Exhibit No. RJM-1T
Docket UE-23____
Witness: Ramon J. Mitchell

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP dba PACIFIC POWER & LIGHT COMPANY Respondent.	Docket UE-23____

PACIFICORP

DIRECT TESTIMONY OF RAMON J. MITCHELL

June 2023

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ATTACHED EXHIBITS

I. INTRODUCTION

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

A. My name is Ramon J. Mitchell, and my business address is 825 NE Multnomah Street, Suite 600, Portland, Oregon 97232. My title is Manager, Net Power Costs and I am testifying for PacifiCorp.

II. QUALIFICATIONS

Q. Please describe your education and professional experience.

A. I received a Master of Business Administration degree from the University of Portland and a Bachelor of Arts degree in Economics from Reed College. I was first employed by the Company in 2015 and during my time at the Company I have held various positions in the regulation, merchant, and transmission departments. After a brief departure from the Company, in 2021 I returned as Manager, Net Power Costs. In my current role I am responsible for leading and overseeing various efforts associated with the Company's net power costs filings.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have previously provided testimony to the Washington Utilities and Transportation Commission (Commission), as well as commissions in California, Oregon, and Wyoming.

III. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of this testimony?

A. This testimony is a part of the 2022 Power Cost Adjustment Mechanism (PCAM). In the 2022 Power Cost Only Rate Case (PCORC) the Commission ordered the Company as follows:

> "In its next PCAM filing, the Company must address the issue of the prudency of its power costs, specifically the prudency of its risk management practices for hedging for its Washington-allocated resources over calendar year 2022 and its choice of market exposure for its Washington-allocated portfolio given the concerns raised by the Commission over a number of years."[1]

This testimony is that "next PCAM filing" and complies with the Commission's order.

Q. Please elaborate on the genesis of the Commission's order.

A. In the 2022 PCORC order, the Commission further stated:

> "The Commission has warned the Company over a 10-year period of the need to fully evaluate the risks of its reliance on the market, the need for an active risk management program, and the need to demonstrate the prudency of relying on market transactions to recover power costs. Despite these clear indications from the Commission, the Company continues to rely heavily on market purchases to meet Washington customers' load. The Company also hedges for its system as a whole and does not separately hedge for its Washington-allocated resources and Washington load. The cumulative effect of all of these choices—surrounding both the Company's long-term portfolio strategy and the application of its risk management program to Washington customers' loads and resources—raise significant concerns regarding the prudency of its power costs for Washington customers."[2]

[1] *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket No. UE-210402, Order 06 at ¶154 (Mar. 29, 2022).
[2] *Id.* at ¶147.

Q. Please provide a summary of your testimony.

A. My testimony explains how the Company prudently hedges for Washington on an operational basis, and how the Washington Inter-Jurisdictional Allocation Methodology (WIJAM) automatically includes a hedging mechanism for the market exposure that results from this cost allocation methodology. Additionally, I explain how the Company's market exposure is assessed as part of long-term planning.

Q. How is this testimony organized?

A. *First*, in Section A, I define hedging to frame the discussion and I discuss the robustness of the Company's risk management program. *Second*, in Section B, I touch on the West Control Area Inter-Jurisdictional Allocation Methodology (WCA) and the WIJAM and how the WIJAM hedges for the market exposure created by the ratemaking exercise of the cost allocation methodology. *Third*, in Section C, I describe the Company's current long-term portfolio strategy around market purchases/exposure and discuss how Washington's market exposure differs from the Company's other states.

IV. HEDGING

A. PacifiCorp's Hedging Program

Q. What is hedging?

A. Fundamentally, hedging is protecting customers against energy price volatility. Practically speaking, in the power markets, the Company hedges for market exposure of a certain volume of energy by locking in a certain price for a specified time. This locking in of a price reduces exposure to future price changes (volatility). It is important to note however that hedging is *not* for the purpose of minimizing energy

costs; rather the purpose of hedging programs is to manage energy price volatility.[3] That is to say, those forward market purchases (hedges) may be at a price above or below the day-ahead or real-time market prices (spot market prices) for any given day of operation, but either way the objective of hedging is achieved; to manage price volatility by locking in a specific energy price ahead of time.

Q. How does the Company hedge for its system?

A. Typically, the Company hedges ratably over time, with hedges increasing as time to expiration decreases and the most actively managed hedging period is the 12-month forward looking period at any given point in time.

Q. Does the Company have an active risk management program?

A. Yes, as a six-state regulated utility, the Company's risk management program is active. Specifically, it is robust, with regulatory oversight, independent review, and conforms to industry standards.

Q. Has the Company's risk management program been reviewed by the Company's regulators?

A. Yes. The Company regularly updates commission staff in all jurisdictions on the Company's hedging practices. The Company compiles and provides a semi-annual hedging report in multiple jurisdictions which details the current market conditions that the Company is facing and provides details on the Company's hedging practices. Additionally, when the Company has made changes to the Company's risk and hedging policies, it has regularly provided presentations to commission staff in many

[3] *WUTC v. Avista Corporation*, Docket No. UE-200900, Exh. CGK-8, Avista Power Cost Modeling Review by Energy and Environmental Economics, Inc. (E3) at 3 (Oct. 30, 2020).

of the Company's jurisdictions. The Company most recently presented to Washington Commission staff on April 19, 2021.

Q. Is Washington a part of the Company's entire system?

A. Yes. The Company dispatches its generation resources across its transmission resources to serve its entire system, including its Washington service area, which enables the Company to be as efficient as possible. Therefore, for the actual power that flows across transmission lines, the Company hedges for Washington in line with its active risk management policy, ratably over time.

Q. Does the Company separately hedge for Washington?

A. From the perspective of real market transactions through physical power hedges, the Company does not separately hedge for Washington. There is no separate hedge book for transactions allocated to Washington, or any other state, specifically. Rather, the Company hedges its entire system holistically.

Q. Why is it more economically favorable to hedge for the entire system holistically than to hedge for each state separately?

A. Geographical diversity drives the economic benefit. As a hypothetical example, there may be a long-term drought in the West Coast states of the United States. Under such a scenario, the projections for generation from hydroelectric facilities located in Washington may decline and drive an increased reliance on market purchases to offset the generation loss. However, with a geographically diverse system that extends eastward to the Rocky Mountains, it may be that there are projections of favorable wind generation in that Rocky Mountain region which would translate into a position where energy from the eastern Rocky Mountain region can flow across Company

transmission to the west and into Washington and help alleviate what would otherwise be that increased reliance on market purchases to cover the projected hydroelectric generation decline in Washington. In this hypothetical example, hedging solely from the perspective of and for one state as an independent system limits the ability of that system to absorb unfavorable shocks. On the other hand, expanding the geographical footprint of the system to encompass multiple states across multiple geographic regions limits the risks of those state specific unfavorable shocks and this geographical diversity is in and of itself a type of hedge. Using a real example, the Western Energy Imbalance Market owes its success and cost savings primarily to geographic diversity as a system whose footprint extends from the province of British Columbia, Canada to the state of New Mexico, United States.

Q. Please provide another example of why it is more economically favorable to hedge for the entire system holistically than to hedge for each state separately.

A. If the Company were to hedge solely from the perspective of and for one state as an independent system, then that state could compete for market purchases with the other states within the system and incur higher costs. For example, consider a hypothetical scenario in which the Company's system had two distinct northern and southern areas that were not holistically hedged for. If customer load were to peak during the winter on the northern system and peak during the summer on the southern system then during the winter, the northern system would increase reliance on market purchases as its customer load peaked, and potentially compete with the southern system for those same market purchases. However, if the system were hedged for holistically then during the winter, energy from the non-peaking southern system

could be transferred to the northern system across the Company's transmission to decrease the north's reliance on market purchases. In this holistic system, the load conditions across the two areas (northern and southern) would average out and diminish reliance on market purchases during stressed peak load conditions. This translates into a situation wherein there are less hedges and associated costs in a holistic system as compared to hedging for states on an isolated basis.

Q. How can the Company separately hedge for Washington?

A. The WIJAM does not reflect a system allocation of all Company generation resources. The result is a ratemaking market exposure (short position) in place of resources not reflected in rates. Using a forecast of the Washington load and resource balance per the WIJAM, the Company could purchase market instruments in the real power markets to use physical energy to hedge for Washington's short position. However, as I point out above this is inefficient and I discuss later how this would increase NPC for Washington customers. Additionally, I more fully describe the WIJAM and its associated ratemaking market exposure below in my testimony.

Q. Absent that option of purchasing real physical energy to hedge for the WIJAM's ratemaking market exposure which would increase NPC for Washington customers, is there any other way to hedge for Washington?

A. Yes, as an accounting exercise. This type of hedging is already done for Washington today in the WIJAM and is both functionally identical to the hedging that the Company does operationally for the entire system and cheaper, as I describe in detail below in my testimony.

B. Hedging in the WCA and the WIJAM

Q. What is the WIJAM?

A. The Company recovers the costs of providing retail electric service to customers through retail rates established in regulatory proceedings in each state. To ensure states receive the appropriate allocation of costs and benefits from the Company's integrated system, the collaborative Multi-State Process (MSP) has been used to address allocation issues. This collaborative process has led to the development and adoption of a series of inter-jurisdictional cost allocation methods over time, with the most recent being the 2020 Protocol. Since 2006, Washington has used a different methodology than the Company's other jurisdictions, and this methodology was known as the WCA. Along with the negotiations around the 2020 Protocol, the Company worked directly with Commission Staff, Public Counsel, and the Packaging Corporation of America to transition from the WCA to the WIJAM. In the order approving the 2021 GRC, the Commission adopted the WIJAM for NPC allocations in Washington.[4]

Q. What was the WCA?

A. The WCA was the inter-jurisdictional cost allocation methodology adopted by the Commission in 2006 to allocate costs and benefits of the Company's system to Washington.

The WCA isolated the costs and revenues associated with assets electrically interconnected to the PacifiCorp West Balancing Authority Area (PACW) and allocated to Washington a proportionate share of the costs and benefits based

[4] *WUTC v. Pac. Power & Light Co*., Docket Nos. UE-191024, UE-190750, UE-190929, UE-190981, and UE-180778, Final Order 09 / 07 / 12 at ¶112 (Dec. 14, 2020).

primarily on Washington's relative contribution to demand and energy requirements within PACW. The WCA included loads, generation and transmission assets, and wholesale contracts for facilities located in California, Oregon, and Washington. It also included transmission and generation assets located outside of California, Oregon, and Washington that are electrically interconnected to PACW, such as the Jim Bridger coal plant, which is physically located in the PacifiCorp East Balancing Authority Area (PACE). The WCA excluded all loads and assets located within PACE except for Jim Bridger Units 1-4 (Jim Bridger) and the associated transmission facilities.

Q. Please describe the WIJAM's changes to the WCA.

A. The WIJAM has four primary components that changed from the WCA:

- Costs and benefits associated with PacifiCorp's entire transmission system will use a system allocation.
- Costs and benefits associated with PacifiCorp's existing and new non-emitting, non-qualifying facility (QF) resources will use a system allocation. Non-emitting, non-QF resources include all wind, solar, hydro, and geothermal generating resources.
- NPC will be allocated using a spreadsheet method that reflects assets included in Washington rates, including the allocation of EIM benefits.
- Jim Bridger and Colstrip Unit 4 (Colstrip) will be depreciated by December 31, 2023, in Washington rates.

Q. Does the Company separately hedge for Washington as part of the WIJAM?

A. From the perspective of the WIJAM, yes, the Company separately hedges for Washington as part of this ratemaking and cost allocation exercise.

Q. How can the Company not separately hedge for Washington operationally but yet separately hedge for Washington in the WIJAM?

A. Due to the WCA and the WIJAM, Washington has a higher market exposure for ratemaking purposes because of the different allocation treatment for generation resources. In order to cover the market exposure in ratemaking, and consistent with the WIJAM, a certain volume of energy is locked in at a spreadsheet-calculated price for the forecast period.

Recall that in its actual operations the Company hedges for market exposure of a certain volume of energy by locking in a certain price for a specified time. Similarly, under the WIJAM, the Company addresses this ratemaking market exposure of energy volumes not served by allocated resources by locking in a certain price for a specified time (forecast period), which is the definition of hedging. Therefore, the Company does in fact separately hedge for Washington in the WIJAM.

Q. Isn't this "hedge" for Washington customers simply semantics?

A. No. The ratemaking hedging in the WIJAM from a NPC perspective is functionally identical to real world hedging as NPC allocation is in and of itself a ratemaking exercise. Furthermore, it is also cheaper than real world hedging as I explain below in my testimony.

Q. Why has this process, which is built into the WIJAM, not been recognized as a separate hedge for Washington?

A. I address why it should be. Recall that hedging is *not* for the purpose of minimizing energy costs; rather the purpose of hedging programs is to manage energy price volatility. In this era of rising energy costs, prices within the ratemaking world of

WIJAM are locked in at the currently high prices which are reflective of the prevailing market prices at which the Company hedges the entire system holistically. However, and as previously noted, the utility practice of hedging is for the purpose of minimizing volatility in prices, not for the purpose of reducing NPC. As such, the hedging treatment provided for under the WIJAM accomplishes this by minimizing spot market price exposure.

Q. How is the WIJAM ratemaking hedging cheaper than operationally hedging for Washington separately from the system?

A. As alluded to above, in the WIJAM there is currently a supply/demand deficit which leaves Washington without enough supply to serve its customers' demand (load). This supply/demand deficit becomes market exposure because under the WIJAM this deficit (open position) must be closed at prevailing market prices. However, and to customers benefit, the elimination of this market exposure locks in a price calculated not at prevailing market *purchase* prices but firstly at prevailing market *sales* prices and then at prevailing market purchase prices. The Company's sales prices are on average lower than purchase prices and so Washington receives the benefit of a lower "locked in" price for its volume of energy that is represented by the open position across the forecast period; therefore, this hedging occurs at a lower cost than would be experienced under real world conditions.

Q. If the Company could hedge for Washington separately in operations instead of this ratemaking exercise, would this be more economically favorable for Washington customers?

A. No. In this 2022 PCAM it would be a $7.1 million increase to NPC as shown in Exhibit No. RJM-2.

C. Long Term Portfolio Strategy and Market Exposure

Q. Has the Company fully evaluated the risks of its reliance on the power market?

A. Yes. In the 2023 Integrated Resource Plan the Company completed an "assessment of market reliance in addition to consideration of its active participation in wholesale power markets"[5] and as a result, established restrictive limits on market purchases / exposure "based on future market availability concerns […] and as a hedge against the risk of future high market reliance."[6]

Q. Is there still some reliance on the power market within the 2023 IRP?

A. Yes. The 2023 IRP evaluated historical market purchases and its associated trends and found that in the short term,[7] the least cost portfolio was one which incorporated some measure of market purchases and that this is the least-cost option for customers.

Q. Is it possible to rely on no power market purchases / exposure?

A. Yes. The Company could contract or build generation for which all costs and benefits will be one hundred percent allocated (situs) to Washington. This would reduce market purchases and by consequence limit market exposure. With enough situs generation, it is possible to have zero market purchases / exposure.

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[5] Pages 125-126: https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2023-irp/2023_IRP_Volume_I_Final_WA_5-31-23.pdf

[6] *Id.*

[7] Short term defined as now till end of calendar year 2027.

Q. Is the most economical portfolio for customers the one which relies on no power market purchases /exposure in the short term?

A. No. The conclusion of the 2023 IRP is that it is to the economic *disadvantage* of customers to overbuild / over-procure long-term firm generation to serve all reasonable annual load profile forecasts. Based upon the seasonality of load wherein a few days during the summer or winter call for high levels of generation to maintain the energy supply/demand balance, it is expected that any strategy which procures enough long-term firm generation to serve all customer load for all hours of the year will result in total Company expense that is higher than a strategy which relies on some market purchases / exposure.

Q. Please explain the ratemaking market exposure that resulted from the WCA and continues in the WIJAM.

A. As mentioned above in my testimony, to date under the WCA and WIJAM, Washington load exceeds Washington-allocated resources. This results in an energy supply/demand deficit that drives an outcome where Washington does not have enough allocated energy to serve its customer load despite the fact that the system, as operated holistically in the real world, does in fact provide enough energy to serve Washington customer load. This WCA and WIJAM energy supply/demand deficit creates an open position which becomes a ratemaking market exposure since under any cost allocation methodology, this open position must be closed. Under the approved spreadsheet WIJAM model, this open position is closed at prevailing market prices. This ratemaking market exposure has real NPC implications for Washington customers. When market prices are below the resource costs of the

Company's thermal generation in Utah, Idaho, and Wyoming, Washington customers may see lower NPC than the rest of the system. However, when market prices are above the resource costs of the thermal generation in Utah, Idaho, and Wyoming, Washington customers may see higher net power costs than the rest of the system.

Q. Did the Commission acknowledge this higher market exposure for Washington customers when the WCA was established?

A. Yes, the Commission noted the Company's testimony in its order approving the original WCA that it "must meet a higher proportion of its retail load with market purchases than is the case in the east control area."[8]

Q. Did the move to the WIJAM from the WCA improve Washington's access to new generation resources?

A. Yes, the WIJAM allows Washington to take advantage of a system share of the Company's non-emitting resources. The WIJAM better reflects the Company's integrated system when compared to the WCA and recognizes the value of the non-emitting, non-QF resources and transmission located in PACE while accounting for Washington's energy policy, including the need for increased access to renewable generation.

Q. What steps are being taken to further reduce Washington's market exposure from these cost allocation methodologies?

A. The Company continues to work with Washington stakeholders to engage them in the Framework Issues Working Group of the 2020 PacifiCorp Inter-Jurisdictional Allocation Protocol that was developed through the Multi-State Protocol negotiations.

[8] *WUTC v. PacifiCorp d/b/a Pacific Power& Light Co.*, Docket No. UE-061546, Order 08 at ¶50 (Jun. 21, 2007).

This process allows Washington to better align the ratemaking reliance on the market to a level that is consistent with the operational reality of the rest of the Company's system.

Q. Does this conclude your testimony?

A. Yes.