record. First, the Company testified that the NPM will reduce actual NPC costs by creating a more efficient day-ahead set up in actual

4 Docket No. UG-040640 et al., Order No. 06 at ¶ 108.
5 WAC 480-07-750(2).
operations—i.e., the NPM reduces *actual costs* incurred because of the difference between the Company’s day-ahead set up and real-time dispatch. Because Aurora is already perfectly optimized and balances the system in a single step, there are no costs in the NPC forecast that are avoided as a result of the NPM. The NPM will reduce actual costs—to customers’ benefit—but does not warrant reducing the NPC forecast in Aurora. AWEC did not dispute this evidence or provide any evidence that the NPM will reduce Aurora’s NPC forecast. Instead, AWEC focused on the inability to quantify the NPC benefits resulting from the NPM without disputing that those benefits accrue in actual operations, not Aurora. The inability to quantify the NPM benefits is therefore irrelevant because even if PacifiCorp could quantify the benefits, the benefits are not incremental to the NPC modeling in Aurora. AWEC also relies on an order from the Public Utility Commission of Oregon (OPUC) that expressly does not apply to Aurora.

Second, AWEC recommends expanding the limited scope of the PCORC to include non-NPC revenues resulting from the sale of fly ash. AWEC’s adjustment is improper single-issue ratemaking, violates the matching principle, and is contrary to the defined and limited scope of the PCORC.

The Commission should approve the Stipulation in its entirety and without condition. The Stipulation conforms to Commission precedent, is supported in the record, and is in the public interest. AWEC’s adjustments, on the other hand, are directly contrary to well-established precedent, lack support in the record, and are contrary to the public interest because they would frustrate the PCORC’s purpose, which is to set the NPC baseline as accurately as possible.
II. BACKGROUND

This proceeding results from the settlement stipulation in the Company’s last general rate case, docket UE-191024 (2021 Rate Case), which the Commission approved on December 14, 2020. The settlement stipulation called for the Company to file a PCORC by June 1, 2021, to reset the NPC baseline, incorporate the change into base rates, and review deferred accounting treatment for major maintenance expenses at Colstrip Unit 4. To comply with the 2021 Rate Case stipulation, the Company filed this PCORC on June 1, 2021, requesting an updated baseline NPC of $114.8 million, $4.7 million less than the baseline established in the 2021 Rate Case. After discovery, supplemental testimony, and three workshops, the parties to this case reached a full multi-party settlement in principle. Consequently, Staff notified the Commission of the settlement and requested to suspend the procedural schedule on October 8, 2021.

The settlement, as reflected in the Stipulation, requires PacifiCorp to update its NPC as part of the compliance filing after a Commission order. The update “will be calculated in the same manner as the baseline that was used to derive the revenue requirement” in the Stipulation. The update “will be based on the most recent OFPC available [which is anticipated to be the March 2022 OFPC] and will also reflect the Company’s electric and gas hedging and contract positions through December 31, 2021.” The “electric and gas hedging and contract positions” that will be updated include: (1) wholesale electric sale and purchase contracts that are for long-term firm

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7 Docket No. UE-191024 et al., Order No. 09 / 07 / 12 at ¶¶ 64-66 (Dec. 14, 2020).
8 Wilding, Exh. MGW-1CTr at 4:5 (Jan. 7, 2022).
9 PCORC Stipulation at ¶ 8.
10 Exh. JT-1CT at 10:19-21 (Nov. 5, 2021).
sales and purchases; (2) short-term firm sales and purchases; and (3) natural gas sales and purchase contracts. The update will not include any new long-term contracts. The Company will also update Energy Imbalance Market (EIM) benefits.

In addition to the NPC update, the Stipulation also contains several other provisions including: (1) a requirement to apply 99.437 percent production factor to the Company’s NPC baseline in order to match load and cost; (2) an update to the Company’s Production Tax Credit (PTC), increasing PTCs currently reflected in base rates to 2.6 cents/kWh; (3) an agreement to include only $4 million of the Company’s $8.3 million annual fee for the NPM in the PCORC baseline; and (4) an agreement to not contest the prudence of the deferral of major maintenance expenses at Colstrip Unit 4 through 2020 and early 2021.

While AWEC initially supported the settlement in principle, it subsequently withdrew from the Stipulation and now opposes it. AWEC now disputes the Stipulation’s NPC update and recommends that the Commission set the NPC baseline using the OFPC from March 31, 2021. AWEC also recommends that the Commission impute additional benefits resulting from the Company’s transition to the NPM.

Finally, AWEC recommends that the Commission expand the PCORC to include non-NPC revenues by imputing revenues from the sale of fly-ash, which PacifiCorp includes

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12 See Docket No. UE-210402, Settling Parties Response to Bench Request 2 (“PacifiCorp has determined that there are no long-term PPAs that will be allocated to Washington in 2022 or in the proposed compliance stage NPC update for this proceeding that were not identified [within the Company’s initial filing.”).
13 Wilding, Exh. MGW-1CTr at 15:9-16:15.
14 PCORC Stipulation at ¶ 9.
15 PCORC Stipulation at ¶ 10.
16 PCORC Stipulation at ¶ 11.
17 PCORC Stipulation at ¶ 14.
19 Mullins, Exh. BGM-1CT at 23:4-11.
in non-NPC base rates.20

After AWEC filed testimony opposing the Stipulation, PacifiCorp and Staff filed rebuttal testimony supporting the Stipulation as consistent with Commission policy and the public interest.21 Staff’s testimony not only supported the power cost update in the Stipulation but opposed AWEC’s other two adjustments as inappropriate.22

III. LEGAL STANDARD

The Commission will approve a settlement “when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all information available to the commission.”23 The Commission may approve a settlement with conditions, approve a settlement without conditions, or reject the settlement.24

IV. ARGUMENT

A. The Stipulation’s update ensures a more accurate NPC baseline.

1. Compliance filing updates are consistent with well-established Commission precedent and ensure an up-to-date NPC forecast.

“The goal of a PCORC proceeding is to set the Company’s power cost baseline as close as possible to the forecasted power costs during the rate year, based on the most up-

20 Mullins, Exh. BGM-1CT at 24:10-15.
21 See generally Wilding, Exh. MGW-6Tr (Jan. 7, 2021); Gomez, Exh. DCG-1CT (Dec. 13, 2021).
22 See Gomez, Exh. DCG-1CT at 28:20-29:5 (“Staff is not convinced from the current record that it is appropriate to adjust base rates established in the 2020 GRC to include Fly Ash revenues not presently included in rates and not, at the same time, consider changes in other costs and revenues since base rates were approved by the Commission (single-issue ratemaking).”); see also Gomez, Exh. DCG-1CT at 31:11-15 (“Rather than disallow the costs associated with NPM or introduce a bias in PCAM base values by plugging in an arbitrary amount representative of NPM benefits as proposed by Mr. Mullins—the Stipulation implicitly presumes NPM generates benefits which, although unquantified in base values, manifest themselves through actuals which in turn pass through the PCAM bands.”).
23 WAC 480-07-750(2).
24 Id.
to-date information.”25 The Commission has explained that “power costs determined in general rate proceedings and in PCORC proceedings should be set as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of such proceedings.”26 The Commission has emphasized the importance of determining “with the greatest degree of precision that forward looking models can produce, an accurate estimate of actual costs that [the utility] will experience in the near and intermediate terms.”27

15 To ensure that forecasted NPC matches actual NPC as closely as possible, the Commission has “routinely . . . allowed, and even required, power cost updates related to changes in fuel supply costs late in general rate proceedings, even at the compliance stage”28:

• In Puget Sound Energy’s (PSE) 2005 PCORC, the Commission approved a stipulation requiring a compliance filing NPC update that included an update to natural gas costs.29 The Industrial Customers of Northwest Utilities (ICNU), AWEC’s predecessor organization, joined the stipulation and supported the NPC compliance filing update.30

• In PSE’s 2006 general rate case, the Commission again required a compliance

25 Docket No. UE-200980, Order No. 05 at ¶ 13 (emphasis added); see also Docket No. UE-130583 et al., Order No. 02 / 06 at ¶ 33 (stating that the goal of a PCORC is to set the NPC baseline rate “as closely as possible” to actual NPC in the rate year); Docket No. UE-072300 et al., Order No. 13 at ¶ 29 (reiterating that one of the primary purposes of the PCORC is to allow NPC rates to adjust, when appropriate, to avoid large deferral balances and manage risk for customers and utilities).
26 Docket No. UG-040640 et al., Order No. 06 at ¶ 108.
27 Docket No. UG-040640 et al., Order No. 06 at ¶ 107.
28 WUTC v. Pac. Power & Light Co., Docket Nos. UE-140762, UE-140617, UE-131384, & UE-140094 (consolidated), Order No. 07 at ¶ 4 (Dec. 5, 2014) (emphasis added). While not at the compliance stage, the Commission did require PacifiCorp to update gas prices in its 2010 rate case with “the most recent gas forward prices” published after the Company’s hearing, but before the Commission issued its final order. See WUTC v. PacifiCorp dba Pac. Power & Light Co., Docket No. UE-100749, Order No. 06 at ¶¶ 192-93 (Mar. 25, 2011).
30 Docket No. UE-050870, Order No. 04, App’x A at ¶ 2 (Oct. 20, 2005).
filing NPC update.\textsuperscript{31} In that case, ICNU argued that PSE should be required to update power costs to set NPC “as closely as possible to costs that are reasonably expected to be actually incurred during short and intermediate periods following the conclusion of such proceedings.”\textsuperscript{32} The Commission affirmed its “preference for updated gas costs” and required a compliance filing update because it “should be a straightforward, mechanical and non-controversial process.”\textsuperscript{33}

- In 2007, when discussing procedural modifications for PSE’s PCORC, the Commission clarified that it could order NPC updates during the course of a PCORC and “may order a second update at the compliance stage if power costs have increased or decreased due to changes in natural gas prices.”\textsuperscript{34}

- In Avista’s 2010 general rate case, the Commission approved a stipulation that did not include an NPC update.\textsuperscript{35} But before doing so, the Commission expressed “concerns with this approach,” noting that, “[t]o provide the most accurate cost forecast at the time of setting rates, companies have incorporated the most current energy pricing information into their forecasts.”\textsuperscript{36} The Commission continued that the use of up-to-date pricing ensures that “rates are set using the most accurate projection of future market conditions.”\textsuperscript{37} The Commission ultimately approved the stipulation without an update because it was universally supported and after finding that “more recent market data would not substantially affect authorized power costs.”\textsuperscript{38}

- In PSE’s 2011 general rate case, the Commission approved a post-hearing NPC

\begin{itemize}
  \item \textsuperscript{31} \textit{WUTC v. Puget Sound Energy, Inc.}, Docket Nos. UE-060266 & UG-060267, Order No. 08 at ¶ 104 (Jan. 5, 2007).
  \item \textsuperscript{32} Docket No. UE-060266 \textit{et al.}, Order No. 08 at ¶ 102 (citing ICNU Initial Brief at ¶¶ 11-14).
  \item \textsuperscript{33} Docket No. UE-060266 \textit{et al.}, Order No. 08 at ¶ 104.
  \item \textsuperscript{34} Docket No. UE-072300 \textit{et al.}, Order No. 13 at ¶ 46 (emphasis added).
  \item \textsuperscript{35} \textit{WUTC v. Avista Corp. dba Avista Utils.}, Docket Nos. UE-100467 & UG-100468 (consolidated), Order No. 07 at ¶ 24 (Nov. 19, 2010).
  \item \textsuperscript{36} Docket No. UE-100467 \textit{et al.}, Order No. 07 at ¶¶ 21-22.
  \item \textsuperscript{37} Docket No. UE-100467 \textit{et al.}, Order No. 07 at ¶ 21.
  \item \textsuperscript{38} Docket No. UE-100467 \textit{et al.}, Order No. 07 at ¶¶ 23-24.
\end{itemize}
update filed one week before the Commission issued its final order and 14 days
before the rate effective date.39 In that case, ICNU argued that 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.”40 ICNU recommend an update “just prior to
rates going into effect and in the manner with which they have been updated in
the past and in this proceeding.”41 The Commission approved the update,
requiring PSE to produce a power cost update using the most recent forward
natural gas prices.42 Nonetheless, the Commission made clear that it “generally
allows power costs to be updated during general rate cases to reflect new
forecasted gas and electric market prices, new firm contracts, or budget updates
from third party owners of resources such as the Mid-C projects.”43

- Most recently, on June 1, 2021—concurrent with PacifiCorp’s PCORC filing—
the Commission approved a stipulation in PSE’s PCORC that included a
compliance filing update “to reflect the most up-to-date natural gas prices as well
as the most up-to-date electric and gas hedging positions.”44 AWEC supported
PSE’s compliance filing update, and the Commission approved the stipulation as
“consistent with the public interest” because it was aligned with the “goal of a
PCORC proceeding . . . to set the Company’s power cost baseline as close as
possible to the forecasted power costs during the rate year, based on the most up-
to-date information.”45

40 Wilding, Exh. MGW-6Tr at 4:15 (quoting Docket No. UE-111048 et al., ICNU Post-Hearing Brief at 40 (Mar. 16, 2012) (internal quotations omitted)).
41 Wilding, Exh. MGW-6Tr at 4:15 (quoting Docket No. UE-111048 et al., ICNU Post-Hearing Brief at 40 (internal quotations omitted)).
42 Docket No. UE-111048 et al., Order No. 08 at ¶ 226.
43 Docket No. UE-111048 et al., Order No. 08 at ¶ 220.
44 Docket No. UE-200980, Order No. 05, App’x A at ¶ 11 (June 1, 2021).
45 Docket No. UE-200980, Order No. 05 at ¶¶ 13-14.
Here, the Stipulation conforms to the Commission’s long-standing goal of setting NPC using the most accurate forward prices and up-to-date information. The Stipulation’s NPC update will use the same baseline modeling that was used in the Company’s initial filing, which was not contested. The Stipulation will update forward prices, just like the update approved for PSE in its 2005 PCORC, its 2006 and 2011 general rate cases, and its 2020 PCORC. The Stipulation will also update the Company’s hedging positions, which is consistent with PSE’s 2020 PCORC. Although the Commission has not previously approved updates to long-term contracts, doing so is consistent with the Commission’s practice of regularly updating prices and short-term contracts. And in this case, the update will not include new long-term contracts. Updating a power cost model with the most recent information results in a more accurate forecast. By requiring the most accurate and up-to-date price inputs, the Stipulation follows Commission precedent to match projected NPC as closely as possible to actual NPC.

2. The NPC update is straightforward.

The updated NPC inputs included in the Stipulation are straightforward, objective,
and non-controversial.53 Indeed, in PSE’s 2020 PCORC, AWEC supported a compliance filing update that included updated prices and hedging positions, showing the non-controversial nature of these updates.54

Here, AWEC argues that the Stipulation’s NPC update will be controversial because it will rely on both actual and forecast market prices because the update will occur three months into the rate year.55 But using actual market prices as model inputs does not fundamentally change the model itself or the optimization logic that informs its results.56 It simply removes a source of uncertainty by using actual indexed prices in place of the forward broker quotes in the price curve.57 This update aligns with the Commission’s overarching policy to use the most up-to-date information during power cost updates.58

AWEC claims that the use of actual inputs improperly uses non-normalized inputs to produce a normalized NPC forecast.59 But market prices, purchase and sales transactions, and contracts are not normalized; the inputs are specific to the test period.60

AWEC also suggests that the NPC update is inherently more complicated than the same updates in PSE’s PCORCs because of differences between the two utilities’ Aurora modeling.61 Essentially, AWEC argues that because PSE only updates natural gas prices

53 See, e.g., Wilding, Exh. MGW-6Tr at 5:1-13 (discussing the routine nature of power cost updates in PacifiCorp’s Oregon TAM proceeding); Gomez, Exh. DCG-1CT at 16:3-4 (“Based on my experience, the update is usually the most uncontroversial part of the case.”).
54 See Docket No. UE-200980, Order No. 05, App’x A at ¶¶ 1 & 11.
55 Mullins, Exh. BGM-1CT at 7:15-17.
56 Gomez, Exh. DCG-1CT at 17:18-19.
57 Gomez, Exh. DCG-1CT at 17:19-18:1.
58 Docket No. UE-200980, Order No. 05 at ¶ 13; see also Gomez, Exh. DCG-1CT at 18:3-5 (arguing that the use of the December 2021 OFPC “may not be the most up-to-date information available for the Commission to set NPC baseline—the stated goal of the PCORC”).
59 Mullins, BGM-1CT at 16:20-21 (“The [NPC] baseline is supposed to represent a normalized forecast, not actual costs.”).
60 Wilding, Exh. MGW-6Tr at 9:15-22.
61 Mullins, Exh. BGM-1CT at 7:1-7.
in its Aurora model and PacifiCorp updates natural gas and electric prices, the Company’s model is more “unpredictable.” But AWEC supplies no evidence that PacifiCorp’s model is less predictable because electric prices are an input instead of an output. The Company makes clear that it will use the same modeling methodology from the original filing to conduct the update. As Staff explained during the hearing, the modeling differences do not change the core need to update pricing assumptions within the NPC forecast model to accurately predict NPC. In other words, “whether it be Puget Sound Energy, Avista, or in this case Pacific Power. All of those [methodologies] require an update.”

Furthermore, AWEC’s suggestion that the NPC update here is somehow complicated and controversial is undermined by the Company’s annual Transition Adjustment Mechanism (TAM) proceedings in Oregon, which have NPC compliance filing updates just like the one here. The TAM requires PacifiCorp to update its NPC forecast in a compliance filing after the commission order based on the latest OFPC for gas and electric prices and contracts, including “(a) wholesale electric sales and purchase contracts that are for long term firm sales and purchases, short term firm sales and purchases, or exchanges and storage with and without energy or capacity prices; and (b) natural gas sales and purchase contracts,” just like the update included in this

62 Wilding, Exh. MGW-6Tr at 2:7-8.
63 Mullins, Exh. BGM-1CT at 7:2-4.
64 Wilding, Exh. MGW-6Tr at 2:16-19.
65 Gomez, TR. 113:2-23.
66 Gomez, TR. 113:21-23.
67 See In re PacifiCorp, dba Pac. Power, 2009 Transition Adjustment Mechanism Schedule 200, Cost-Based Supply Service, Docket No. UE 199, Order No. 09-274, App’x A at 11-12 (July 16, 2009) (outlining the procedures for the Company’s compliance filing updates within the TAM).
Notably, AWEC has never litigated a TAM update, which undermines its claim that the update will be controversial and not straightforward.69

3. The Stipulation allows AWEC adequate time to review the update.

The Commission’s rules are designed to allow sufficient time for the Commission and parties to review compliance filings before the rate effective date.70 Moreover, the Commission’s rules include a process to dispute the “filing’s compliance with the final order.”71 Building on the Commission’s established process for review of compliance filings, the Stipulation provides even more review time than the Commission’s rules—a full two weeks to review and verify the NPC update.72 Staff testified that the Stipulation’s review period is sufficient and is longer than the comparable review period included in PSE’s 2020 PCORC update.73

In testimony, AWEC argues that the compliance filing process is legally insufficient because there is no opportunity for discovery, testimony, and a hearing in response to the compliance filing.74 Elsewhere, AWEC suggests that the Commission cannot ensure “just and reasonable” rates if the actual rates are not approved in the Commission’s final order.75 These arguments ring hollow. Rates will become effective only after the Commission’s review of the compliance filing, which will be longer than

68 See Docket No. UE 199, Order No. 09-274, App’x A at 11-12; see also Exh. JT-1CT at 10:21-11:5 (explaining that the Stipulation includes updates to “[w]holesale electric sale and purchase contracts that are for long-term firm sales and purchases; short term firm sales and purchases; and natural gas sales and purchase contracts”).
69 See Wilding, Exh. MGW-6Tr at 5:10-13 (discussing AWEC’s history of promptly reviewing compliance filings in Oregon TAM proceedings).
70 WAC 480-07-880(4).
71 WAC 480-07-880(6).
72 Wilding, Exh. MGW-6Tr at 5:16-18.
73 Gomez, Exh. DCG-1CT at 8:2-9.
74 See Mullins, Exh. BGM-1CT at 13:20-14:4.
75 Mullins, Exh. BGM-1CT at 11:9-12:2.
the five-day review period afforded by the Commission’s own rules.\textsuperscript{76} AWEC’s position here is also undermined by its prior support for exactly the same type of compliance filing updates that it now claims are legally impermissible.\textsuperscript{77} Indeed, AWEC supported PSE’s 2020 PCORC update that contained many of the same features that AWEC criticizes here.\textsuperscript{78} Taken together, the Commission’s current rules for compliance filings,\textsuperscript{79} the expanded review process in the Stipulation,\textsuperscript{80} and the full adjudicative process provided in this proceeding meet the hearing and inquiry requirements under Washington law.\textsuperscript{81}

4. **AWEC unreasonably recommends setting the NPC baseline with the oldest information in the record.**

PCORC updates should be based on “the most up-to-date information.”\textsuperscript{82} Using a March 2022 OFPC\textsuperscript{83} to set the NPC baseline will more accurately reflect market consensus regarding supply and demand conditions expected to occur during the rate year because there will be less uncertainty regarding expected hydro conditions, weather patterns, natural gas storage inventories, and resource availability.\textsuperscript{84}

\textsuperscript{76} WAC 480-07-880(4) (“Commission staff must, and any other party in the docket may, file a response to the compliance filing within five business days from the date it is filed or by such other deadline as the commission may establish.”).

\textsuperscript{77} See, e.g., Docket No. UE-200980, Order No. 05 at ¶¶ 8 & 11 (AWEC was a party to the stipulation containing a substantively identical power cost update); Docket No. UE-191024 \textit{et al.}, Order No. 09 / 07 / 12 at ¶ 71 (AWEC was a party to the settlement in this case which required PacifiCorp to file an update to NPC baseline); Docket No. UE-111048 \textit{et al.}, Order No. 08 at ¶ 224 (“ICNU and Staff both recommend that PSE be required to continue updating projected power costs through, and beyond, the rebuttal stage of this proceeding.”); Docket No. UE-060266 \textit{et al.}, Order No. 08 at ¶ 102 (“Joint Parties [including ICNU, now AWEC] argue PSE should be required to update its power cost projection to reflect natural gas prices that decreased subsequent to the Company’s supplemental filing.”).

\textsuperscript{78} Docket No. UE-200980, Order No. 05, App’x A at ¶¶ 1 & 11.

\textsuperscript{79} WAC 480-07-880.

\textsuperscript{80} PCORC Stipulation at ¶ 13.

\textsuperscript{81} See RCW 80.04.130(1) & 80.04.150.

\textsuperscript{82} Docket No. UE-200980, Order No. 05 at ¶ 13.

\textsuperscript{83} PCORC Stipulation at ¶ 12.

\textsuperscript{84} Wilding, Exh. MGW-6Tr at 3:19-4:10; Gomez, Exh. DCG-1CT at 13:4-14.
AWEC’s recommendation to use the March 2021 OFPC to set rates that will be effective on May 1, 2022, would intentionally use the most out-of-date information in the record. AWEC provides no analysis of any kind showing that year-old market data will produce a more accurate NPC forecast for the near and intermediate term. Instead, AWEC relies on pure conjecture and contradicts—without explanation—its previous position that updating price inputs “will result in more accurate power costs[.]”

“[A]bsent a rigorous analysis” the Commission will assume “that more recent data predicts the near and perhaps even the intermediate term better than older data.” AWEC’s unsupported and illogical argument must be rejected.

5. PacifiCorp’s hedging practices are prudent.

There is no dispute that market prices have increased considerably during the course of this case and are expected to remain higher during the rate year. Despite dramatic and unanticipated increases in market prices, AWEC claims that “[a]ny potential increase to baseline NPC relative to PacifiCorp’s initial filing . . . can only be attributable to an imprudent hedging policy[.]” This argument, however, has no evidentiary support in the record.

First, AWEC claims that the Company has under-hedged its position and is therefore exposing customers to increased market prices based on analysis contained in Exhibit BGM-3C that purports to show PacifiCorp had hedged only a small percent of

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85 See Mullins, Exh. BGM-1CT at 2:18-19.
86 See Gomez, Exh. DCG-1CT at 13:4-10.
87 Wilding, Exh. MGW-6Tr at 4:11-15.
88 See Docket No. UE-111048 et al., Order No. 08 at ¶ 226 n.304.
89 Gomez, Exh. DCG-1CT at 13:6-14; see also Wilding, Exh. MGW-6Tr at 3:20-4:5 (explaining that market participants will have “more reasonable expectations regarding physical conditions in the western energy markets” for 2022 in March 2022 than they did in March 2021).
90 Mullins, Exh. BGM-1CT at 19:4-7.
Washington-allocated market purchases as of March 31, 2021.91 PacifiCorp, however, explained at hearing that Exhibit BGM-3C did not reflect the Company’s hedging position because the exhibit does not contain the correct data.92 AWEC’s analysis relied on the Aurora run supporting the Company’s direct filing, but the Company made clear that “.”

Accordingly, the percentages given by AWEC are “” PacifiCorp’s hedging position or risk management policy.94

Second, AWEC’s testimony ignores the time horizon over which the Company actively hedges. AWEC’s analysis purporting to show that the Company was under-hedged relied on data from March 31, 2021. However, PacifiCorp hedges ratably over time, with hedges increasing as the time to expiration decreases.95 PacifiCorp most actively manages hedges on a 12-month planning window.96 Meaning that, in this case, nine months of the 2022 test period were outside the Company’s most active planning window when the Company made its initial filing based on March 31, 2021 data.97 Over time, however, the Company has increased its hedging position in line with the Company’s ratable hedging policy.98 Staff also points out this oversight in AWEC’s analysis by explaining that “the Company had not yet completed its hedge position for

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91 Mullins, Exh. BGM-1CT at 15:3-4.
93 Wilding, TR. at 100:9-12.
94 Wilding, TR. at 100:22-101:1.
95 Wilding, Exh. MGW-6Tr at 7:21-22.
96 Wilding, Exh. MGW-6Tr at 7:22-8:1.
97 Wilding, Exh. MGW-6Tr at 8:1-3.
98 Wilding, Exh. MGW-6Tr at 8:3-5.
the upcoming rate year” at the time of the initial filing.99 Staff makes clear that “the lack of hedge contracts for the rate year within the initial filing . . . is not evidence of imprudence on the part of the Company—but instead highlights the importance of the proposed update”—which will include hedges executed after March 31, 2021.100

Third, AWEC’s position misstates the purpose of hedging. AWEC’s argument essentially presumes that the Company executes hedges to “beat the market.” In fact, PacifiCorp’s hedging policy allows the Company to hedge as a system to reduce price volatility and ensure the Company has sufficient firm electric power to serve customers.101 PacifiCorp’s policy is consistent with E3’s conclusion that “companies do not engage in hedging for the purpose of minimizing energy costs; rather the purpose of hedging programs is to manage energy cost variability.”102 PacifiCorp is not a speculator in the market and does not engage in speculative hedges to beat the market; therefore, the fact that increased market prices increase NPC is not evidence of imprudent hedging.

Fourth, AWEC’s position on the Company’s hedging activities directly opposes the position it took in a prior Oregon TAM, where ICNU argued that PacifiCorp had over-hedged its gas position by locking in gas prices too early. In that case, ICNU contended that a “utility should . . . minimize the amount of gas transactions executed long before the gas is actually needed.”103 This position directly contradicts AWEC’s argument now that the Company should have hedged more and earlier.

Finally, AWEC presented no evidence that the Company’s hedging policy is

99 Gomez, Exh. DCG-1CT at 18:15-17.
100 Gomez, Exh. DCG-1CT at 19:3-7.
101 Wilding, TR. 72:9-17, 72:23-73:12; Wilding, Exh. MGW-6Tr at 7:5-17.
102 Exh. DCG-2 at 3 (emphasis in original).
imprudent or that the Company’s actual hedges departed from its hedging policy. 104

Indeed, the reduction in system-wide NPC shows that the Company’s hedging practices are prudent. 106

32 Despite the prudence of the Company’s hedging practices, Washington customers can still experience significant impacts caused by dramatically increasing market prices due to Washington’s inter-jurisdictional cost allocation methodology. 107 Until 2020, PacifiCorp’s only Commission-approved inter-jurisdictional cost allocation methodology for Washington was the West Control Area Inter-Jurisdictional Allocation Methodology (WCA). 108 In 2020, however, all parties—including AWEC—supported replacing the WCA with the Washington Inter-Jurisdictional Allocation Method (WIJAM). 109 When the Commission accepted the WIJAM, it noted the “universal support” for the WIJAM and lauded the parties “considerable effort[s] to design the WIJAM to meet the Commission’s standards.” 110

33 Critically, under both the WCA and the WIJAM, Washington customers have been uniquely vulnerable to market purchases. The Commission observed this reality when it approved the WCA, noting that the “WCA must meet a higher proportion of its retail load with market purchases” than the east control area. 111 In other words,

104 Wilding, TR. 100:22-101:1
106 Wilding, TR. 71:16-72:17; Wilding, Exh. MGW-6Tr at 7:12-17.
109 Docket No. UE-191024 et al., Order No. 09 / 07 / 12 at ¶ 97.
110 Docket No. UE-191024 et al., Order No. 09 / 07 / 12 at ¶ 97.
111 Docket No. UE-061546 et al., Order No. 08 at ¶ 50.
Washington’s lower share of dispatchable, non-renewable resources on the Company’s system, such as coal-fired generation, requires more market purchases to balance loads and resources for Washington.\(^{112}\)

By adding new renewable resources onto the Company’s system, PacifiCorp is working to lower the WIJAM’s proportion of market purchases while continuing to lower emission levels consistent with Washington’s Clean Energy Transformation Act (CETA). For example, the Company’s Energy Vision 2020 initiative included the repowering of existing wind facilities and added 1,150 MW of new wind power capable of serving Washington customers and reducing reliance on market purchases. The 2021 Integrated Resource Plan (IRP) includes additional resources identified through the 2020 All Source Requests for Proposals, including 1,792 MW of wind, 1,302 MW of solar additions, and 697 MW of battery storage capacity—497 MW paired with solar and a 200 MW standalone battery. The 2021 IRP preferred portfolio also includes the acquisition and repowering of two additional wind projects (totaling 92 MW), and through the end of 2026, the 2021 IRP preferred portfolio includes an additional 745 MW of wind and an additional 600 MW of solar co-located with storage. All these resource additions are eligible to serve Washington customers and will reduce the reliance on market transactions that have been a part of the Washington-approved allocation methodology since the WCA.

To the extent that AWEC’s argument surrounding the Company’s hedging practices targets the WIJAM, AWEC’s argument is far outside the scope of this

\(^{112}\) Docket No. UE-210402, Settling Parties Response to Bench Request 4 at 1.
In sum, AWEC provides only fragmented and inaccurate data on PacifiCorp’s hedging practices, which does not represent the Company’s system-wide, ratable hedging policy. The Company’s hedging practices are prudent, and AWEC’s analysis to the contrary is fundamentally flawed.

B. **Nodal Pricing Model benefits already embedded in the NPC forecast through Aurora’s perfect optimization.**

For the last several years, the Nodal Pricing Model (NPM) has been discussed as part of the Company’s ongoing Multi-State Process to allocate power costs to each state if any state transitions to a fixed generation portfolio. This support for NPM coalesced in the Nodal Pricing Memorandum of Understanding and the 2020 Inter-Jurisdictional Allocation Protocol (2020 Protocol), where the parties affirmed support for “reasonable and prudent investment of related capital, related operations and maintenance expenses, and the related ongoing management charges to develop and implement NPM.” PacifiCorp will incur $8.3 million in NPM costs for 2022. PacifiCorp, however, only included $4 million of the total $8.3 million in NPM costs in its initial filing and has agreed not to correct this error at this time in the Stipulation.

Now, AWEC claims that these NPM expenses, which it agreed were reasonable in the 2020 Protocol, should be disallowed because there are additional NPM benefits that must be imputed into the Aurora forecast. AWEC, however, has produced no evidence of additional NPM benefits that are not already reflected in Aurora.

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113 See Docket No. UE-191021 et al., Order No. 09 / 07 / 12 at ¶ 66 (listing the elements of PacifiCorp’s 2021 PCORC).
114 Including AWEC and Staff.
116 PCORC Stipulation at ¶ 11.
At a high level, NPM consists of two components. First, and most importantly, PacifiCorp will use NPM to track NPC for purposes of interstate allocation. This process is currently under discussion as a framework issue in the Multi-State Process, and PacifiCorp does not intend to transition to NPM to track power costs until 2024. Second, NPM will allow PacifiCorp to more efficiently dispatch its resources in actual operations by providing day-ahead schedules from the California Independent System Operator (CAISO). Under the contract with CAISO, PacifiCorp pays an annual service fee to CAISO as the third-party vendor to produce day-ahead optimal unit commitment and hourly energy schedules for supply resources in PacifiCorp’s Balancing Authority Areas (BAAs) using the CAISO day-ahead market model.

The Company’s receipt of day-ahead schedules may reduce costs PacifiCorp incurs in actual operations because of the differences between the day-ahead schedule and real-time dispatch. These benefits, however, simply bring actual operations closer to the perfect foresight of Aurora. In order for the benefits of NPM to be incremental, Aurora would have to include costs associated with changes between the day-ahead setup and real-time dispatch. But the Aurora forecast does not include any of these costs because Aurora bases its forecast on a single balancing step and a single set of inputs. Essentially, NPM will reduce actual NPC through an optimized day-ahead schedule,

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117 Wilding, Exh. MGW-3Tr at 2:7-17.
118 Wilding, Exh. MGW-3Tr at 2:15-17.
119 Wilding, Exh. MGW-3Tr at 2:3-7.
120 Wilding, Exh. MGW-3Tr at 2:17-4:6.
121 See, e.g., Wilding, Exh. MGW-6Tr at 11:15-18 (“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.”); Wilding, Exh. MGW-3Tr 3:21-4:3 (“Put another way, a more efficient day ahead set-up results in fewer changes between day-ahead setup and real-time dispatch, which lowers NPC by avoiding those changes. Notably, as the Company has discussed before, this benefit is impossible to track because it is impossible to know what the day ahead set up would be without NPM.”).
122 Wilding, Exh. MGW-1CTr at 18:9-14; see also Wilding, Exh. MGW-6Tr at 11:15-18.
reducing costs due to uncertainty between the day-ahead schedules and real-time dispatch. But Aurora has no uncertainty between the day-ahead setup and actual dispatch because the model has perfect foresight and presumes perfect alignment between the day-ahead schedule and actual dispatch.\(^{123}\) In short, because Aurora does not include costs associated with the difference between day-ahead schedules and real-time dispatch, there are no costs to remove from the Aurora forecast due to the transition to NPM.

41 Of course, in actual operations, day-ahead dispatch decisions are inherently imperfect, and human operators are making decisions without Aurora’s perfect foresight of the future.\(^{124}\) Therefore, NPM helps bring actual dispatch decisions closer to Aurora’s forecast by increasing the optimization between day-ahead plans and actual dispatch. Even if NPM perfectly matched day-ahead schedules with actual dispatch every day of the year, it would not provide any better optimization than Aurora because Aurora already assumes perfect optimization each day.

42 Notably, AWEC provided no evidence disputing the Company’s testimony that the benefits of the NPM accrue in actual operations and are not incremental to the Aurora forecast. Instead, AWEC points out that the operational benefits cannot be quantified and claims that the Commission should therefore impute benefits into the Aurora forecast commensurate with the costs of the NPM. PacifiCorp explained, and AWEC did not dispute, that the benefits are impossible to track because PacifiCorp cannot know what the day ahead set up would be without NPM. But the inability to quantify the benefits of the NPM is irrelevant because AWEC has not disputed that the benefits accrue in actual operations and are not incremental to the Aurora forecast.

\(^{123}\) See Wilding, Exh. MGW-1CTr at 20:10-12 (describing Aurora’s perfect foresight).
\(^{124}\) Wilding, Exh. MGW-1CTr at 17:17-18:6.
Instead of producing evidence of supposed benefits, AWEC simply points to the OPUC order in the Company’s latest TAM.\textsuperscript{125} Indeed, the OPUC imputed some NPM benefits based on the record in that case and the perceived limitations in the Generation and Regulation Initiative Decision Tool (GRID) used by the Company in the TAM.\textsuperscript{126} But the OPUC limited its imputation to only this year’s TAM because the use of Aurora in future TAMs was expected to fully capture the benefits of the NPM.\textsuperscript{127} Here, the Company used Aurora, and therefore the OPUC’s rationale does not support AWEC’s imputation of NPM benefits.

C. Fly ash revenues are outside the scope of this proceeding.

The Commission limited the scope of this proceeding in PacifiCorp’s 2021 Rate Case to address three issues: (1) resetting NPC baseline, (2) incorporating the NPC baseline change into base rates, and (3) reviewing deferred accounting treatment for major maintenance expenses at Colstrip Unit 4.\textsuperscript{128} AWEC now proposes to expand the scope of this limited-issue PCORC and include fly ash revenues in the Company’s NPC forecast.\textsuperscript{129} AWEC’s attempt to broaden the scope of this power cost only case is improper and should be rejected.

First, fly ash revenues are not a power cost.\textsuperscript{130} As the OPUC recently found when rejecting an identical adjustment from AWEC: “fly ash revenues are correlated with

\textsuperscript{125} Mullins, Exh. BGM-1CT at 22:14-23:3.
\textsuperscript{126} In re PacifiCorp, dba Pac. Power, 2022 Transition Adjustment Mechanism, Docket No. UE 390, Order No. 21-379 at 33 (Nov. 1, 2021).
\textsuperscript{127} Docket No. UE 390, Order No. 21-379 at 33 (“This adjustment is limited to the 2022 TAM as we anticipate nodal pricing benefits across PacifiCorp’s two BAAs will be captured with the implementation of Aurora for planning in the 2023 TAM.”).
\textsuperscript{128} Docket No. UE-191024 \textit{et al.}, Order No. 09 / 07 / 12 at ¶ 66.
\textsuperscript{129} Mullins, Exh. BGM-1CT at 24:10-15.
\textsuperscript{130} Wilding, Exh. MGW-6Tr at 13:12-14 (discussing the inclusion of fly ash sales in FERC Account 456, which is not a net power cost account); Wilding, Exh. MGW-6Tr at 14:15-16 (explaining that fly ash revenues are not directly tied to power costs).
construction demand and not power production.”

Second, by pulling one non-NPC revenue item from base rates in isolation and updating it in the PCORC, AWEC’s recommendation constitutes single-issue ratemaking against long-standing Commission precedent.

Third, AWEC’s recommendation violates the matching principle by including fly ash revenues in the NPC baseline while excluding offsetting costs incurred to generate the fly ash revenues.

Fourth, to the extent that AWEC’s adjustment would include fly ash revenue in the NPC baseline, it is inconsistent with PacifiCorp’s PCAM because fly ash revenues are booked in a FERC account that is not included in the PCAM.

Fifth, in the Company’s latest Oregon TAM, the OPUC rejected a comparable AWEC adjustment to impute fly ash revenues into an NPC update. In addition to concluding that fly ash sales are not related to NPC, the OPUC reasoned that updating a single revenue item without updating base rates as a whole could cause an imbalance “between the cost items that favor PacifiCorp and revenue items that favor customers.”

AWEC’s proposal is outside the scope of this proceeding, outside the scope of

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131 Docket No. UE 390, Order No. 21-379 at 36.
132 See Docket No. UE-060266 et al., Order No. 08 at ¶ 37; see also Wa. State Att’y Gen.’s Office v. PacifiCorp, dba Pac. Power & Light Corp., Docket No. UE-110070, Order No. 01 at ¶ 42 (Apr. 27, 2011) (“[S]ingle-issue ratemaking is disfavored because it may distort the ‘matching principle,’ whereby costs and revenues are balanced at a single point to determine, fair, just, reasonable, and sufficient rates.”).
133 Wilding, Exh. MGW-6Tr at 13:22-14:3; WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-090704 & UG-090705 (consolidated), Order No. 11 at ¶ 27 (Apr. 2, 2010) (“The matching principle requires that all factors affecting a proposed pro forma change be considered in determining the pro forma level of expense.”).
134 See Wilding, Exh. MGW-6Tr at 13:12-14 (testifying that fly ash revenue is booked in FERC account 456); see also WUTC v. Pac. Power & Light Co., Docket Nos. UE-140762, UE-140617, UE-131384, & UE-140094 (consolidated), Order No. 09 at ¶ 24 (May 26, 2015) (Specifically listing FERC accounts 447, 501, 503, 547, 555, and 565 as the primary accounts with base NPC estimates and actual NPC determinations).
135 Docket No. UE 390, Order No. 21-379 at 36.
power cost updates generally, constitutes improper single-issue ratemaking, and violates the matching principle. The Commission should reject AWEC’s proposal to include fly ash revenues in NPC forecasts just to lower NPC in this proceeding.

V. CONCLUSION

For the foregoing reasons, the Commission should approve the Stipulation because it is lawful, the settlement terms are supported by an appropriate record, and the result is consistent with the public interest. AWEC’s opposition to the Stipulation is contrary to well-established and non-controversial Commission precedent and lacks evidentiary support. AWEC’s additional adjustments are also unsupported in the record and contrary to Commission precedent.


Adam Lowney, WSBA # 50505
McDowell Rackner Gibson PC
419 SW 11th Ave, Suite 400
Portland, OR 97205

Ajay Kumar
Carla Scarsella
PacifiCorp
825 NE Multnomah Street, Suite 2000
Portland, OR 97232

Attorneys for PacifiCorp