

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	DOCKET UE-210402
TRANSPORTATION COMMISSION	)	
	)	
Complainant,	)	
	)	
v.	)	
	)	
PACIFICORP d/b/a PACIFIC POWER &	)	
LIGHT COMPANY,	)	
	)	
Respondent.	)	

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**POST-HEARING BRIEF OF THE  
ALLIANCE OF WESTERN ENERGY CONSUMERS**

**(REDACTED)**

**February 11, 2022**

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## I. INTRODUCTION

1 This Power Cost Only Rate Case (“PCORC”) proceeding was an outcome of PacifiCorp’s 2020 General Rate Case (“GRC”), Docket No. UE-191024. In the 2020 GRC, parties agreed that the Net Power Costs (“NPC”) baseline “will be updated based on a nodal dispatch through a PCORC filed in 2021.”<sup>1/</sup> On June 1, 2021, PacifiCorp made its filing in this case where it calculated an updated NPC baseline of \$114,802,054,<sup>2/</sup> representing a \$13,131,000 increase to the \$102,000,000 NPC baseline currently included in base rates.<sup>3/</sup> The filing, however, represented a \$4,697,946 million decrease from the total NPC recovered after considering the Deferred Net Power Cost Baseline Adjustment (“DNBA”) in the Power Cost Adjustment Mechanism (“PCAM”).<sup>4/</sup>

2 On November 5, 2021, PacifiCorp, Staff, the Energy Project, and Walmart (the “Stipulating Parties”) submitted a Multi-Party Stipulation, which, among other things, included a provision that NPC will “be updated in a compliance filing after the Commission issues an Order on this settlement.”<sup>5/</sup> The Alliance of Western Energy Consumers (“AWEC”) opposed the Multi-Party Stipulation, and on November 22, 2022, AWEC filed the Opposition Testimony of Bradley G. Mullins, which discussed AWEC’s reasons for opposing the Multi-Party Stipulation.

3 The rates that the Washington Utilities and Transportation Commission

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<sup>1/</sup> WUTC v. PacifiCorp, d/b/a Pacific Power & Light Co., UE-191024 et al., Final Order, Appendix B, Revised and Amended Settlement ¶ 17 (Dec. 14, 2020).

<sup>2/</sup> Wilding, Exh. MGW-2Cr at 4.

<sup>3/</sup> Wilding, Exh. MGW-1CTr at 26:8-10; see also, Meredith, Exh. RMM-2 at 1:18, Column 8.

<sup>4/</sup> See UE-191024 et al., Final Order ¶ 72-75 (the NPC Baseline including the DNBA was \$119,500,000).

<sup>5/</sup> Multi-Party Stipulation ¶ 12 (Nov. 5, 2021).

(“WUTC” or “Commission”) approves must be just, reasonable and supported by the procedural record upon which they are based. The Commission cannot make a decision by “speculating as to costs that will[, or will] not, be included in rates.”<sup>6/</sup> Yet, that is precisely what the Stipulating Parties recommend the Commission do. The Stipulating Parties propose to update NPC in this case after the Commission’s final order, after the record has closed, and with no meaningful opportunity for review.<sup>7/</sup> While the impact of this “post-order update” is not known, it is known that, as a result of the unpredictable mechanics of the Washington Interjurisdictional Allocation Methodology (“WIJAM”), the NPC baseline is likely to change by a material margin, potentially by more than 36.8%, resulting in an overall rate increase for Washington customers of more than 15%.<sup>8/</sup> It is also known that there are major areas of controversy expected with such a post-order update, including the prudence of PacifiCorp’s hedging policy for Washington customers,<sup>9/</sup> and the use of a new hybrid modeling method that combines actual and forecast data.<sup>10/</sup> Given the record in this proceeding, the best the Commission can do is to speculate as to the reasonableness of the rates that might result from the post-order update in the Multi-Party Stipulation.

4                   The only Washington-allocated NPC study submitted in the record in this proceeding is the NPC study PacifiCorp submitted in its initial filing.<sup>11/</sup> That study was provided in Exhibit MGW-2Cr and calculated a Washington-allocated NPC baseline of \$114,802,054.<sup>12/</sup>

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<sup>6/</sup> Gomez, Transcript (“TR.”) 110:7-8.

<sup>7/</sup> Multi-Party Stipulation ¶ 12.

<sup>8/</sup> Joint Testimony, Exh. JT-1CT at 11:18 (\$157,000,000 million is \$42,197,946, or 36.8%, greater than the \$114,802,054 million baseline proposed in PacifiCorp’s initial filing).

<sup>9/</sup> Mullins, Exh. BGM-1CT at 14:5-15:22.

<sup>10/</sup> Mullins, Exh. BGM-1CT at 16:1-18:5.

<sup>11/</sup> Gomez, TR. 57:15-24, 58:21-23.

<sup>12/</sup> Wilding, Exh. MGW-2Cr at 4.

Accordingly, AWEC recommends the Commission reject the post-order update provision of the Multi-Party Stipulation and approve an NPC baseline based on Exhibit MGW-2Cr, subject to the NPC adjustments in the Multi-Party Stipulation and those proposed by AWEC in Opposition Testimony, summarized in Table 1, below.

**Table 1**  
*AWEC Recommended WA-Allocated NPC Baseline, Whole Dollars*

<u>Ln</u>	<u>Description</u>	<u>Evidentiary Source</u>	<u>Amount</u>
1	PacifiCorp Proposed WA-Allocated NPC	Exh. MGW-2Cr at 4	\$ 114,802,054
2	Production Factor Adjustment	Multi-Party Stipulation at 4*	(646,336)
3	Nodal Pricing Model Benefits	Exh. BGM-1CT at 20:19-20	(300,000)
4	Non-Firm Transmission Allocation	Exh. BGM-1CT at 25:11-14.	(45,104)
5	AWEC Recommended WA-Allocated NPC	Sum of above	\$ 113,810,614
* Adjustment calculated as: Line 1 * (1 - 0.99437%)			

## II. STANDARD OF REVIEW

5 As is well known, the Commission is charged with determining that rates, charges, regulations, practices or contracts of jurisdictional electric utilities are just and reasonable.<sup>13/</sup> When considering a settlement, including a partial settlement as in the instant proceeding, the Commission can only approve a settlement “if it is lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the commission.”<sup>14/</sup> Thus, the Commission is not bound by the terms of a settlement and must

<sup>13/</sup> RCW 80.28.020.

<sup>14/</sup> WAC § 480-07-750(2).

adjudge the reasonableness of that settlement under its statutory standards. As the proponents of the Settlement Agreement, the Stipulating Parties bear the burden to provide “supporting documentation sufficient to demonstrate that the settlement is consistent with the law and the public interest.”<sup>15/</sup> Moreover, as the petitioner seeking to modify existing rates, PacifiCorp bears an additional burden of proof to justify the requested rate change.<sup>16/</sup> Non-settling parties, such as AWEC in this proceeding, have the right to offer evidence and argument in opposition, and AWEC retains express rights.<sup>17/</sup>

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Further, the Commission’s decision must be established based on due process of law.<sup>18/</sup> The Commission must resolve the issues in this case as contested matters on the basis of the record before it while determining whether it will accept, reject, or modify a multiparty settlement.<sup>19/</sup> In accomplishing this resolution, “the Commission weighs the evidence offered in support of the common positions advocated by the settling parties against the evidence opposing the results advocated by the settling parties, and evidence offered by non-settling parties in support of the alternative results that they advocate.”<sup>20/</sup> Finally, the Commission’s decision on “[e]ach contested issue is [to be] decided on its merits considering the full record.”<sup>21/</sup>

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<sup>15/</sup> WAC § 480-07-740(3).

<sup>16/</sup> WAC § 480-07-540.

<sup>17/</sup> WAC § 480-07-740(2)(c).

<sup>18/</sup> Mathews v. Eldridge, 424 U.S. 319 (U.S. 1976)

<sup>19/</sup> In re Puget Sound Energy, Dockets UE-121373, UE-121697/UG-121705, and UE-130137/UG-130138, Order 06 and 07, Order Rejecting Multiparty Settlement ¶ 17 (Jun. 25, 2013).

<sup>20/</sup> Id., ¶ 20

<sup>21/</sup> Id.

### III. ARGUMENT

#### 1. The Multi-Party Stipulation Provision Requiring a Post-Order Update is Not Just and Reasonable

7 Paragraph 12 of the Multi-Party Stipulation requires that “the NPC baseline will be updated in a compliance filing after the Commission issues an Order on this settlement.”<sup>22/</sup> In the context of this proceeding, such an update is procedurally inappropriate, particularly considering the seriousness of the hedging and modeling issues AWEC has identified. The Stipulating Parties have argued that AWEC’s position is inconsistent given its support for power cost updates in previous cases, but the circumstances in this case are different.<sup>23/</sup>

8 PacifiCorp’s illustrative update, based on September 2021 forward price curves, dramatically increased Washington’s power costs – resulting in a rate increase of over 15% –yet simultaneously reduced PacifiCorp’s actual total-Company power costs. This is unjust and unreasonable on its face, as there is no increased cost PacifiCorp will incur as a result of the update that Washington customers will compensate through higher power costs.

9 Furthermore, those higher costs are due almost entirely to the manner in which PacifiCorp allocates its system hedges to Washington. That allocation method results in Washington power costs being hedged far below the minimum tolerance threshold of PacifiCorp’s own corporate policies. That PacifiCorp as a whole is hedged within the parameters of those policies is of no moment; the Commission has an obligation to set just and reasonable rates for PacifiCorp’s Washington customers, not for PacifiCorp.

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<sup>22/</sup> Multi-Party Stipulation ¶ 12.

<sup>23/</sup> See e.g., Gomez, Exh. DCG-1CT at 6:6-11.



**a. PacifiCorp Has Not Demonstrated that its Hedging Practices are Prudent for Washington Ratepayers**

10 It is not merely an “unfortunate circumstance”<sup>24/</sup> that the illustrative NPC study increased Washington rates by \$42,197,946,<sup>25/</sup> while PacifiCorp’s overall costs declined by \$ [REDACTED].<sup>26/</sup> Rather, it is due to the fact that PacifiCorp has failed to prudently manage Washington’s unique risk in the context of the WIJAM. While the full extent of PacifiCorp’s failure to consider risk for Washington customers in the April update is not yet known, based on the illustrative update prepared in advance of the Multi-Party Stipulation, it is probable that the impacts of this failure will be significant. As Mr. Wilding testified at the hearing, Washington’s “price risk is really asymmetrical. Because whatever you lock it in at, it won’t fall .... But it can really go up exponentially.”<sup>27/</sup>

11 PacifiCorp admits that Washington ratepayers are “uniquely vulnerable to increases in market prices.”<sup>28/</sup> Moreover, PacifiCorp admits that it has an obligation to hedge this unique vulnerability for the benefit of Washington ratepayers.<sup>29/</sup> Indeed, PacifiCorp asserts that “Washington is allocated a disproportionate share” of market hedges.<sup>30/</sup> However, the evidence presented in this proceeding demonstrates that, as relevant to Washington, PacifiCorp failed to comply with its own hedging policies and, accordingly, failed to adequately protect

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<sup>24/</sup> Wilding, TR. 164:12.

<sup>25/</sup> Joint Testimony, Exh. JT-1CT at 11:18 (In the hearing the witnesses referred to a \$43 million increase, which ignored rounding. The more precise value of \$42,197,946 will be used throughout this brief).

<sup>26/</sup> Wilding, Exh. MGW-9CX at 16.

<sup>27/</sup> Wilding, TR. 164:6-10.

<sup>28/</sup> Joint Testimony, Exh. JT-1CT at 12:1.

<sup>29/</sup> Wilding, TR. 74:5-9.

<sup>30/</sup> Wilding, TR. 74:19-20.

Washington's unique vulnerability. Moreover, the evidence shows that while PacifiCorp's system-wide NPC is decreasing, Washington's "disproportionate" share allocation results in an increasing NPC for Washington ratepayers. This inverse relationship demonstrates PacifiCorp's failure to adequately and properly hedge for Washington ratepayers.

12 As outlined in Exhibit MGW-7XC, at the time PacifiCorp initiated this proceeding, its internal hedging policy established that, for activity 13 to 24 months into the future, the maximum change in NPC should be contained at [REDACTED]%.<sup>31/</sup> As estimated by PacifiCorp within the Joint Testimony supporting the Settlement Agreement, the proposed NPC update is likely to result in an NPC baseline increase in excess of 36.8%,<sup>32/</sup> representing a baseline increase over [REDACTED] the magnitude provided for under PacifiCorp's internal hedging policy. PacifiCorp failed to implement its hedging policy in a manner that ensured Washington rates and ratepayers are protected by PacifiCorp's actions.

13 In the intervening time between PacifiCorp's initiation of the instant case and the evidentiary hearing, PacifiCorp modified its hedging policy, to focus on "the physical need" rather than the value-at-risk.<sup>33/</sup> This framework change resulted in a policy setting a "[m]inimum natural gas percent volume hedge...designed to limit the impact of natural gas market prices on net power costs, or control under-hedging."<sup>34/</sup> PacifiCorp's new minimum hedge for activity 13 to 24 months into the future is [REDACTED]% of its natural gas position.<sup>35/</sup> However, similar to the prior

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<sup>31/</sup> Wilding, Exh. MGW-7CX at 4. See also Hrg. Trans., Vol. III, 77:18-22.

<sup>32/</sup> Joint Testimony, Exh. JT-1CT at 11:18.

<sup>33/</sup> Wilding, TR. 79:10 – 80:3. See also Wilding, Exh. MGW-7CX at 6-7.

<sup>34/</sup> Wilding, Exh. MGW-7CX at 6.

<sup>35/</sup> Wilding, Exh. MGW-7CX at 6.

policy compliance efforts, PacifiCorp has failed to comply with its own hedging policy for Washington ratepayers. Based on the contracts included in PacifiCorp's initial filing, only █% of Washington's natural gas position had been hedged.<sup>36/</sup> PacifiCorp's natural gas hedging activity for Washington as of its initial filing was "█  
█," a fact that PacifiCorp never disputed.<sup>37/</sup>

14 Staff witness Mr. Gomez testified that the increased revenue resulting from the potential NPC baseline increase from this proceeding, most recently estimated at \$42,197,946,<sup>38/</sup> would be transferred to the benefit of ratepayers in PacifiCorp's other jurisdictions.<sup>39/</sup> In fact, that is only the case if other states used the same WIJAM method, which the other states do not, and if the other states updated their power costs concurrently with Washington, which is not expected to occur. Instead, in the absence of other state updates, this wealth transfer will go from Washington customers to PacifiCorp shareholders. The Commission should not authorize this transfer of benefits and should not condone PacifiCorp's failure to comply with its own hedging policies as applied to Washington. PacifiCorp should not be allowed to update the NPC baseline to further expose Washington's unique market vulnerabilities resulting from PacifiCorp's failure to comply with its internal policies.

15 PacifiCorp has failed to explain why its hedging actions are prudent and reasonable for Washington ratepayers, who should not have to bear the effects of PacifiCorp's

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<sup>36/</sup> See Mullins, Exh. BGM-3C.

<sup>37/</sup> Mullins, Exh. BGM-1CT at 15:12-13.

<sup>38/</sup> Joint Testimony, Exh. JT-1CT at 11:18.

<sup>39/</sup> Gomez, TR. 111:3-23.

failure to implement its own policies. The full cost and extent of these imprudent actions will not otherwise be known until PacifiCorp submits its post-order update. Therefore, the remedy for PacifiCorp's imprudent actions is a bar against the proposed post-order update, which is expected to impose additional imprudent costs on Washington customers. Further analysis of the prudence of PacifiCorp's hedging practices is also appropriate in the context of future PCAM filings.

**b. The Post-Order Update Would Establish Rates That Are Not Supported In the Evidentiary Record**

16                   Largely as a consequence of PacifiCorp's hedging practices in Washington, there is substantial uncertainty over the proposed post-order power cost update in the Multi-Party Stipulation. The Commission will only approve a settlement if it is supported by an appropriate record.<sup>40/</sup> The rates resulting from the post-order update proposed in paragraph 12 of the Multi-Party Stipulation, however, are not supported in the record in this case and are wholly speculative. As counsel for Commission Staff aptly pointed out in the hearing, "[n]obody knows what's going to happen in the final update."<sup>41/</sup> Therefore, the Commission cannot approve the post-order update provision proposed in the Multi-Party Stipulation.

17                   PacifiCorp admits that the only NPC baseline value supported by evidence in the record in this case was presented in the NPC study prepared as part of PacifiCorp's initial filing, representing a Washington-allocated net power cost ("NPC") baseline of \$114,802,054.<sup>42/</sup>

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<sup>40/</sup> WAC § 480-07-750(2).

<sup>41/</sup> Dallas, TR. 110:6-7. See also Gomez, TR. 108:2-8 (Staff witness Gomez stating "we don't know" the numerical value of the proposed market update).

<sup>42/</sup> Wilding, TR. 59:11-24.

Nonetheless, the Stipulating Parties request the Commission authorize a 2022 NPC baseline that is currently unknown but is “to be determined in [a] compliance filing”<sup>43/</sup> as just and reasonable and in the public interest.<sup>44/</sup> The Stipulating Parties propose that this compliance filing occur “after the Commission issues an Order on this settlement”<sup>45/</sup> The Stipulating Parties propose the Commission issue a final order by the end of March 2022, and that the post-order update occur two weeks later, in mid-April 2022.<sup>46/</sup> The Stipulating Parties further propose a two week review process, before rates based become effective on May 1, 2022.<sup>47/</sup>

18                   The record in this docket is now closed. Under WAC 480-07-830(1), “[t]he evidentiary record in an adjudication closes at the conclusion of the last day of hearing unless the commission rules otherwise; except that the evidentiary record will also include any exhibit containing public comments and responses to bench requests the commission receives after the hearings conclude.” In addition, under WAC 480-07-820(3), a final order can only be issued “following the close of the record.” The post-order update is proposed to occur after the close of the record and after the Commission has issued its Final Order. Therefore, the NPC and associated rates calculated in the post-order update will have no support in the evidentiary record in this docket. The Commission has no basis to approve such rates.

19                   The Commission generally allows utilities to perform updates to NPC over the course of a proceeding. Such updates, however, typically have occurred in Rebuttal Testimony

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<sup>43/</sup> Multi-Party Stipulation at 4.  
<sup>44/</sup> Multi-Party Stipulation at 4 (Table 1).  
<sup>45/</sup> Joint Testimony, Exh. JCT-1T at 10:5-6.  
<sup>46/</sup> Id. at 10:6-7.  
<sup>47/</sup> Id. at 10:8-9.

and became a part of the evidentiary record in the proceeding, while “affording the parties opportunities for discovery and the preparation of supplemental testimony.”<sup>48/</sup> With rare exception, the NPC updates that the Commission has approved in the past have all occurred within the evidentiary record or were based on rate impacts that were known at the time of the evidentiary hearing in the proceeding.<sup>49/</sup> For example, in Puget Sound Energy’s (“PSE”) 2006 General Rate Case, the Commission required PSE to update the AURORA model in a compliance filing based on gas prices known “as of September 20, 2006 (the time of the hearing).”<sup>50/</sup>

20                    In this proceeding, the post-Order update will occur based on market price and contract information that will not be known until long after the evidentiary record has closed.<sup>51/</sup> Further, the potential rate impacts of such an update are not sufficiently predictable to have any basis in the evidentiary record. The post-Order update will incorporate the highly volatile results and unpredictable mechanics of the WIJAM.<sup>52/</sup> When asked to explain, for example, how Washington allocated NPC using the WIJAM would be impacted if total Company NPC were to decline to the levels proposed most recently in Oregon, PacifiCorp witness Wilding stated “that would be purely speculative on my part.”<sup>53/</sup> Thus, there is no clear linear relationship that one might use to evaluate the potential impacts of an update. It is also probable that the post-Order

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<sup>48/</sup> WUTC v. Pac. Power & Light Co., Docket Nos. UE-140762, UE-140617, UE-131384, and UE-140094 (consolidated), Order 07 ¶ 5 (Dec. 5, 2014).

<sup>49/</sup> WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-060266 and UG-060267 (consolidated), Order 08 ¶ 101-105 (Jan. 5, 2007).

<sup>50/</sup> Id. at ¶ 101.

<sup>51/</sup> Multi-Party Stipulation ¶ 12.

<sup>52/</sup> Wilding, Exh. MGW-1CTr at 7:18-10:23.

<sup>53/</sup> Wilding, TR. 71:3-4.

update will introduce new, controversial, hedging-related costs resulting from the fact that PacifiCorp does not consider Washington’s “unique vulnerability” to market price risk.<sup>54/</sup> Further, the modeling method for NPC forecasting will change such that it will be based on an untested and unverified hybrid modeling method, combining actual and forecast data, a type of study that has not been used before in Washington.<sup>55/</sup> Considering these uncertainties, there is nothing in the record that the Commission can rely upon to evaluate, even on a predictive basis, whether the wide range of possible outcomes in the proposed post-Order update are just and reasonable.

21                   At most, the Commission can evaluate the illustrative update that PacifiCorp prepared in advance of Joint Testimony of “approximately \$157 million in Washington.”<sup>56/</sup> Other than a single-line reference to this preliminary value in the Joint Testimony, however, no Washington NPC study or supporting analyses were submitted into the record to support such a dramatic change to PacifiCorp’s initial filing.<sup>57/</sup> In the hearing, PacifiCorp witness Wilding admitted that the “only Washington allocated net power cost study that has been provided as evidence as of today's date is the one that PacifiCorp submitted in its initial filing.”<sup>58/</sup> Staff also reiterated that the value presented in Joint Testimony was not meant to be relied upon by the Commission, stating that it “was just for illustrative purposes and for the purposes of crafting the settlement.”<sup>59/</sup>

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<sup>54/</sup> Wilding, Exh. MGW-6Tr at 7:2-19.

<sup>55/</sup> Gomez, TR. 114:24-115:2.

<sup>56/</sup> Joint Testimony, Exh. JT-1CT at 11:17-18.

<sup>57/</sup> Wilding, TR. 58:21-22.

<sup>58/</sup> Wilding, TR. 58:24-59:3.

<sup>59/</sup> Gomez, TR. 121:14-15.

22 The Stipulating Parties have the burden of proof and persuasion, and in the  
absence of them submitting evidence supporting the illustrative update into the record, there is  
no basis to rely on that study to form any concrete conclusions about whether the rates that might  
result from the post-Order update will be just and reasonable.

**c. The Impact of Updated NPC Does Not Represent Actual Costs to PacifiCorp**

23 With the little information that can be gathered from the illustrative update, there  
is *prima facie* evidence suggesting that the results of an update will not be just and reasonable.  
As discussed above, the illustrative update produced a \$42,197,946, or 36.8%, increase to the  
level of Washington allocated NPC included PacifiCorp's initial filing,<sup>60/</sup> which itself results in  
an overall base rate increase of 15.42%, an increase far above what PacifiCorp's own hedging  
policies would otherwise allow.<sup>61/</sup> Further, PacifiCorp testified that, while Washington-allocated  
NPC increased by \$42,197,946, total-Company NPC actually declined by \$ [REDACTED].<sup>62/</sup>

24 Thus, the update does not represent an increase in PacifiCorp's actual costs.  
Rather, it represents a change in the way that the costs are allocated to Washington customers  
through the WIJAM, specifically hedging costs. That is, if total costs are otherwise decreasing  
primarily due to hedging, the jurisdictional allocation of hedging is the primary factor causing a  
corresponding increase to Washington-allocated NPC. This is not just and reasonable or in the  
public interest.

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<sup>60/</sup> Joint Testimony, Exh. JT-1CT at 11:17-18

<sup>61/</sup> Wilding, TR. 77:18-22.

<sup>62/</sup> Wilding, TR. 61:10-67:6.



25 Furthermore, the WIJAM did not define how hedging costs were to be allocated. When asked whether “the WIJAM actually use[s] the term ‘allocation of hedges,’” PacifiCorp witness Wilding responded “No.”<sup>63/</sup> There is also nothing in the record discussing how hedging costs are to be allocated under the WIJAM in the docket in which the Commission approved the WIJAM as a just and reasonable allocation method for PacifiCorp’s Washington customers.<sup>64/</sup> The allocation of hedges under the WIJAM and the potential impacts, therefore, were unknown to the Commission when it approved the WIJAM.

**d. The Post-Order NPC Update is Not Permissible to be Considered in a Compliance Filing**

26 The purpose of a compliance filing is to perform an update to modify a rate calculation in compliance with decisions in a Commission order.<sup>65/</sup> It not an opportunity to submit new, controversial evidence that has not been reviewed in the proceeding.<sup>66/</sup> Accordingly, compliance filings for NPC have generally been limited to implementing specific modeling adjustments required by the Commission order. In this case, the Commission will not have specifically reviewed the results of the post-Order update in its final order.

27 The compliance filing process is defined in WAC 480-07-880 as “a party’s submission in response to a final order that authorizes or requires that party to implement specific terms of that order.”<sup>67/</sup> The scope of a compliance filing must be strictly limited to the

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<sup>63/</sup> Wilding, TR. 161:23-162:2.

<sup>64/</sup> See generally, Docket No. UE-191024, et al., Final Order ¶¶ 92-114.

<sup>65/</sup> WAC 480-07-880(1).

<sup>66/</sup> Id.

<sup>67/</sup> WAC 480-07-880(1).

final order to which it relates.<sup>68/</sup> Finally, the compliance filing must be specific to a Commission decision on the evidence submitted in the case, rather than a general instruction of the order. The rule states “a party’s filing in response to general commission direction in an order (e.g., filing a new or revised tariff other than the tariffs that initiated the proceeding) is not a compliance filing but is a subsequent filing governed by WAC 480-07-885”<sup>69/</sup> Under WAC 480-07-885, the submission of a subsequent filing “initiates a new proceeding to which the commission will assign a new docket number.” Further, the “[C]ommission generally will act on a subsequent filing that includes tariff sheets in the same manner that it would act on an original tariff filing.”<sup>70/</sup>

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To determine whether the post-Order update is permitted to be included in a compliance filing, it is necessary to evaluate whether the post-Order update would constitute a specific decision on the tariffs that were submitted in this proceeding or “general instructions in th[e] order (e.g., the submission of tariffs other than revisions to the tariffs that initiated the proceeding).”<sup>71/</sup> Due to the timing of the post-Order update, the Commission will have no basis in its Final Order to approve the specific results of the post-Order update and the associated tariff rates. At most, the Commission can *generally direct* or *generally instruct* PacifiCorp to perform the update. This means that such an update would not be eligible to be considered in the context

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<sup>68/</sup>

Id.

<sup>69/</sup>

Id.

<sup>70/</sup>

WAC 480-07-885(3).

<sup>71/</sup>

WAC 480-07-885.

of a compliance filing.

29                   In the context of NPC, the distinction over what items may be appropriate to consider in a compliance filing can become muddled given the complexities of the modeling involved. The Commission precedent on such matters, however, is not ambiguous. In PSE's 2006 GRC, for example, the Commission articulated a standard it used to evaluate the reasonableness of requiring an compliance filing update to utilize September 2006 gas prices, price impacts which were known at the time of hearing in that case.<sup>72/</sup> The Commission approved the PSE update stating "[t]he method for calculating such costs is now well-established."<sup>73/</sup> The Commission continued stating "[t]he update should be a straightforward, mechanical and non-controversial process."<sup>74/</sup>

30                   The post-Order update proposed in the compliance filing in this case, however, runs far afield of the Commission precedent. In this case, the method for calculating PacifiCorp's NPC is not well-established. For the first time, the Commission and parties have been confronted with an entirely new AURORA modeling method based on a closed-system dispatch, which is unlike the out-of-the box AURORA modeling method used by the other electric utilities in the state.<sup>75/</sup> The closed system dispatch is more complicated, involving inputs for both gas and electric prices, and also produces less predictable results.<sup>76/</sup> On top of this, the Stipulating Parties also propose to use a different modeling method than was proposed in the

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<sup>73/</sup> WUTC v. Puget Sound Energy, Inc. Docket Nos. UE-060266 and UG-060267 (consolidated), Order 08 ¶ 104.

<sup>74/</sup> Id.

<sup>75/</sup> Mullins, Exh. BGM-1CT at 7:1-7.

<sup>76/</sup> Id.

initial filing based on a hybrid of actual and forecast data. As Staff acknowledged, it has never before reviewed an NPC modeling method that uses a hybrid of actual and forecast NPC as contemplated in the Multi-Party Stipulation.<sup>77/</sup>

31 Further, the post-Order update is not straightforward nor mechanical. As demonstrated in the hearing, the Washington jurisdictional allocation method is producing unexpected and erratic rate impacts in the context of an update. In the illustrative analysis prepared in advance of the settlement, PacifiCorp forecast that total-Company NPC declined by \$ [REDACTED], yet Washington allocated NPC increased by \$42,197,946. Thus, there is no straightforward or mechanical relationship between PacifiCorp's actual costs and the costs that are being allocated to Washington customers.

32 Finally, the post-Order update is not uncontroversial. There remain significant points of controversy regarding PacifiCorp's hedging policy, as well as the hybrid modeling method, that will not otherwise be fully understood until PacifiCorp makes its filing.

**e. The Use of a Hybrid Modeling Method Is Not Consistent with Washington Policy and Not Supported by the Record**

33 In the context of the proposed post-Order update, PacifiCorp has proposed using a new hybrid modeling method that relies on a blend of actual and forecast data.<sup>78/</sup> Washington policy is to establish NPC using normalized projections of costs, not actual costs.<sup>79/</sup> Therefore, the hybrid modeling method is not consistent with Washington policy. Further, neither

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<sup>77/</sup> Gomez, TR. 114:24-115:2.

<sup>78/</sup> Mullins, Exh. BGM-1CT at 16:1-18:5.

<sup>79/</sup> WUTC v. PSE, Dockets UE-090704 and UG-090705, Order 11 ¶ 26.

PacifiCorp’s initial filing nor its illustrative update contained the hybrid modeling method proposed in the post-Order update. Therefore, there is no evidentiary basis to conclude that a hybrid modeling method is reasonable.

34 In Opposition Testimony, AWEC opposed the post-Order update on the basis that it would use a new modeling method that relies on a hybrid of actual and forecast data.<sup>80/</sup> Specifically, the modeling would be based on “actual data for cost inputs for January 2022 to April 2022 and forecast data for the rest of the year.”<sup>81/</sup> AWEC argued that it is not possible to foresee all the complications that might arise with this new approach, and raised several specific modeling concerns that will need to be addressed.

35 AWEC raised concerns that this approach will incorporate actual settled monthly, short-term firm transactions, as well as actual market prices, which are not representative of normalized conditions.<sup>82/</sup> The actual costs over the period January 2022 to April 2022 are “irrelevant to the rate effective period, since they will have already occurred prior to the date rates go into effect in this docket.”<sup>83/</sup> “To the extent that the weather is abnormal, for example, the result of such a hybrid modeling will be to incorporate the costs of non-normalized load and market conditions into the forward-looking NPC baseline.”<sup>84/</sup> Further, many of the modeling assumptions included in the NPC forecast, such as the Day-ahead / Real-time (“DA/RT”) adjustment, are premised on the use of forward-looking modeling estimates.<sup>85/</sup> Therefore, these

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<sup>80/</sup> Mullins, Exh. BGM-1CT at 16:1-18:5.

<sup>81/</sup> Wilding, Exh. MGW-6Tr at 9:2-3.

<sup>82/</sup> Mullins, Exh. BGM-1CT at 16:12-17:2.

<sup>83/</sup> Id. at 16:23-17:2.

<sup>84/</sup> Id. at 17:9-12.

<sup>85/</sup> Id. at 17:15-18:2.

types of modeling assumptions will need to be reevaluated if used in the context of the new hybrid modeling method, when submitted for consideration.

36 Washington has established a known and measurable standard for evaluating revenue requirement items. The calculation of NPC, however, relies on forward projections as an exception to the known and measurable standard, not actual costs. This standard was originally described in PSE’s 2009 GRC as follows:

The known and measurable test requires that an event that causes a change in revenue, expense or rate base must be *known* to have occurred during, or reasonably soon after, the historical 12 months of actual results of operations, and the effect of that event will be in place during the 12-month period when rates will likely be in effect. Furthermore, the actual amount of the change must be *measurable*. This means the amount typically cannot be an estimate, a projection, the product of a budget forecast, or some similar exercise of judgment – even informed judgment – concerning future revenue, expense or rate base. There are exceptions, such as using the forward costs of gas in power cost projections, but these are few and demand a high degree of analytical rigor.<sup>86/</sup>

37 In addition, in PacifiCorp’s 2014 GRC, the Commission affirmed that it “sets the largest single utility expense, net power costs, on a forward basis using data and cost projections that are as nearly contemporaneous as practicable with the effective date of new rates”<sup>87</sup> The use of actual data for three months in the post-Order update would not be a projection and represents costs incurred prior to the rate effective date. Therefore, the hybrid modeling method is not consistent with Commission precedent.

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<sup>86/</sup> WUTC v. PSE, Dockets UE-090704 and UG-090705, Order 11 ¶ 26 (emphasis in original).

<sup>87/</sup> WUTC v. Pacific Power & Light Company, Dockets UE-140762 et al., Order 08 ¶ 8 (Mar. 25, 2015).

In the hearing, Staff confirmed that it has never reviewed this type of hybrid modeling method in Washington.<sup>88/</sup> In fact, AWEC has not identified a single instance in Washington where such a modeling method has been used. Therefore, Staff has no basis to conclude whether the use of actual data in the model will or will not result in unforeseen consequences. In Rebuttal Testimony, however, Staff supports the hybrid method, asserting that “[t]he use of settled daily prices as opposed to forwards does not change the operation of the model itself.”<sup>89/</sup> This is undoubtedly true, as changing an input into a model will not change the mathematical algorithms that the model employs. It is also beside the point. The point is that changing the modeling inputs to be based on actual data changes what the model represents; it changes the thing being calculated. As an absurd example, gas prices from Guatemala could be used in the update, and while this would represent a clear change in method, doing so would not change the operation of the model itself.

In Rebuttal Testimony, PacifiCorp similarly attempted to dismiss AWEC’s concerns by referring to them as a “red herring.”<sup>90/</sup> This is unpersuasive and inaccurate. AWEC’s concerns are not a mere distraction, but are based on a critical uncertainty with how NPC might be forecast in the proposed post-Order update. PacifiCorp witness Wilding claims that “there is no change to methodology being proposed,” and that “using actual market prices as inputs to the model does not fundamentally change the model itself or the optimization logic that

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<sup>88/</sup> Gomez, TR. 114:24-115:2.

<sup>89/</sup> Gomez, Exh. DCG-1CT at 17:18-19.

<sup>90/</sup> Wilding, Exh. MGW-6Tr at 9:15-22.

informs its results.”<sup>91/</sup> Like Staff, however, this statement equivocates the term “methodology.” The modeling method encompasses the entire method for calculating NPC. The modeling method includes not just the AURORA model algorithms, but also the form and method for deriving the inputs into the AURORA model. Substituting the forward-looking projections that were used in the initial filing for “actual market prices, purchase and sale transactions, and contracts”<sup>92/</sup> is a change in the form and method for deriving those inputs. Using settled daily prices in lieu of forward broker quotes, for example, fundamentally changes how those inputs are being calculated and the thing that they represent. Therefore, contrary to PacifiCorp’s assertions, using the actual inputs in the hybrid modeling method *does* represent a change in method.

40                   At a minimum, the use of the new hybrid method is not supported by evidence and warrants scrutiny that cannot be provided in the context of a compliance filing. The change to a hybrid modeling method using actual and forecast data was not documented in the Multi-Party Stipulation. The Multi-Party Stipulation simply states that the post-Order update will include the “the most recent Official Forward Price Curve (OFPC) available [and the] latest electric and gas hedging and contract positions at the time.”<sup>93/</sup> In testimony, however, there are conflicting statements about how actual data will be used as a part of that update provision. The Joint Testimony supporting the Multi-Party Stipulation states that the update will “use the average of settled daily prices in place of broker quotes for the first three months of the test

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<sup>91/</sup> Wilding, Exh. MGW-6Tr at 9:7-14.

<sup>92/</sup> Id. at 9:15-22.

<sup>93/</sup> Multi-Party Stipulation ¶ 12.



period.”<sup>94/</sup> PacifiCorp’s Rebuttal Testimony, however, clarifies that the use of actual data in the post-order update will involve “market prices, purchase and sale transactions, and contracts.”<sup>95/</sup> PacifiCorp further states that there might be an additional step to limit the use of actual data to “power purchases and sales in a portfolio reserved for deals that are not a part of day-ahead or real-time balancing efforts,”<sup>96/</sup> although the criteria that PacifiCorp might use for filtering out those contracts was not documented. Given these contradictory positions, it is not possible to know from the evidentiary record what actual data might be incorporated in the post-Order update, let alone the modeling impacts of using that data. Since there is no evidentiary basis to evaluate the reasonableness of the new hybrid modeling method proposed for the post-Order update, there is no basis to approve the post-Order update.

**f. The Post-Order Update Would Not Provide for Adequate Due Process**

41 The Commission must adopt administrative procedures that provide adequate due process to parties as the particular situation demands.<sup>97/</sup> With respect to the post-Order update, the Stipulating Parties propose a two-week review period, with no opportunity for discovery and no opportunity for a hearing. AWEC has identified significant controversy that will likely be at issue in the post-Order update, and which cannot adequately be addressed in the proposed two-week review process. AWEC has raised these concerns in the context of the illustrative NPC analysis that PacifiCorp prepared in support of the settlement, but as a practical matter the full extent of these issues, and other potentially unforeseen issues, would not otherwise be known

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<sup>94/</sup> Wilding, Exh. JT-1CT at 11:8-10.

<sup>95/</sup> Wilding, Exh. MGW-6Tr at 9:19-20.

<sup>96/</sup> Id., at 10:10-12.

<sup>97/</sup> Morrissey v. Brewer, 408 U.S. 471, 481 (1972).

until PacifiCorp files the proposed post-Order update in mid-April 2022. Therefore, the update process would not provide sufficient due process considering the particular issues AWEC has identified and other potential issues it might otherwise identify in the context of the post-Order update.

42 As AWEC testifies, a two-week review process provides little time to get access to the new modeling, let alone conduct substantive discovery and review.<sup>98/</sup> Given the complex mechanics of the WIJAM, the compliance filing dispute process in WAC 480-07-880 is not an adequate procedure to evaluate a potential 15.42% rate increase to customers.

43 To the contrary, this very proceeding, and the procedural schedule which it employed, was meant to be the forum for reviewing the update to the NPC baseline that was established in Docket UE-191024. In this proceeding, parties initially agreed to a seven-month, expedited process to review the update.<sup>99/</sup> There was no contemplation of further updates at a later stage in the proceeding.<sup>100/</sup> Given the magnitude of the potential 15.42% increase to Washington customer rates, it follows that a procedure comparable to, if not more extensive than, the procedure adopted in this proceeding would be warranted for an update proposed in the compliance filing stage.

44 It is true that AWEC has in the past stipulated to allowing for late-stage NPC updates, with a limited review process. In Avista's most recent general rate case, for example, AWEC agreed in a Partial Multi-Party Settlement to allow Avista to update power supply pro

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<sup>98/</sup> Mullins, Exh. BGM-1CT at 10:21-11:1.

<sup>99/</sup> Order 03, Prehearing Conference Order

<sup>100/</sup> Id.

forma adjustments 60 days before the rate effective date.<sup>101/</sup> That update, however, occurred on July 29, 2021, shortly after the July 09, 2021 hearing in the case, simultaneous to responses to bench requests, and approximately two months before the Commission's Final Order. This process allowed parties the opportunity to review and potentially contest items included in the update, which, as discussed above, was based on a more straightforward and predictable modeling method. Similarly, in PSE's 2020 PCORC, all parties, including AWEC, stipulated to allowing an update to NPC in the compliance filing stage, with only limited opportunity for review.<sup>102/</sup> This PSE matter is the only instance AWEC has identified where the Commission has approved an NPC update with an unknown rate impact identified subsequent to Commission action via a compliance filing.

45                   A party's justification for agreeing to limited procedure in a stipulation may vary depending on the facts and circumstances of individualized cases. For example, as in PSE's 2020 PCORC, a party may find the method to be well-established, based on a straightforward, mechanical, and non-controversial process, and thus, be comfortable with the probable end result of such an update. A party may be comfortable that a utility's hedging policy is adequately designed to prevent dramatic, unforeseen changes to the level of NPC included in the update. A party may be comfortable that the modeling method will not change and will not produce erratic, unpredictable results. Whatever a party's reasoning in any particular case may be, however, it is in no way binding on that party in future cases. The Stipulating Parties, for example, argue that

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<sup>101/</sup> WUTC v. Avista Corporation, UE-200900 et al., Partial Multiparty Settlement Stipulation ¶ 9 (May 27, 2021).

<sup>102/</sup> Docket UE-200980, Settlement Stipulation and Agreement ¶ 11.

AWEC has taken an inconsistent position on the post-Order update in this docket, compared to prior proceedings. Such arguments, however, are irrelevant as settlements are explicitly non-precedential.<sup>103/</sup> Given the particular circumstances of this case, AWEC was not willing to stipulate to such a limited process with respect to a post-Order update in this case, and AWEC clearly explained its reasoning for opposing the post-Order update in its Opposition Testimony. The Commission should reject the post-Order update provision in the Multi-Party Stipulation for all of the reasons articulated above.

## 2. Nodal Pricing Benefits Are Appropriate to Consider In NPC

46 The Nodal Pricing Model (“NPM”) is an outgrowth of the 2020 Protocol, in which parties supported the development of the NPM based on several assumptions. This included that the NPM would allow states to more easily transition to a fixed generation portfolio and result in “more granular dispatch information resulting in anticipated operational cost savings.”<sup>104/</sup> PacifiCorp admits that the NPM “lowers *actual* NPC” by necessitating fewer changes between day-ahead and real-time operations.<sup>105/</sup> PacifiCorp does not, however, explicitly include any such anticipated cost savings in its power cost forecast, claiming that these cost savings are “impossible to track.”<sup>106/</sup> PacifiCorp does include approximately \$300,000 in Washington-allocated costs associated with the NPM, though, and reserves the right to include an additional \$312,000 in a future proceeding.<sup>107/</sup>

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<sup>103/</sup> Id. ¶ 14.

<sup>104/</sup> 2020 Protocol, Appendix D, Exh. B.

<sup>105/</sup> Staples, Exh. No. DRS-3T at 3:18-4:1 (emphasis added).

<sup>106/</sup> Id. at 4:2-3.

<sup>107/</sup> Multi-Party Stipulation ¶ 11 n. 12.

47 A determination of the prudence of the costs of the NPM was explicitly reserved for this proceeding.<sup>108/</sup> Whether the power cost benefits of the NPM are impossible to track or not is no justification for withholding all such benefits that PacifiCorp admits will be realized in actual operations from the power cost forecast. PacifiCorp is using a claim of uncertainty to justify a certain forecast benefit of \$0.

48 In a recent decision, the Oregon Public Utility Commission rejected this approach, finding that “PacifiCorp’s approach to forecasting no incremental benefit from its NPM is not well-supported by the record in this case ....”<sup>109/</sup> Similarly here, PacifiCorp has failed to present evidence demonstrating the prudence of the NPM costs in the absence of any forecasted power cost benefit, particularly given that the NPM is not yet providing any ancillary benefits associated with fixed generation portfolios for PacifiCorp’s states.

49 AWEC’s recommendation on this issue is summarized in Mr. Mullins’ testimony. Either the Commission should: (1) disallow the NPM costs for this proceeding only; or (2) impute a level of benefits from the NPM equivalent to the \$312,000 PacifiCorp failed to include in its initial filing in this proceeding, which would offset these costs in the PCAM when PacifiCorp identifies its actual power costs for the rate year.<sup>110/</sup>

### 3. Fly Ash Revenues Can Be Reasonably Addressed in the Deferral Docket UE-210852

50 In October 2020, PacifiCorp entered into a new sales agreement to sell fly ash from the Jim Bridger power plant, resulting in \$2,496,530 of incremental revenues that were not

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<sup>108/</sup> Docket Nos. UE-191024 et al., Final Order, Appen. B ¶ 17.

<sup>109/</sup> OPUC Docket No. UE 390, Order No. 21-379 at 31 (Nov. 1, 2021).

<sup>110/</sup> Mullins, Exh. BGM-1CT at 23:5-11.

considered in base rates in the 2020 GRC.<sup>111/</sup> While AWEC recommended considering those revenues in this docket, it also filed a deferral in Docket UE-210852. Given the significance of the other issues AWEC has raised in this proceeding, and the fact that AWEC has proposed to defer the incremental revenues along with Staff’s support for this deferral, AWEC recommends the Commission consider incremental fly ash revenues in deferral docket UE-210852, rather than this docket.

**4. The 2020 Protocol Requires Non-Firm Wheeling Expense Be Allocated Using the System Energy Factor.**

51 Under the 2020 Protocol, wheeling expenses are allocated using the System Generation (“SG”) and System Energy (“SE”) factors.<sup>112/</sup> Firm wheeling transactions are allocated using the SG Factor.<sup>113/</sup> Non-Firm wheeling is allocated using the SE factor.<sup>114/</sup>

52 When performing the jurisdictional allocation to Washington, PacifiCorp incorrectly assumed that all of its wheeling expenses were firm wheeling transactions and used the SG factor for all wheeling costs, even though a material portion was Non-Firm Wheeling. AWEC recommended using the SE factor for the non-firm wheeling costs resulting in a \$45,104 reduction to Washington-allocated NPC.<sup>115/</sup> No Party opposed this recommendation.<sup>116/</sup>

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<sup>111/</sup> Mullins, Exh. BGM-1CT at 23:12-24:15

<sup>112/</sup> Id. at 24:17-21.

<sup>113/</sup> Id.

<sup>114/</sup> Id.

<sup>115/</sup> Id. at 25:11-14.

<sup>116/</sup> Commissioner Rendahl, TR. 154:17-156:10.

#### IV. CONCLUSION

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For the reasons stated above, AWEC respectfully requests the Commission reject post-order update proposed in paragraph 12 of the Multi-Party Stipulation, and approve an NPC baseline of \$113,810,614, incorporating the adjustments identified in Table 1 of the Introduction to this Post-Hearing Brief. As discussed, the post order update contains unreasonable uncertainties and proposes to introduce new evidence that is not in the record and that the Commission will not have reviewed when it enters its order in this case. It also would incorporate the effects of market price changes, which PacifiCorp did not prudently hedge.

Dated this 11th day of February, 2022.

Respectfully submitted,

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