

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a PACIFIC POWER
& LIGHT COMPANY,

Respondent.

DOCKET UE-210402

ORDER 06

FINAL ORDER APPROVING AND
ADOPTING SETTLEMENT
AGREEMENT

- 1 **NATURE OF PROCEEDING.** On June 1, 2021, PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective tariff WN U-76. PacifiCorp characterizes its filing as a Power Cost Only Rate Case (PCORC). In PacifiCorp's last general rate case (GRC), the Commission approved a full settlement, subject to conditions, which required the Company to file a PCORC in 2021.¹
- 2 **REPRESENTATIVES.** Ajay Kumar, Carla Scarsella, and Shelley McCoy, in-house counsel, represent PacifiCorp. Joe Dallas, Assistant Attorney General, Olympia, Washington, represents Commission staff (Staff).² Lisa W. Gafken, Nina Suetake, Ann Paisner, and Brice Hartman, Assistant Attorneys General, Seattle, Washington, represent the Public Counsel Unit of the Attorney General's Office (Public Counsel). Yochanan Zakai, Shute Mihaly & Weinberger, LLP, represents The Energy Project (TEP). Tyler C. Pepple and Brent L. Coleman, Davison Van Cleave, P.C., represent Alliance of Western Energy Consumers (AWEC). Vicki M. Baldwin, Parsons Behle & Latimer, represents Walmart, Inc. (Walmart).

¹ *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket UE-191024 et. al., Final Order 09/07/12 at ¶¶ 58-62 (December 14, 2020) (2019 PacifiCorp GRC Order).

² In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

3 **SUMMARY:** The Commission approves and adopts the Settlement Stipulation and Agreement (Settlement) entered into by PacifiCorp, Staff, Walmart, and TEP (the Settling Parties), subject to condition. We find that the Settling Parties' proposed updates to PacifiCorp's Net Power Costs (NPC) baseline, including the proposed production factor adjustment and production tax credit adjustment, will result in rates that are fair, just, reasonable, and sufficient. We are concerned, however, that the Company may not have prudently managed market risk for its Washington customers. We condition our acceptance of the Settlement on the Company demonstrating the prudence of its power costs in its next Power Cost Adjustment Mechanism (PCAM) filing. We also condition our acceptance of the Settlement on the Settling Parties adopting AWEC's proposed adjustment for non-firm wheeling expenses. Pursuant to the Settlement, the final revenue requirement amount will be determined when PacifiCorp submits its compliance filing that will include updates and power cost changes agreed upon in the Settlement.

MEMORANDUM

4 **Background.** On June 1, 2021, PacifiCorp filed this PCORC with the Commission in Docket UE-210402. In its initial filing, PacifiCorp proposed to update its NPC and to increase electric rates by approximately \$13.1 million, or an average increase of approximately 3.73 percent. The revised tariffs had a proposed effective date of January 1, 2022.

5 The Commission suspended the PCORC filing on June 15, 2021, and convened a prehearing conference on June 24, 2021. At the prehearing conference, the Commission granted the petitions to intervene filed by AWEC, TEP, and Walmart.

6 On July 1, 2021, PacifiCorp filed a Limited Issue Rate Filing (LIRF) with the Commission in Docket UE-210532. PacifiCorp requested a prudency review of specified major capital additions placed in service after May 1, 2020, and included in rates approved in its last GRC, and proposed a resulting decrease in electric rates of \$616,600 as well as a refund of approximately \$2.1 million to customers. Although PacifiCorp proposed to implement both the LIRF and the PCORC in a single compliance filing, the LIRF proceeded in a separate docket on a shorter timeline. The Commission issued its final order resolving PacifiCorp's LIRF on January 18, 2022.³

7 The Settling Parties participated in an initial settlement conference on September 1, 2021.

³ See *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Dockets UE-210532 & UE-210328 (consolidated), Final Order 06/03 (January 18, 2022).

- 8 On September 3, 2021, PacifiCorp filed a Motion to Allow Supplemental Testimony. The Company attached proposed supplemental testimony from its witness, Douglas R. Staples, providing additional information regarding PacifiCorp's proposed Nodal Pricing Model and the Company's transition to Aurora forecasting software (Aurora) for modeling net power costs.
- 9 On September 10, 2021, the Commission granted PacifiCorp's Motion to Allow Supplemental Testimony and accepted the supplemental testimony from Company witness Staples.
- 10 On September 23, 2021, Staff and PacifiCorp filed a joint motion to modify the procedural schedule. Staff and PacifiCorp requested that the Commission continue the hearing in this matter to January 2022.
- 11 On September 24, 2021, the Commission issued a Notice Amending Procedural Schedule. The Commission re-noticed the hearing in this matter for January 14, 2022.
- 12 On October 8, 2021, counsel for Staff filed a letter advising the Commission that the Settling Parties had reached a full, multi-party settlement in principle.
- 13 On October 11, 2021, the Commission issued a Notice Suspending Procedural Schedule and Requiring Filing of Settlement Documents. The Commission required the Settling Parties to file the Settlement and supporting testimony on or before October 28, 2021.
- 14 On October 27, 2021, Staff filed a Motion to Reinstate and Modify Procedural Schedule. Staff noted that AWEC withdrew from the full, multiparty settlement in principle and intended to oppose the settlement. Staff therefore requested that the Commission extend the deadline for the Settlement filing and reinstate the procedural schedule to allow for opposition and rebuttal testimony in advance of the hearing date.
- 15 On November 2, 2021, the Commission issued Order 05, Granting Staff's Motion to Reinstate and Modify Procedural Schedule in Part; Denying Motion in Part. The Commission adopted Staff's proposed modified procedural schedule except for the deadline for rebuttal testimony. The Commission instead required rebuttal testimony to be filed on or before December 13, 2021.
- 16 On November 5, 2021, PacifiCorp filed with the Commission a full multi-party Settlement and supporting testimony on behalf of the Settling Parties—Company, Staff, TEP, and Walmart—pursuant to WAC 480-07-730(3)(a).
- 17 On November 8, 2021, AWEC filed a Petition for Accounting Order (Petition) in Docket UE-210852. AWEC requested that the Commission order PacifiCorp to apply deferred

accounting treatment to certain revenues associated with the sale of fly ash, a byproduct from coal combustion. While AWEC's Petition addresses an issue that AWEC raised in testimony in this proceeding, the Commission will consider the Petition separately. The Petition is still pending as of the date of this Order.

18 The Commission held a public comment hearing on November 18, 2021. The Commission heard testimony from a member of the public who opposed any rate increase in light of the recent inflation experienced by U.S. consumers.⁴ The Commission and Public Counsel received 11 additional written comments opposing any rate increase, and one undecided comment.⁵

19 The Commission convened a hearing on January 14, 2022, for the purposes of clarifying certain provisions within the Settlement. The Commission also provided AWEC an opportunity to present evidence and argument opposing the Settlement. The Settling Parties and Public Counsel presented the following panel of witnesses: Michael G. Wilding for PacifiCorp; David C. Gomez for Staff; Corey Dahl for Public Counsel; Shawn M. Collins for TEP; and Alex Kronauer for Walmart. AWEC also tendered its witness, Bradley G. Mullins, for cross-examination. The Settling Parties declined to cross-examine Mullins at the hearing.

20 **Settlement and Joint Testimony.** The Settlement, which is attached as Appendix A to this Order, requests that the Commission allow the Company to update the NPC baseline in its compliance filing.⁶ The Settlement adopts PacifiCorp's method for modeling NPC as presented in the Company's initial filing.⁷ As discussed below, the NPC baseline will be updated in a compliance filing following the Commission's final order.⁸ The Settlement also provides for other adjustments, including a production factor adjustment and a production tax credit adjustment.⁹

21 The Company's update to the NPC baseline, which will be included with its compliance filing following the entry of the Commission's final order in this docket,¹⁰ "will be

⁴ See Torres, TR 32:19-24.

⁵ See BE-2 (Offer of Public Comment Exhibit).

⁶ Settlement, ¶ 8.

⁷ *Id.*

⁸ Settlement ¶ 8.

⁹ *Id.*

¹⁰ Settlement, ¶ 12 and 13. See also WAC 480-07-880 (providing for compliance filing implementing the Commission's final order).

calculated in the same manner as the baseline that was used to derive the revenue requirement in this settlement.”¹¹ The update “will be based on the most recent Official Forward Price Curve (OFPC) available (which is anticipated to be the March 2022 OFPC) and reflect the Company’s latest electric and gas hedging and contract positions at the time.”¹² The Settlement therefore requests that the Commission issue an order by the end of March to allow the Company to file revised tariff sheets with an effective date of May 1, 2022.¹³ Although the exact NPC baseline will not be known until the compliance filing is made, the Settling Parties explain that that an illustrative update, based on the September OFPC, would forecast a new NPC baseline of approximately \$157 million in Washington.¹⁴ This illustrative update would, on average, increase base prices for all customer classes by 15.42 percent.¹⁵

- 22 The Settling Parties explain that the anticipated price increase is “driven by electricity prices increasing by approximately 80 percent and natural gas prices increasing by almost 70 percent since the Company’s original filing.”¹⁶ Furthermore, Washington is allocated a reduced share of PacifiCorp’s dispatchable resources, which leaves Washington “uniquely vulnerable to increases in market prices.”¹⁷
- 23 The Settlement also provides that the Company will apply a production factor of 99.437 percent to the proposed NPC baseline.¹⁸ The production factor is a means of adjusting pro forma rate year power costs to the test period level.¹⁹
- 24 The Settlement updates the treatment of production tax credits (PTCs) in the Company’s base rates. While PTCs are not an element of the NPC baseline, they are tracked and

¹¹ Settlement ¶ 12.

¹² *Id. Accord* Joint Testimony, Exh. JT-1CTr at 10:16-11:5.

¹³ Settlement ¶ 13.

¹⁴ Joint Testimony, Exh. JT-1CTr at 11:13-20.

¹⁵ *Id.*

¹⁶ Joint Testimony, Exh. JT-1CTr at 11:22-24.

¹⁷ *Id.* at 11:24-12:1.

¹⁸ Settlement ¶ 9.

¹⁹ Joint Testimony, Exh. JT-1CTr at 8:1-6.

credited to customers consistent with the 2019 PacifiCorp GRC Order.²⁰ The Settlement updates the PTC rate from 2.5 cents/kWh to the expected PTC rate of 2.6 cents/kWh.²¹

25 The Settlement provides that PacifiCorp will not correct an error identified in supplemental testimony related to the costs of the Nodal Pricing Model (NPM) reflected in the NPC baseline.²² In its supplemental testimony, Company witness Wilding explained that the Company incurs an annual fee of \$8.3 million for NPM services from the California Independent System Operator (CAISO), but only \$4 million was included in the NPC baseline in this proceeding.²³ If the Company corrected this error, it would raise Washington-allocated NPC by \$312,000.²⁴ Although PacifiCorp will not correct the error in this proceeding,²⁵ the Settlement reserves the Company's right to correct the error in its next general rate case.²⁶ The Company will also include the correct NPM costs in its next PCAM filing.²⁷

26 Finally, the Settling Parties agree not to contest the prudence of the deferral of major maintenance expenses at Colstrip Unit 4 through 2020 and early 2021.²⁸ The Company may seek to recover these expenses in its next general rate case.²⁹

27 **Opposition Testimony.** AWEC objects to four elements of the Settlement. First, AWEC's witness Mullins argues that the Commission should reject the proposal to update the NPC baseline in the Company's compliance filing.³⁰ As an overall matter, Mullins argues that this update is "too broad and occurs too late" and that it is not certain

²⁰ 2019 PacifiCorp GRC Order, App. B ¶ 19.

²¹ Settlement ¶ 10.

²² The NPM is, in short, a method for pricing electricity based on the marginal cost of serving the next increment of demand at a given pricing node, using optimized, day-ahead advisory schedules from the California Independent System Operator (CAISO). *See* Wilding, Exh. MGW-3Tr at 1:18-2:12.

²³ *Id.* at 8:1-3.

²⁴ *Id.* at 8:11-18.

²⁵ Joint Testimony, Exh. JT-1CTr at 14:18-19.

²⁶ Settlement ¶ 11, n. 12.

²⁷ *See id.*

²⁸ Settlement ¶ 14. *See generally* Tack, Exh. CLT-1T (describing the major maintenance expense deferral and discussing the prudence of these costs).

²⁹ *Id.*

³⁰ Mullins, Exh. BGM-1CT at 5:13-15.

how the update will impact rates.³¹ Mullins provides several lines of argument in support of this position.

28 Mullins first discusses past Commission decisions, which allowed power cost updates late in the proceeding.³² For instance, Mullins compares the present case to Puget Sound Energy's (PSE's) 2006 GRC.³³ In that case, the Commission allowed the utility to re-run its modeling with updated gas prices at the compliance filing stage.³⁴ Mullins argues that PacifiCorp, by contrast, models both forward gas and electric prices from numerous market points, that the Company's modeling is "inherently more complicated," and that the results of the update are unpredictable.³⁵ Mullins submits that the Company would use "a hybrid of actual and forecasted data," which would include all contracts and other aspects of NPC.³⁶

29 Mullins also raises concerns with the procedural aspects of the Settlement's proposed update. Mullins argues that the Settlement's proposed NPC update should have been identified at the onset of the case.³⁷ He also argues that the Settlement's proposed compliance filing, with its the two-week review period, does not provide adequate procedure to review what may be a 15.42 percent rate increase for customers.³⁸

30 AWEC's witness raises additional concerns about the uncertainty of the Settlement's proposed update. Mullins argues that the Commission cannot determine the rates it authorizes are just and reasonable because the actual rate impact of the NPC update will not be known until after the final order is issued.³⁹

31 Mullins further argues that it is "not entirely clear" what costs PacifiCorp would include in the proposed update.⁴⁰ For instance, it is not clear whether the Company would reflect

³¹ *Id.* at 5:9-14.

³² *Id.* at 5:8-10-2.

³³ *Id.* at 5:8-8:6.

³⁴ *Id.*

³⁵ *Id.* at 7:1-14.

³⁶ *Id.* at 7:15-8:4. *See also id.* at 11:6-12.

³⁷ *Id.* at 10:3-16.

³⁸ *Id.* at 10:17-11:8.

³⁹ Mullins, Exh. BGM-1CT at 11:19-12:2 (citing *Fed. Power Comm. v. Hope Natural Gas Co.*, 320 U.S. 591, 602-603 (1944)). *See also id.* at 13:20-21 (arguing that under RCW 80.04.150 rates must be subject to "complaint and inquiry").

⁴⁰ *Id.* at 12:12-13:11.

updated Energy Imbalance Market (EIM) benefits, which may lower NPC.⁴¹ Mullins argues that the Company could include new contracts in the compliance filing without sufficient opportunity for review by the parties or the Commission.⁴² The Settlement also proposes to update NPC three months into the test period (the 12 months ending December 2020), which means the update will use three months of actual costs.⁴³ Mullins contends that the NPC should be based on a “normalized forecast” rather than actual costs.⁴⁴

32 Noting that the Joint Testimony discusses “volatile market conditions” and the potential for large impacts to NPC, Mullins submits that PacifiCorp has not managed risk in a prudent manner for its Washington customers.⁴⁵ Mullins presents an analysis of PacifiCorp’s hedging position and asserts that the Company has under-hedged.⁴⁶ Mullins goes so far as to say that an update to NPC would not be necessary if the Company had hedged in a prudent manner.⁴⁷

33 In light of these concerns, AWEC argues that the Commission should reject the Settlement’s proposed update to NPC.⁴⁸ The Commission should instead base rates on the NPC analysis submitted in the Company’s initial filing of approximately \$115 million subject to the production factor adjustment and other adjustments that AWEC does not oppose.⁴⁹

34 Second, AWEC objects to the Settlement’s treatment of NPM costs and benefits. While the Settlement does not allow for the full recovery of NPM costs in this proceeding, Mullins submits that the Settlement does not recognize the cost-savings from the use of NPM.⁵⁰ Mullins asserts that if PacifiCorp cannot quantify the benefits of NPM then it has failed to carry its burden, and the Commission should “identify a reasonable approximation of those benefits or disallow the costs of the NPM” included in the

⁴¹ *Id.* at 13:4-14.

⁴² *Id.* at 13:15-14:4.

⁴³ *Id.* at 16:1-11.

⁴⁴ *Id.* at 16:12-17:14.

⁴⁵ *Id.* at 14:5-15:22. *See also* BGM-3C (PacifiCorp Washington Hedging Position).

⁴⁶ *Id.* at 14:10-12 (citing Mullins, Exh. BGM-3C).

⁴⁷ *Id.* at 15:17-22.

⁴⁸ *Id.* at 18:19-19:16.

⁴⁹ *See id. Accord id.* at 5:15-17.

⁵⁰ *Id.* at 21:5-14.

Settlement.⁵¹ Mullins notes that the Oregon Public Utilities Commission (Oregon PUC) determined that PacifiCorp failed to carry its burden of proof of benefits and “imputed saving from the NPM equal to one-half of its costs.”⁵²

35 Third, AWEC recommends that the Commission require PacifiCorp to incorporate approximately \$3 million (on a Washington-allocated basis) of incremental revenues related to the sale of fly ash from the Jim Bridger power plant into base rates.⁵³ Fly ash is a byproduct from coal combustion, and PacifiCorp expected increasing revenues from the sale of this product.⁵⁴ AWEC also filed a petition to require the Company to defer these fly ash revenues in Docket UE-210852, which is still pending before the Commission.⁵⁵

36 Fourth, AWEC argues that PacifiCorp incorrectly assumed that all its wheeling expenses were on a “firm” basis and that the Company should allocate non-firm wheeling transactions based on the System Energy (SE) factor, consistent with the 2020 Multi-State Process Protocol.⁵⁶ This adjustment would result in a \$45,104 reduction to Washington-allocated NPC.⁵⁷

37 **Rebuttal Testimony.** On rebuttal, PacifiCorp witness Wilding addresses AWEC’s objections to the Settlement’s proposed update to NPC. Wilding explains the steps the Company would follow for the update, which include updating forward prices for gas and electricity, hedge positions for gas and electricity, and updating any mark-to-market values to reflect the same OFPC.⁵⁸ The Company will also include any new power purchase agreements (PPAs) and qualifying facilities contracts, and any required updates to existing contracts, as well as reforecasting EIM and greenhouse gas (GHG) benefits.⁵⁹ Wilding submits that this update will follow the same methodology as the Company’s initial filing.⁶⁰

⁵¹ Mullins, Exh. BGM-1CT at 22:11-21.

⁵² Mullins, Exh. BGM-1CT at 22:15-21 (citing *PacifiCorp 2022 Transition Adjustment Mechanism*, OPUC Docket No. UE 390, Order No. 21-379 at 31 (November 1, 2021)).

⁵³ Mullins, Exh. BGM-1CT at 24:10-15.

⁵⁴ *Id.* at 23:13-24:9.

⁵⁵ *Id.* at 24:12-13.

⁵⁶ *Id.* at 25:1-10.

⁵⁷ *Id.* at 25:11-14.

⁵⁸ Wilding, Exh. MGW-6Tr at 2:5-15.

⁵⁹ *Id.*

⁶⁰ *Id.* at 2:16-19.

- 38 Wilding argues that updating NPC allows the forecast to be based on the “most recent market feedback” and that “recency is of paramount importance because those prices represent a market consensus regarding what 2022 supply and demand conditions are expected to be like.”⁶¹ Wilding notes that AWEC’s predecessor organization, the Industrial Customers of Northwest Utilities (ICNU), argued for updating NPC just prior to rates going into effect in order to result in more accurate forecast of power costs.⁶²
- 39 Wilding notes that the Oregon PUC requires PacifiCorp to update its power costs following the PUC’s final order on the Company’s annual Transition Adjustment Mechanism (TAM) filing.⁶³ Wilding argues that the Settlement’s proposed update is substantively the same as required by the Oregon PUC and that, despite what AWEC suggests, the compliance filing provides enough time for review of the NPC update.⁶⁴
- 40 Wilding disagrees with AWEC’s assertion that it is unclear what cost items would be included in the Settlement’s proposed update.⁶⁵ With respect to the use of both actual and forecast data, Wilding contends that including actual market prices from the first months of 2022 is “simply using the most accurate data available for the rate period” and “does not fundamentally change the model itself.”⁶⁶ He notes that the inputs to the NPC model, such as market prices and sales contracts, were never normalized to begin with and that AWEC’s objection on this issue is a “red herring.”⁶⁷ To the extent the update includes new contracts, Wilding notes that the Commission may review the prudence of those expenses in a subsequent PCAM filing.⁶⁸
- 41 Wilding contends that Washington power costs have increased due to Washington’s underlying resource portfolio, not PacifiCorp’s hedging practices. Wilding contends that Washington is uniquely vulnerable to market price volatility due to Washington’s allocation of generation resources.⁶⁹ Wilding argues that “the reason that Washington NPC has increased since the initial filing is due to the resource mix for the state of

⁶¹ *Id.* at 3:15-4:1.

⁶² *Id.* at 4:11-15 (citing *WUTC v. Puget Sound Energy*, Docket Nos. UE-111048 and UG-111049, ICNU Post-Hearing Brief at 40 (March 16, 2012)).

⁶³ *Id.* at 5:1-13.

⁶⁴ *Id.* at 5:12-20.

⁶⁵ *Id.* at 6:1-3.

⁶⁶ *Id.* at 9:7-14. *Accord* Gomez, Exh. DCG-1CT at 16:15-17-7.

⁶⁷ *Id.* at 9:15-22.

⁶⁸ *Id.* at 6:8-16. *Accord* Gomez, Exh. DCG-1CT at 9:14-10:10.

⁶⁹ *Id.* at 7:17-19.

Washington not producing sufficient power to satisfy Washington demand.”⁷⁰ He adds that “[i]ncreased hedging would not have resulted in further generation.”⁷¹

42 Wilding emphasizes that the Company hedges for its entire system holistically and does not manage a separate hedge book for Washington.⁷² As a result of Washington’s allocation of generation resources under the Washington Inter-Jurisdictional Allocation Methodology (WIJAM), Wilding asserts, Washington load remains short against its loads after “the allocation of hedges” and resources resulting in more than 20 percent of Washington’s load needing “to be satisfied by using modeled market interactions.”⁷³

43 In contrast, PacifiCorp’s total Company NPC decreased in the update prepared in advance of joint testimony (September 2021 update), which Wilding believes demonstrates that PacifiCorp’s “hedge practices are prudent and not driving the NPC increase.”⁷⁴

44 Wilding notes as well that the Company hedges ratably over time and that the most actively managed hedging period is the prompt 12-month window at any given point in time.⁷⁵ At the time of the Company’s initial filing, most of the test period was outside this actively managed window.⁷⁶ Wilding submits that an update is therefore necessary to fully capture the Company’s hedging activity.⁷⁷

45 Wilding recommends that the Commission adopt the Settlement as filed, with its proposed update to the NPC baseline.⁷⁸ In the alternative, Wilding notes that the Commission could require the Company to forecast the NPC baseline for the forecast period of May 1, 2022, to April 30, 2023.⁷⁹

⁷⁰ *Id.* at 8:14-17. Wilding states that due to the short position 20 percent of Washington’s load must be “satisfied using modeled market interactions. *Id.* at 7:9-10.

⁷¹ *Id.*

⁷² *Id.* at 7:5-6.

⁷³ *Id.* at 7:6-10.

⁷⁴ *Id.* at 7:12-17.

⁷⁵ *Id.* at 7:20-8:1.

⁷⁶ *Id.* at 8:1-3.

⁷⁷ *Id.* at 8:5-12.

⁷⁸ *Id.* at 11:6-8.

⁷⁹ *Id.* at 11:1-5.

- 46 Wilding also responds to AWEC’s argument regarding the costs and benefits of NPM. Wilding explains that the primary benefit of NPM is in tracking and allocating NPC to each state served by the Company.⁸⁰ While NPM allows for more efficient day ahead set-up and reducing actual NPC, these benefits are impossible to quantify.⁸¹ PacifiCorp explained these difficulties in both the 2020 WIJAM Protocol and the NPM Memorandum of Understanding, which AWEC signed.⁸² Wilding also contends that, when the Oregon PUC imputed benefits from the NPM, this was premised on certain limitations with an earlier model, the Generation and Regulation Initiative Decision (GRID) tool.⁸³
- 47 With respect to fly ash, Wilding argues that it is not appropriate to pull a single variable out of base rates to include in a PCORC.⁸⁴ The Oregon PUC rejected AWEC’s request to include fly ash revenues in an NPC update because these revenues are correlated with construction demand rather than power production or power costs.⁸⁵
- 48 Finally, Wilding indicates that PacifiCorp does not oppose AWEC’s proposed adjustment for non-firm wheeling costs.⁸⁶ According to Wilding, using the SE factor for these transactions is consistent with the Company’s practice in other states.⁸⁷
- 49 Staff witness Gomez also provided rebuttal testimony. Regarding the Settlement’s proposed update to NPC, Gomez states that the update will include PacifiCorp’s most recent OFPC (likely March 2022), the Company’s most recent electric and gas hedging positions, and mark-to-market adjustments for contracts.⁸⁸ This update would specifically include: wholesale electric sale and purchase contracts that are for long-term firm sales and purchases; short-term firm sales and purchases; gas sales and purchase contracts; and a recalculation of EIM benefits.⁸⁹

⁸⁰ *Id.* at 12:5-14.

⁸¹ *Id.* at 11:10-12:14.

⁸² *Id.* at 12:12-14 (internal citations omitted).

⁸³ *Id.* at 12:15-13-4.

⁸⁴ *Id.* at 13:1-3.

⁸⁵ *Id.* at 14:4-16 (citing *In the Matter of PacifiCorp dba Pacific Power, 2022 Transition Adjustment Mechanism*, Docket No. UE 390, Order No. 21-379 at 36 (November 1, 2021)).

⁸⁶ *Id.* at 15:4-11.

⁸⁷ *Id.*

⁸⁸ Gomez, Exh. DCG-1CT at 3:13-19.

⁸⁹ *Id.* at 5:6-16.

- 50 Gomez testifies that the Commission recently approved a settlement in PSE’s 2020 PCORC, which provided for an update to power costs in the utility’s compliance filing.⁹⁰ Unlike PSE, PacifiCorp relies on a forecast of rate year power market prices as an input to its model rather than arriving at market prices for power as an output of the model.⁹¹ But Gomez argues that Mullins does not provide any data or analysis to suggest that one modeling approach produces better results than another.⁹² Gomez submits that the Settlement’s proposed update is otherwise comparable to PSE’s 2020 PCORC and supports the same goal of setting the NPC baseline using the most up-to-date information available.⁹³
- 51 Gomez argues that the Settlement’s proposed two-week period for Staff to review PacifiCorp’s compliance filing is sufficient.⁹⁴ Staff intends to review the inputs to the Company’s model, and the Commission could provide additional process if any party disputed the Company’s compliance filing.⁹⁵
- 52 Gomez notes that the Commission required Avista Corporation d/b/a Avista Utilities (Avista) to engage in collaborate discussions with its peer utilities, independent experts, Staff, and other stakeholders on power cost modeling.⁹⁶ Energy and Environmental Economics, Inc., (E3) was hired as an independent consultant.⁹⁷ E3 recommended, among other points, that “there may be value in standardizing the practice of updating forward electricity and natural gas inputs close to the rate implementation date, as is done in ‘compliance runs.’”⁹⁸ Gomez explains that E3’s recommendation was based on a survey of several utilities and that the same recommendation should apply to PacifiCorp.⁹⁹

⁹⁰ *Id.* at 6:6-11 (citing *WUTC v. Puget Sound Energy*, Docket UE-200980, Order 05 (June 1, 2021) (2020 PSE PCORC Order)).

⁹¹ *Id.* at 6:13-7:13.

⁹² *Id.* at 7:7 n.25.

⁹³ *Id.* at 6:13-7:13.

⁹⁴ *Id.* at 7:15-8:9.

⁹⁵ *Id.* at 8:11-9:12.

⁹⁶ *Id.* at 10:12-18 (citing *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485, UE-171221 & UE-171222, Order 07/Order 02/Order 02 ¶ 161 (April 26, 2018)).

⁹⁷ *Id.* at 11:1-5.

⁹⁸ *Id.* at 11:17-19 (citing Gomez, Exh. DCG-2 at 55).

⁹⁹ *Id.* at 12:15-21.

- 53 Gomez testifies that Staff became aware of “significant increases” in market prices for both electricity and gas following PacifiCorp’s initial filing.¹⁰⁰ If the stated goal of a PCORC is to set the NPC baseline as close as possible to forecasted power costs based on the most up-to-date information, Gomez contends that not updating power costs in the face of these increasing costs “will certainly thwart this goal.”¹⁰¹
- 54 Gomez also disagrees that PacifiCorp’s hedging practices are imprudent. Gomez explains that at the time of the initial filing, the Company had not completed its hedging position for the upcoming rate year.¹⁰² Gomez maintains that the lack of hedging contracts in the initial filing “is not evidence of imprudence on the part of the Company—but instead highlights the importance of the proposed update.”¹⁰³
- 55 If the Commission did not approve the Settlement’s proposed update, Gomez argues that PacifiCorp would likely absorb a disproportionate share of rising costs via the PCAM dead band and sharing bands.¹⁰⁴ Any additional costs not absorbed by the Company would be recorded to the PCAM deferral account, incurring interest and contributing to the Company’s PCAM surcharge deferral balance.¹⁰⁵ According to Gomez, this would “greatly increase” the probability of a surcharge to customers.¹⁰⁶
- 56 Staff therefore recommends that the Commission require an NPC update after its final order in every GRC and PCORC filed from now on.¹⁰⁷ Staff contends that the Commission should not approve any settlements on power costs that do not include such an update.¹⁰⁸
- 57 Regarding AWEC’s proposed adjustment for fly ash revenues, Gomez submits that the Commission should consider whether these increased revenues should be reflected in base rates at some point.¹⁰⁹ However, Gomez argues, it is questionable whether fly ash

¹⁰⁰ *Id.* at 14:20-15:15.

¹⁰¹ *Id.* at 15:16-20.

¹⁰² *Id.* at 15-17.

¹⁰³ *Id.* at 19:3-5.

¹⁰⁴ *Id.* at 25:10-13.

¹⁰⁵ *Id.* at 25:13-16.

¹⁰⁶ *Id.* at 26:13-15.

¹⁰⁷ *Id.* at 27:1-3.

¹⁰⁸ *Id.* at 27:5-6.

¹⁰⁹ *Id.* at 28:18-29:14.

revenue is tied to power generation, and it is not clear that the present record supports such an adjustment.¹¹⁰

58 With regards to AWEC's proposed adjustment for NPM benefits, Gomez notes that NPM costs are included in base rates following the Company's most recent GRC.¹¹¹ Gomez contends the benefits of the NPM are "particularly difficult to quantify" and that the Settlement "implicitly presumes" that the NPM benefits customers which "manifest themselves through actuals which in turn pass through the PCAM bands."¹¹²

59 Finally, Staff does not oppose AWEC's proposed adjustment related to wheeling expenses.¹¹³

60 **Briefing.** The parties, with the exception of Public Counsel and Walmart, filed post-hearing briefs. In its post-hearing brief, PacifiCorp argues that the Commission should approve the Settlement in its entirety and without condition.¹¹⁴ Surveying past Commission decisions, PacifiCorp notes that the Commission has routinely allowed power cost updates following an evidentiary hearing, and even after the entry of a final order, at the compliance stage of a proceeding.¹¹⁵ Although the Commission has not previously approved updates to long-term contracts late in a proceeding, PacifiCorp notes that the update in this case will not include any new long-term contracts.¹¹⁶ PacifiCorp maintains that the Settlement's proposed update is comparable to those approved by the Commission in the past and that AWEC provides no evidence that the Company's modeling is more unpredictable than PSE's.¹¹⁷ PacifiCorp argues that the Settlement's proposed update is also similar to updates required by the Oregon PUC in the Company's TAM proceedings and that AWEC has not challenged this issue in past TAM proceedings, which undermines AWEC's claim that this proposed update is somehow controversial.¹¹⁸

¹¹⁰ *Id.*

¹¹¹ *Id.* at 30:13-14.

¹¹² *Id.* at 30:15-31:15.

¹¹³ *Id.* at 30:4-8.

¹¹⁴ PacifiCorp Brief ¶ 7.

¹¹⁵ PacifiCorp Brief ¶ 15 (internal citations omitted).

¹¹⁶ PacifiCorp Brief ¶ 16 (citing Docket No. UE-210402, Settling Parties Response to Bench Request 2 (January 26, 2022)).

¹¹⁷ PacifiCorp Brief ¶ 20.

¹¹⁸ PacifiCorp Brief ¶ 21.

- 61 PacifiCorp also disputes AWEC’s argument that the Commission cannot ensure “just and reasonable” rates if the actual rates are not approved in the final order.¹¹⁹ The Company observes that rates will only become effective after the Commission’s review of the compliance filing and that, furthermore, the Settlement provides for a longer review period for the compliance filing than the Commission’s own rules.¹²⁰
- 62 The Company asserts that AWEC proposes to use the March 2021 OFPC, which is the most out of date information in the record,¹²¹ and that there is no data to suggest that this year-old market data will provide a more accurate forecast of rate-year power costs.¹²²
- 63 PacifiCorp maintains that its hedging practices are prudent.¹²³ The Company argues that the purpose of hedging is to reduce price variability rather than to “beat the market.”¹²⁴
- 64 The Company submits that under both WIJAM and its predecessor, the West Control Area Inter-Jurisdictional Allocation Methodology (WCA), Washington customers have been “uniquely vulnerable to market purchases.”¹²⁵ The Company suggests that the Commission made a similar observation when approving the WCA in 2006.¹²⁶ PacifiCorp contends that it is and has been adding renewable resources to serve Washington customers and that doing so lowers the proportion of reliance on market purchases for Washington customers.¹²⁷

¹¹⁹ PacifiCorp Brief ¶ 23.

¹²⁰ *Id.*

¹²¹ PacifiCorp Brief ¶ 25.

¹²² *Id.*

¹²³ PacifiCorp Brief ¶ 26.

¹²⁴ *Id.* at ¶ 29.

¹²⁵ PacifiCorp Brief ¶ 33.

¹²⁶ PacifiCorp submits in its brief that “the Commission observed this reality” when approving the WCA, “noting that the ‘WCA must meet a higher proportion of its retail load with market purchases.’” PacifiCorp Brief ¶ 33 (quoting *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket No. UE-061546 *et al.*, Order No. 08 at ¶ 50 (June 21, 2007) (Order 08)). To be clear, the Company’s quotation is drawn from the Commission’s summary of PacifiCorp’s own position, rather than a Commission determination or finding of fact. *See* Order 08 ¶ 50 (“*PacifiCorp states* this modestly higher cost is because the WCA must meet a higher proportion of its retail load with market purchases than is the case in the east control area.”) (emphasis added).

¹²⁷ PacifiCorp Brief ¶ 35.

- 65 With regards to NPM, PacifiCorp reiterates that the parties, including AWEC and Staff, have already affirmed their support for the Company’s development of NPM.¹²⁸ PacifiCorp contends that the benefits of NPM accrue in actual power costs.¹²⁹
- 66 With respect to the issue of fly ash revenue, PacifiCorp again argues that it is inappropriate to single out this revenue item in the context of a PCORC.¹³⁰ PacifiCorp also argues that AWEC’s recommendation constitutes single-issue ratemaking,¹³¹ and that it violates the matching principle by failing to account for offsetting costs.¹³²
- 67 In its brief, Staff submits that the Commission should approve the Settlement as being lawful, supported by an appropriate record, and consistent with the public interest.¹³³ Staff defends the Settlement’s proposed power cost update and notes that it will address AWEC’s proposed adjustments in a reply brief.¹³⁴
- 68 Staff argues that the Settlement’s proposed update is consistent with the goals of a PCORC, which is to forecast rate year power costs on the most up-to-date information.¹³⁵ For example, Staff notes that in Avista’s 2010 general rate case the Commission expressed concern with a proposed settlement that did not provide for a power cost update.¹³⁶
- 69 Staff argues that not updating power costs in this case would undermine the purpose of the Company’s PCAM and promote rate instability.¹³⁷ Staff argues that AWEC’s predecessor, ICNU, advocated in past cases for power cost updates “just prior to rates

¹²⁸ PacifiCorp Brief ¶ 37 (citing 2020 Inter-Jurisdictional Allocation Protocol, App’x D at ¶ 9).

¹²⁹ *Id.* ¶¶ 41-42.

¹³⁰ PacifiCorp Brief ¶¶ 43-50.

¹³¹ *Id.* ¶ 46.

¹³² *Id.* ¶ 47.

¹³³ Staff Brief ¶ 1.

¹³⁴ Staff Brief ¶ 4, n.15.

¹³⁵ Staff Brief ¶ 9 (citing 2020 PSE PCORC Order at ¶ 13).

¹³⁶ Staff refers to this as Avista’s 2007 general rate case, but it was actually filed in 2010. *See* Staff Brief ¶ 10 (citing *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-100467 & UG-100468, Order 07 ¶¶ 20-22 (November 19, 2010) (2010 Avista GRC Order)).

¹³⁷ Staff Brief ¶ 14.

going into effect” and that AWEC’s position here is inconsistent with its earlier advocacy.¹³⁸

70 Staff also submits that the Settlement’s proposed update is consistent with good modeling practice.¹³⁹ In fact, Staff contends, E3 specifically recommended standardizing the practice of updating forward electricity and natural gas inputs close to the rate effective date.¹⁴⁰ Staff observes that PacifiCorp performs such a power cost update following the Oregon PUC’s final order in the Company’s TAM proceedings, using the latest OFPC and updating any new or existing contracts.¹⁴¹

71 While AWEC argues that PacifiCorp’s modeling is more complex than PSE’s, Staff asserts that this argument is not supported by any compelling data or analysis.¹⁴² Staff also argues that AWEC inconsistently supports using the very same model to set the NPC baseline, simply using the data supporting the Company’s initial filing.¹⁴³

72 AWEC has also challenged PacifiCorp’s allocation of a higher level of market transactions to Washington customers, but Staff argues that WIJAM was approved by the Commission and allocates Washington a less-than-system share of certain resources, such as coal-fired generation.¹⁴⁴ Staff argues that the Commission itself has limited the scope of this PCORC and that any challenges to WIJAM should be considered in another proceeding, such as a future general rate case.¹⁴⁵

73 Staff also disputes AWEC’s legal challenges to the Settlement’s proposed update. First, Staff argues that AWEC is wrong to suggest that the update would violate either RCW 80.04.130 or RCW 80.04.150.¹⁴⁶ According to Staff, the power cost update only involves updating certain inputs to PacifiCorp’s model, and Commission rules provide for the review and possible rejection of compliance filings.¹⁴⁷ Staff further argues that the

¹³⁸ Staff Brief ¶¶ 15-16 (internal citations omitted).

¹³⁹ Staff Brief ¶ 17.

¹⁴⁰ *Id.* (citing Gomez, Exh. DCG-2 at 55).

¹⁴¹ *Id.* ¶ 20.

¹⁴² *Id.* ¶ 21.

¹⁴³ *Id.*

¹⁴⁴ Staff Brief ¶ 23-24.

¹⁴⁵ *Id.* ¶ 25 (citing 2019 PacifiCorp GRC Order at ¶ 66).

¹⁴⁶ Staff Brief ¶ 27.

¹⁴⁷ *Id.* (citing WAC 480-07-880).

prudence of any power cost inputs can be reviewed in the Company's 2022 annual PCAM review once actual power costs are known.¹⁴⁸

- 74 Second, Staff argues that the Settlement's proposed update does not violate the requirements of *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), for the same reasons.¹⁴⁹
- 75 Third, Staff distinguishes PSE's 2006 general rate case, where the Commission limited the utility's power cost update to forward natural gas prices.¹⁵⁰ While PSE identified certain costs only by reference to a "brief redirect examination" of a company witness, Staff argues that the record supporting the Settlement's proposed update is "robust."¹⁵¹
- 76 AWEC also submitted a post-hearing brief, which reiterates its opposition to the Settlement. AWEC recommends that the Commission reject the Settlement's proposed power cost update and approve an NPC baseline based on the Company's initial filing.¹⁵² AWEC recommends three additional adjustments to the NPC baseline, specifically (1) the Settlement's production factor adjustment, (2) AWEC's proposed adjustment for NPM benefits; and (3) AWEC's proposed adjustment non-firm wheeling transmissions.¹⁵³
- 77 Although the Settling Parties argue that AWEC supported power cost updates in the past, AWEC submits that the circumstances of this case are different.¹⁵⁴ AWEC cautions that a party may agree to a power cost update in the context of a settlement for various reasons.¹⁵⁵ Furthermore, these settlements are explicitly non-precedential.¹⁵⁶

¹⁴⁸ *Id.*

¹⁴⁹ Staff Brief ¶ 28.

¹⁵⁰ Staff Brief ¶ 29 (citing *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-060266 & UG-060267, Order No. 08 at ¶ 104 (Jan. 5, 2007)).

¹⁵¹ *Id.* ¶¶ 29-30.

¹⁵² AWEC Brief ¶ 4.

¹⁵³ AWEC Brief ¶ 4, Table 1 (citing, *inter alia*, Wilding, Exh. MGW-2Cr (Washington-Allocated Net Power Costs)).

¹⁵⁴ AWEC Brief ¶ 7.

¹⁵⁵ *See* AWEC Brief ¶¶ 44-45.

¹⁵⁶ *Id.* (citing Docket UE-200980, Settlement ¶ 14 (April 2, 2021)).

- 78 AWEC contends that the Settlement would result in higher prices for Washington customers even though PacifiCorp's actual total-Company power costs are declining.¹⁵⁷ AWEC observes that these higher costs are "due almost entirely" to the Company's lack of hedging for Washington power costs.¹⁵⁸ AWEC suggests that unless PacifiCorp updates its power costs in other states, "this wealth transfer will go from Washington customers to PacifiCorp shareholders."¹⁵⁹
- 79 AWEC again argues that PacifiCorp has failed to prudently manage Washington's risk in the context of WIJAM and that the Company admits Washington customers are "uniquely vulnerable to increases in market prices."¹⁶⁰
- 80 AWEC contends that PacifiCorp has failed to comply with its own hedging policies.¹⁶¹ AWEC argues that this is true whether one considers the Company's earlier hedging policy, focusing on maximum possible NPC change, or its more recent hedging policy, focusing on minimum percentages of natural gas volume.¹⁶² AWEC supports further review of the Company's hedging practices in a future PCAM filing.¹⁶³
- 81 AWEC again argues that there is substantial uncertainty over the rates resulting from the Settlement's proposed power cost update.¹⁶⁴ AWEC argues that the record is now closed in this proceeding and that rates calculated in the post-order update will have no support in the record.¹⁶⁵ At most, the Settling Parties referred to an illustrative NPC update of approximately \$157 million but did not provide any supporting analysis for this figure.¹⁶⁶ AWEC argues that this departs from past cases, where the Commission generally

¹⁵⁷ *Id.* ¶ 8.

¹⁵⁸ *Id.* ¶ 9.

¹⁵⁹ *Id.* ¶ 14. *Accord* AWEC Brief ¶ 24 (stating that the power cost update does not "represent an increase in PacifiCorp's actual costs" and that the allocation of hedging is the primary cause of increased NPC for Washington customers).

¹⁶⁰ AWEC Brief ¶¶ 10-11. *See also* AWEC Brief ¶ 25 (arguing that WIJAM did not define how hedging costs were to be allocated).

¹⁶¹ *Id.* ¶ 11.

¹⁶² AWEC Brief ¶¶ 12-13 (citing Wilding, Exh. MGW-7CX at 4, 6).

¹⁶³ *Id.* ¶ 15.

¹⁶⁴ AWEC Brief ¶ 16.

¹⁶⁵ *Id.* ¶ 18 (citing WAC 480-07-830(1) (providing that the record closes at the last day of the hearing unless the Commission orders otherwise)).

¹⁶⁶ AWEC Brief ¶ 21 (citing Joint Testimony, Exh. JT-1CTr at 11:17-18).

approved power cost updates during the course of the proceeding or the inputs were known at the time of the final order.¹⁶⁷

- 82 Citing WAC 480-07-880, AWEC submits that a compliance filing must be strictly limited and specific to the Commission’s final order.¹⁶⁸ AWEC argues that PacifiCorp does not use the same “out-of-the-box” Aurora model used by other utilities and that updating this model is complicated, unpredictable, and controversial, making it inappropriate for a compliance filing.¹⁶⁹ AWEC is concerned that the compliance filing does not provide sufficient due process to consider these issues.¹⁷⁰
- 83 AWEC also reiterates its objections to using actual costs for the first three months of the Settlement’s proposed power cost update. Although using actual data may not change the operation of the model, AWEC believes that it “changes what the model represents.”¹⁷¹ AWEC is also concerned that PacifiCorp has taken “contradictory positions” in its testimony as to how actual data might be used in the power cost update.¹⁷²
- 84 Moving on to its proposed adjustments, AWEC again recommends that the Commission either disallow NPM costs for this proceeding or impute benefits equal to the \$312,000 in costs PacifiCorp has included.¹⁷³ AWEC notes that this proceeding was intended, in part, to address the prudence of the costs of NPM.¹⁷⁴
- 85 With regards to fly ash revenues, AWEC recommends in its Brief that the Commission consider this issue in Docket UE-210852 rather than in this docket.¹⁷⁵
- 86 Finally, AWEC notes that no party opposed its proposed adjustment of \$45,104 related to the use of the SE factor for non-firm wheeling costs.¹⁷⁶

¹⁶⁷ *Id.* ¶ 19 (internal citation omitted).

¹⁶⁸ AWEC Brief ¶¶ 26-27.

¹⁶⁹ *Id.* ¶¶ 29-31.

¹⁷⁰ *Id.* ¶¶ 41-43.

¹⁷¹ *Id.* ¶ 38.

¹⁷² *Id.* ¶ 40 (citing Joint Testimony, Exh. JT-1CTr at 11:8-10; Wilding, Exh. MGW-6Tr at 9:19-20; *id.* at 10:10-12).

¹⁷³ AWEC Brief ¶¶ 46-49.

¹⁷⁴ AWEC Brief ¶ 47.

¹⁷⁵ AWEC Brief ¶ 50. *Accord* AWEC Reply Brief ¶ 27.

¹⁷⁶ AWEC Brief ¶ 52. *Accord* AWEC Reply Brief ¶ 28.

- 87 The parties, with the exception of Public Counsel and Walmart, also filed reply briefs. In its reply brief, PacifiCorp argues that AWEC’s position is undermined by its own admissions regarding the purpose of NPC updates and compliance filings.¹⁷⁷ Because AWEC supported similar power cost updates in the past, PacifiCorp argues that AWEC cannot credibly claim that the Settlement’s proposed update violates Washington law.¹⁷⁸
- 88 PacifiCorp repeats that the Settlement’s proposed update ensures a more accurate NPC baseline, is fully supported by the record, and is appropriate for a compliance filing.¹⁷⁹ Furthermore, PacifiCorp argues that AWEC is wrong to suggest that the Company’s initial filing provides the only power cost study in the record, observing that AWEC itself introduced into evidence an NPC study based on the September 2021 OFPC, which the Settling Parties relied upon for their illustrative update.¹⁸⁰
- 89 PacifiCorp again argues that the Settlement’s proposed power cost update does not violate due process of law, and that any controversies associated with the update would be resolved by the Commission’s final order approving the Settlement.¹⁸¹
- 90 PacifiCorp maintains that its hedging practices are prudent. As Company witness Wilding explained, there was “no guarantee” that the change in power costs would fall within hedging policy guidelines because the Company hedges “based on what is known at the time.”¹⁸² PacifiCorp argues that the “undisputed” evidence shows that the increase in Washington-allocated NPC was “due in large part to the lack of thermal resources allocated to Washington, not imprudent hedging.”¹⁸³
- 91 PacifiCorp also argues that, if AWEC is concerned about a lack of hedging in the NPC forecast, it is inconsistent for AWEC to attempt to exclude hedging contracts from the NPC update.¹⁸⁴

¹⁷⁷ PacifiCorp Reply Brief ¶¶ 2-3.

¹⁷⁸ *Id.* ¶ 4.

¹⁷⁹ *Id.* ¶¶ 7-12, 13-15.

¹⁸⁰ *Id.* ¶ 12 (citing Exh. MGW-9CX; Wilding, TR. at 63:13-14 (questioning Wilding on Exhibit MGW-9CX)).

¹⁸¹ *Id.* ¶¶ 18-19.

¹⁸² *Id.* ¶ 21 (citing Wilding, TR. at 76:24-77:5).

¹⁸³ *Id.*

¹⁸⁴ *Id.* ¶ 24.

- 92 PacifiCorp submits that AWEC’s arguments regarding the WIJAM are outside of the scope of this proceeding.¹⁸⁵ Furthermore, AWEC provides no evidence that WIJAM is “unpredictable” or “highly volatile” because of its greater reliance on market transactions.¹⁸⁶
- 93 With respect to the NPM, PacifiCorp submits that AWEC conceded that NPM reduces actual NPC, but that AWEC does not dispute the Company’s evidence that NPM benefits are already included in Aurora’s optimized resource dispatch.¹⁸⁷
- 94 Staff argues in its reply brief that AWEC has “prematurely” judged PacifiCorp’s hedging practices, based on data from the Company’s initial filing.¹⁸⁸
- 95 Like PacifiCorp, Staff argues that AWEC’s concerns regarding the WIJAM are outside the scope of this proceeding.¹⁸⁹ If AWEC believes that WIJAM is unpredictable and highly volatile, Staff questions why AWEC recently supported the WIJAM.¹⁹⁰ And if AWEC believes that the WIJAM should be modified, Staff questions why AWEC’s recommendation would still allocate power costs relying on the WIJAM.¹⁹¹
- 96 Staff also maintains that the Settlement’s proposed update is consistent with Commission rules and would not violate due process.¹⁹² Staff observes that “in fact, the compliance filing is typically where approved rates in litigated rate proceedings are first calculated, in conformance with the final order.”¹⁹³ Staff distinguishes a “subsequent filing” under the Commission’s rules, because the Settlement’s proposed update is “not akin to ‘filing a new or revised tariff other than the tariff that initiated the proceeding.’”¹⁹⁴
- 97 Staff acknowledges that AWEC may have had many reasons for supporting late power cost updates in past cases,¹⁹⁵ but submits that AWEC has nevertheless supported power

¹⁸⁵ *Id.* ¶ 27.

¹⁸⁶ *Id.* (discussing AWEC’s Brief at ¶ 20).

¹⁸⁷ *Id.* ¶ 29.

¹⁸⁸ Staff’s Reply Brief ¶ 3 (citing, *inter alia*, Gomez, Exh. DCG-1CT at 18:14-19:7).

¹⁸⁹ *Id.* ¶ 5.

¹⁹⁰ *Id.*

¹⁹¹ *See id.*

¹⁹² *Id.* ¶¶ 6-8.

¹⁹³ *Id.* ¶ 8.

¹⁹⁴ *Id.* ¶ 9 (citing WAC 480-07-880(1)).

¹⁹⁵ *Id.* ¶ 11.

cost updates in past cases despite arguing that this same practice is unlawful in the context of this proceeding.¹⁹⁶

- 98 In its reply brief, AWEC submits that PacifiCorp and Staff have not refuted that PacifiCorp has failed to effectuate its own hedging policies.¹⁹⁷ AWEC maintains that its evidence regarding the Company's hedging positions, Exhibit BGM-3C, simply identified the hedging transactions included in the Washington-allocated NPC and that the values in this exhibit speak for themselves.¹⁹⁸ AWEC maintains that it did not evaluate the wrong planning period, as PacifiCorp claims.¹⁹⁹
- 99 AWEC argues that PacifiCorp's hedging practices are not prudent, noting that PacifiCorp itself admitted that Washington customers are "uniquely vulnerable" to increases in market prices.²⁰⁰ AWEC argues that the relevant consideration for prudence is not whether actions were prudent on a systemwide basis but whether the actions were prudent for Washington ratepayers.²⁰¹
- 100 AWEC maintains that the Settlement's proposed update is not straightforward or consistent with good modeling practices.²⁰² AWEC submits that market prices and WIJAM interact to result in "complicated and unforeseeable impacts" when the update would be performed.²⁰³
- 101 AWEC also discusses past Commission decisions that authorized power cost updates late in the proceeding.²⁰⁴ AWEC observes, for instance, that in PSE's 2005 PCORC, the Commission approved a settlement that provided for a power cost update, but the power cost update was submitted as a subsequent filing in accordance with WAC 480-07-880(2), rather than a compliance filing.²⁰⁵ AWEC also notes that in PSE's 2011 general

¹⁹⁶ *Id.*

¹⁹⁷ AWEC Reply Brief ¶ 2.

¹⁹⁸ *Id.* ¶ 7.

¹⁹⁹ *Id.* ¶ 6.

²⁰⁰ *Id.* ¶ 8 (citing Joint Testimony, Exh. JT-1CTr at 12:1).

²⁰¹ *Id.* ¶ 8 (citing *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket No. UE-050684, Order 04 ¶ 205 (Apr. 17, 2006)).

²⁰² AWEC Reply Brief ¶ 10.

²⁰³ *Id.* ¶ 11.

²⁰⁴ *Id.* ¶¶ 13-18.

²⁰⁵ *Id.* ¶ 14 (citing *WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-050870, Order No. 04, Ordering Paragraph 5 (Oct. 20, 2005)).

rate case, the Commission rejected Staff’s proposal to allow a power cost update after the final order and instead required a power cost update in response to a bench request, prior to the final order.²⁰⁶

102 AWEC reiterates that the Settlement’s proposed update would occur after the record closes and would violate the standard set forth in *Hope Natural Gas*.²⁰⁷ AWEC again argues that the Company’s initial filing is the only power cost study in the record.²⁰⁸

103 AWEC disputes PacifiCorp’s claim that it already agreed to the prudence of NPM expenses.²⁰⁹ AWEC instead agreed that “[t]he prudence of any costs associated with nodal dispatch and modeling nodal dispatch will also be subject to review in the PCORC,’ which is this proceeding.”²¹⁰

104 AWEC also argues that PacifiCorp confirmed that Aurora does not use a nodal topology.²¹¹ Because Aurora does not use a nodal pricing topology, AWEC argues that it is “impossible” for the benefits of nodal pricing to be considered already in this model.²¹² AWEC also notes that the Aurora model does, in fact, include the costs associated with the difference between day-ahead schedules and real-time dispatch through the Day-Ahead/Real-Time adjustment.²¹³

DISCUSSION AND DECISION

105 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 the information available to the commission.”²¹⁴ The Commission may approve a settlement without conditions, approve it with conditions, or reject it.²¹⁵

²⁰⁶ *Id.* ¶ 16 (citing *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, consolidated, Order 08, ¶ 224 (May 7, 2012)).

²⁰⁷ *Id.* ¶¶ 19-20 (internal citations omitted).

²⁰⁸ *Id.* ¶ 21.

²⁰⁹ *Id.* ¶ 23.

²¹⁰ *Id.* (citing *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-191024 et al., Final Order 09, Appx B ¶ 17 (Dec. 14, 2020)).

²¹¹ *Id.* ¶ 24 (citing Wilding, Exh. MGW-3Tr at 9:21).

²¹² *Id.*

²¹³ *Id.* ¶ 24 (citing Wilding, Exh. MGW-1CTr at 16:16-20:20).

²¹⁴ WAC 480-07-750(2).

²¹⁵ *Id.*

- 106 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-to-date information.”²¹⁶ The NPC baseline “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.”²¹⁷
- 107 A PCORC may also provide an “expeditious means” for the Company to include new resources in rates.²¹⁸ The PCORC was generally “meant to facilitate change in the Company’s power resources by providing an incentive for it to rely less on short-term market purchases and to develop a utility-type generation asset portfolio,” promoting more stable power costs in the future.²¹⁹ This may be distinguished from the annual Power Cost Adjustment mechanism (PCAM) filing, which “addresses extreme, short-term imbalances between power cost recoveries and actual power costs, providing a means to keep the power cost rate up to date.”²²⁰ The two proceedings operate in conjunction to provide for the recovery of power costs.²²¹
- 108 After reviewing the Settlement resolving the disputed issues in this case, we conclude that the Commission should accept the Settlement subject to a condition. As we explain below,²²² PacifiCorp will update power costs as provided in the Settlement, but the Company’s recovery of the difference between the NPC baseline set in the compliance filing and the NPC baseline set forth in the 2021 general rate case will be subject to later review and possible refund. PacifiCorp is required in its next annual PCAM filing to: (1) demonstrate the prudence of applying its risk management and hedging practices to the load and resource mix of Washington customers and (2) demonstrate that the portfolio of long-term resources the Company acquired or chose not to acquire for Washington’s allocated resources balanced the trade-off between portfolio costs and market risk. Subject to the Settling Parties’ acceptance of this condition, we conclude that the Settlement is lawful, supported by an appropriate record, and consistent with the public

²¹⁶ 2020 PSE PCORC Order ¶ 13 (citing *WUTC v. Puget Sound Energy*, Docket UE-130617, Order 06 ¶ 33 (October 23, 2013)).

²¹⁷ *WUTC v. Puget Sound Energy, Inc.*, Docket No. UG-040640 *et al.*, Order No. 06 at ¶ 108. (February 18, 2005).

²¹⁸ *WUTC v. Puget Sound Energy*, Docket UE-072300 and UG-072301 (consolidated) Order 13 ¶ 8 (January 15, 2009).

²¹⁹ *Id.* ¶ 13.

²²⁰ *Id.* ¶ 8.

²²¹ *See id.*

²²² *See infra* at ¶ 154.

interest. After reviewing the various adjustments proposed in the Settlement,²²³ we agree that the revenue deficiency as calculated by the Settlement is supported by the record. We also conclude that the resulting rates, terms, and conditions are fair, just, reasonable, and sufficient.

109 **The Settlement’s power cost update.** The primary issue in this case is whether the Commission should accept the Settlement’s power cost update. The Settlement provides that the Company will update its Net Power Costs (NPC) baseline in its compliance filing following the entry of the Commission’s final order in this docket.²²⁴ The update “will be based on the most recent Official Forward Price Curve (OFPC) available (which is anticipated to be the March 2022 OFPC) and reflect the Company’s latest electric and gas hedging and contract positions at the time.”²²⁵ This update will be calculated in the same manner as the NPC baseline that was used to derive the revenue requirement for the Settlement.²²⁶ AWEC raises numerous objections to the Settlement’s proposed update and argues that the Commission should instead update PacifiCorp’s NPC baseline based on the power cost update included with the Company’s initial filing.²²⁷ We address each of AWEC’s arguments in turn.

The Settlement’s power cost update is within the Commission’s authority and provides sufficient due process.

110 We will first address AWEC’s legal challenges to the Settlement’s power cost update. As an overall matter, AWEC’s arguments fail to account for the rule-making authority granted to the Commission by statute and for the judicial deference afforded to the Commission’s choice of methods for setting rates.

111 The legislature explicitly granted the Commission rulemaking authority to carry out its power and duties in regulating investor-owned utilities.²²⁸ This authority includes the “power to adopt rules to govern its proceedings, and to regulate the mode and manner of all investigations and hearings.”²²⁹ As the Washington State Court of Appeals has made

²²³ See Settlement ¶ 8.

²²⁴ Settlement ¶¶ 12-13. See also WAC 480-07-880 (providing for compliance filing implementing the Commission’s final order).

²²⁵ *Id.* Accord Joint Testimony, Exh. JT-1CTr at 10:16-11:5.

²²⁶ Settlement ¶ 12.

²²⁷ *E.g.*, AWEC Brief ¶ 4.

²²⁸ RCW 80.01.040(4). Accord RCW 80.04.160.

²²⁹ RCW 80.04.160.

clear, “[t]he Commission clearly has authority under Title 80 RCW to establish a rate-making methodology by rule.”²³⁰

- 112 Exercising this authority, the Commission promulgated WAC 480-07-880, which provides for “compliance filings” following a Commission final order. A compliance filing is a submission that implements the “specific terms” of a final order.”²³¹ A party must “strictly limit” the scope of its compliance filing to the requirements of the final order.²³² The Commission must approve the compliance filing before it takes effect.²³³ If any party disputes the compliance filing, the Commission will provide an opportunity to respond and take appropriate action to resolve the dispute.²³⁴
- 113 The Settlement’s power cost update appropriately falls under the Commission’s rule related to compliance filings because the Commission, by this Order, accepts the Settlement subject to conditions and instructs PacifiCorp to submit revised tariff sheets implementing the specific terms of this Order. The power cost update will be based on the most recent OFPC available and will reflect the Company’s latest electric and gas hedging and contract positions at the time.”²³⁵ This is consistent with past Commission orders where we have required utilities to submit a compliance filing reflecting updated forward prices.²³⁶ PacifiCorp is also directed to file revised versions of the tariff that initiated this proceeding consistent with WAC 480-07-880(1). The parties will have an opportunity to review the Company’s compliance filing and to dispute the filing if they choose.²³⁷ The Commission will then approve the compliance filing before it takes effect.²³⁸ The Commission created this post-order process by rule, which it has the authority to do.
- 114 In fact, many of AWEC’s arguments fail to account for the Commission’s rulemaking authority and the requirements of WAC 480-07-880. For instance, AWEC argues that the Commission will have “no ability” to evaluate whether the Settlement results in just and

²³⁰ *Wash. Independent Telephone Assoc. v. WUTC*, 148 Wn.2d 887, 900 (2003).

²³¹ WAC 480-07-880(1).

²³² WAC 480-07-880(1).

²³³ WAC 480-07-880(2).

²³⁴ WAC 480-07-880(6).

²³⁵ Settlement ¶¶ 12-13.

²³⁶ *E.g., WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-072300 *et al.*, Order No. 13 at ¶ 46 (January 15, 2009).

²³⁷ WAC 480-07-880(6).

²³⁸ WAC 480-07-880(2).

reasonable rates.²³⁹ AWEC argues that this violates the statutory requirement for rates to be subject to “complaint and inquiry.”²⁴⁰ These arguments fail to account for how the Commission has structured its review process. The Commission “must approve or accept any compliance filing before it can be effective.”²⁴¹ If the compliance filing is disputed, the Commission may then enter an order or establish “additional process for commission consideration.”²⁴² Under this regulatory schema, the Commission’s consideration of a utility’s filing is not strictly limited to the final order but includes the subsequent approval of the utility’s compliance filing and any order resolving a disputed compliance filing. The Commission was well within its authority to structure its procedure in this way.

- 115 Furthermore, AWEC’s arguments are logically untenable. Under AWEC’s theory, the Commission would be unable to approve any changes to rates between a final order and its corresponding compliance filing. This would prevent utilities from updating tariffs in response to the Commission’s rulings on various tariff riders and cost recovery mechanisms, which would complicate and hamstring the Commission’s ability perform its regulatory duties.
- 116 AWEC also argues that the Settlement’s power cost update would require the Commission to rely on information outside of the record,²⁴³ and that the only power cost study in the record is the one submitted with the Company’s initial filing.²⁴⁴ Although it is true that the record generally closes on the last day of the evidentiary hearing,²⁴⁵ the Commission has also determined, by rule, that utilities must submit work papers to explain the technical aspects of their case.²⁴⁶ When it makes a compliance filing, the utility must again “provide work papers to the other parties that demonstrate the derivation of the rates or charges in that tariff.”²⁴⁷ If a party disputes the compliance

²³⁹ Mullins, BGM-1CT at 11:12-13.

²⁴⁰ Mullins, BGM-1CT at 13:20-22 (citing RCW 80.04.150).

²⁴¹ WAC 480-07-880(2).

²⁴² WAC 480-07-880(6).

²⁴³ *E.g.*, AWEC Brief ¶¶ 16, 20.

²⁴⁴ AWEC Brief ¶ 17. *Accord* AWEC Reply Brief ¶ 20 (citing Wilding, Exh. MGW-2Cr).

²⁴⁵ WAC 480-07-830(1).

²⁴⁶ *See generally* WAC 480-07-510(4) (discussing the submission of workpapers in general rate cases).

²⁴⁷ WAC 480-07-880(3).

filing, the Commission will provide an opportunity to respond.²⁴⁸ AWEC's argument that the power cost update occurs "outside of the record" completely disregards the Commission's use of work papers, AWEC's right to receive work papers that support a compliance filing, and AWEC's opportunity to dispute a compliance filing.

117 AWEC argues that a compliance filing is not an opportunity to submit new, controversial materials to the Commission.²⁴⁹ As a general matter, we agree that a power cost update in the utility's compliance filing should generally be a "straightforward, mechanical and non-controversial process."²⁵⁰ While it is always possible that a party will dispute a compliance filing, we have sufficient evidence that the Settlement follows these same expectations. To the extent that the testimony in this case was unclear or ambiguous, we have developed the record and assuaged these concerns, as we explain below.²⁵¹ We reject AWEC's argument that the power cost update requires controversial decisions that would be inappropriate for a compliance filing.

118 AWEC also argues that the two-week period for review of the compliance filing, as provided by the Settlement, does not provide adequate due process.²⁵² AWEC cites to *Morrissey v. Brewer*, where the Supreme Court held that the revocation of parole required certain minimum due process.²⁵³ This argument is not persuasive. *Morrissey* is concerned with criminal law, and it does not indicate that any further process is required than is already provided by WAC 480-07-880. We have ascertained that the Settlement's power cost update will be based on the method provided in the Company's initial testimony, and that it should involve the update of limited inputs with no new long-term contracts. If AWEC or another party contests the compliance filing, the Commission will provide appropriate process depending on the circumstances and the merits of the party's contentions.

119 AWEC also argues that the power cost update violates *Hope Natural Gas*. To the limited extent that *Hope Natural Gas* is relevant to AWEC's arguments, AWEC overlooks the broader meaning of this case. In *Hope Natural Gas*, the Supreme Court articulated the standard of review for federal courts on appeal and deferred to the regulator's expertise,

²⁴⁸ WAC 480-07-880(6).

²⁴⁹ See AWEC Brief ¶ 26.

²⁵⁰ *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-060266 & UG-060267, Order No. 08 at ¶ 104 (Jan. 5, 2007) (2006 PSE GRC Order).

²⁵¹ See *infra* at ¶ 134.

²⁵² AWEC Brief ¶ 41.

²⁵³ *Id.* (citing *Morrissey v. Brewer*, 408 U.S. 471, 489 (1972)).

announcing that “it is the result reached not the method employed which is controlling.”²⁵⁴ The Supreme Court has explained more recently that “it was the very point of *Hope Natural Gas* that regulatory bodies required to set rates expressed in these terms have ample discretion to choose methodology.”²⁵⁵ Thus, *Hope Natural Gas* affirms the Commission’s discretion in choosing the methods for setting rates. AWEC cannot plausibly challenge the Commission’s procedural rules while ignoring the long history of judicial deference to regulators.

120 Finally, AWEC argues that total-Company power costs have declined and that the Settlement’s power cost update “does not represent an increase in PacifiCorp’s actual costs.”²⁵⁶ This argument appears to be concerned with how PacifiCorp allocates hedging to Washington customers.²⁵⁷ We address the Company’s hedging practices below.²⁵⁸ We also address below AWEC’s argument that increasing Washington-allocated power costs is evidence of imprudent hedging.

121 We first address Staff witness Gomez’s recommendation that the Commission *require* an NPC baseline update after it has issued its final order in every general rate case and PCORC from now on.²⁵⁹ In this case, we are merely considering a settlement crafted by the parties. Gomez’s recommendation is not part of the Settlement itself. Accordingly, it is not necessary at this time to make a broader announcement intended to apply to other investor-owned utilities or future rate proceedings for PacifiCorp.

122 We therefore reject AWEC’s arguments that the Commission would err as a matter of law by accepting the Settlement’s power cost update.

The Settlement’s power cost update is consistent with Commission practice.

123 We next address AWEC’s arguments that the Settlement’s power cost update involves unreliable, untested, or controversial modeling. We find these arguments unpersuasive.

124 The general purpose of a PCORC proceeding, such as this one, is to “facilitate change in the Company’s power resources by providing an incentive for it to rely less on short-term

²⁵⁴ *Hope Natural Gas*, 320 U.S. at 602.

²⁵⁵ *Verizon Communications., Inc. v. FCC*, 535 U.S. 467, 500, 122 S. Ct. 1646, 1667 (2002).

²⁵⁶ AWEC Brief ¶¶ 23-25.

²⁵⁷ See AWEC Brief ¶ 24 (“Rather, it represents a change in the way that costs are allocated to Washington customers through WIJAM, specifically hedging costs.”).

²⁵⁸ See *infra* at ¶¶ 139-63.

²⁵⁹ Gomez, Exh. DCG-1CT at 27:1-3.

market purchases and to develop a utility-type generation asset portfolio,” promoting more stable power costs in the future.²⁶⁰ A PCORC may also be an opportunity to update the utility’s NPC baseline based on forecasted power costs, adjusting the baseline around which the PCAM operates.²⁶¹ 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.”²⁶²

125 The exact scope of the power cost update, however, may depend on the facts of the case. This is clear from final orders where the Commission resolved disputes regarding power cost updates. In PSE’s 2006 general rate case, the Commission required PSE to update gas costs to support its compliance filing.²⁶³ Because PSE’s method for calculating these gas prices was “well-established” and merely involved calculating a three-month average of forward gas prices for the rate year, the Commission observed that this should be a “straightforward, mechanical and non-controversial process.”²⁶⁴ Yet the Commission rejected PSE’s proposal to update other power costs that were only discussed in passing, in the redirect of a company witness.²⁶⁵ The Commission observed that “we simply cannot know what disputes may arise over other potential changes in the power portfolio that PSE would propose” and did not find support in the record for updating these other costs.²⁶⁶

126 The Commission continued to follow these principles in 2007 when it resolved disputes regarding PSE’s PCORC. The Commission agreed with PSE’s proposal to limit the compliance filing update to calculating the three-month average of forward gas prices.²⁶⁷

²⁶⁰ *WUTC v. Puget Sound Energy, Inc.*, Docket UE-072300 and UG-072301 (consolidated) Order 13 ¶ 13 (January 15, 2009).

²⁶¹ *Id.* ¶ 8.

²⁶² *WUTC v. Puget Sound Energy, Inc.*, Docket No. UG-040640 *et al.*, Order No. 06 at ¶ 107 (February 18, 2005).

²⁶³ *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-060266 & UG-060267, Order No. 08 at ¶ 104 (Jan. 5, 2007) (2006 PSE GRC Order).

²⁶⁴ *Id.* at ¶ 104.

²⁶⁵ *Id.* at ¶ 105.

²⁶⁶ *Id.* at ¶ 105.

²⁶⁷ *WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-072300 *et al.*, Order No. 13 at ¶ 46 (January 15, 2009).

But the Commission recognized that it may be appropriate to update other inputs “in an appropriate case.”²⁶⁸

127 Such a case arose four years later. In PSE’s 2011 general rate case, the Commission again followed its “consistent, forward looking approach to the determination of power costs.”²⁶⁹ After the close of the hearing and before the issuance of the final order, the Commission required PSE to provide a power cost update.²⁷⁰ This update included not only updated natural gas prices but several other specific short-term sales and purchases.²⁷¹ Because the Commission made determinations related to these short-term sales and purchases, it was appropriate to include these factors in the power cost update.²⁷² These final orders from 2006, 2007, and 2011 show that, when resolving disputes about which factors to include in a power cost update shortly before the final order or in the compliance filing, the Commission has made careful determinations based on the facts of each case. While the Commission has followed the same principles when considering proposed settlements, it is not necessary to survey those cases at length because settlements are not precedential.²⁷³

128 We have sufficient assurance that the Settlement’s power cost update is consistent with Commission practice and should be accepted, subject to the condition explained below.²⁷⁴

129 In terms of timing, we have routinely approved, or even required, power cost updates close to the rate effective date to produce more accurate power cost forecasts. As Staff witness Gomez explains, it is logical to expect that the accuracy of forward price forecasts (such as the OFPC) improve as we approach the rate-effective year.²⁷⁵ The Settlement’s compliance stage update is consistent with this past practice.

²⁶⁸ *See id.*

²⁶⁹ WUTC v. Puget Sound Energy, Inc., Docket Nos. UE-111048 & UG-111049 (consolidated), Order No. 08 at ¶ 226 (May 7, 2012) (2011 PSE GRC Order).

²⁷⁰ *See WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049 (consolidated), Bench Request No. 24 (April 25, 2012).

²⁷¹ *Id.*

²⁷² 2011 PSE GRC Order ¶ 226.

²⁷³ *See, e.g.*, Settlement ¶ 23 (“No Precedent.”).

²⁷⁴ *See infra* at ¶ 154.

²⁷⁵ *See Gomez*, Exh. DCG-1CT at 12:7-13.

- 130 AWEC recommends rejecting the power cost update and, as a remedy, updating the NPC baseline based on the Company's initial filing.²⁷⁶ AWEC witness Mullins argues further that there is "no reason to believe that an update performed at any period during the pendency of the case will be any more or less accurate" than the Company's initial filing.²⁷⁷ Staff witness Gomez explained, however, that he has never heard of a power cost expert or consultant who recommended the use of older information.²⁷⁸ We also question these recommendations given our regulatory experience and past practice. While there is always a degree of uncertainty in forecasts, the Commission has generally responded to market volatility by requiring utilities to update power cost models to account for changing conditions.
- 131 Indeed, as Staff notes, in Avista's 2010 general rate case, the Commission raised questions with a proposed settlement that did not provide for a power cost update despite falling natural gas prices.²⁷⁹ The Commission approved this proposed settlement after finding that Avista hedged 91 percent of its load and was unlikely to benefit from falling natural gas prices.²⁸⁰ We follow essentially the same principles here. Energy costs increased since the Company's initial filing. The Company's portfolio is vulnerable to market changes,²⁸¹ and the NPC baseline should be updated to reflect these changing conditions.
- 132 In terms of the scope of the power cost update, we recognize AWEC's concern that the Settling Parties were not entirely clear which items will be updated and did not expressly state that new contracts should not be included in a compliance filing.²⁸² We were primarily concerned with whether the Settlement's power cost update would include new long-term contracts that were not submitted until the compliance filing stage. After posing clarifying questions and issuing bench requests, however, the record is sufficient to allay our concerns.
- 133 The Settlement itself provides, "The update will be based on the most recent Official Forward Price Curve (OFPC) available (which is anticipated to be the March 2022 OFPC) and reflect the Company's latest electric and gas hedging and contract positions at

²⁷⁶ AWEC Brief ¶ 4.

²⁷⁷ Mullins, Exh. BGM-1CT at 9:14-16.

²⁷⁸ Gomez, TR 120:12-21.

²⁷⁹ See Staff Brief ¶ 10 (citing 2010 Avista GRC Order ¶¶ 20-22).

²⁸⁰ 2010 Avista GRC Order ¶ 23.

²⁸¹ See Wilding, Exh. MGW-6Tr at 7:17-19.

²⁸² See Mullins, Exh. BGM-1CT at 12:3-11.

the time.”²⁸³ In Joint Testimony, the Settling Parties indicate that this includes wholesale 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.²⁸⁴ At the hearing, Company witness Wilding indicated that any new long-term power purchase agreements (PPAs) would be provided with the Company’s compliance filing.²⁸⁵ Wilding indicated, though, that he was not aware of new contracts and would have to check.²⁸⁶ We found this testimony unclear and issued a bench request, which clarified the issue. In response to the bench request, PacifiCorp indicated that a list of long-term PPAs allocated to Washington were included in the Company’s initial filing.²⁸⁷ The Company also clarified that “there are no new 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 in the initial filing.²⁸⁸

134 This bench request response resolved our concerns. In past cases, we have limited power cost updates to inputs, such as forward gas prices and short-term sales and purchases, that were supported by the record.²⁸⁹ PacifiCorp’s initial filing described the inputs for the Company’s NPC baseline, which included short and long-term contracts.²⁹⁰ The parties have had an opportunity to conduct discovery, and no party has challenged the prudence of any of these contracts in this proceeding. The Settling Parties have instead agreed that the NPC baseline will be updated in the compliance filing “using the same methodology” identified in the Company’s initial filing subject to the Production Factor Adjustment and the Production Tax Credit Adjustment.²⁹¹ We therefore have sufficient evidence documenting the inputs to PacifiCorp’s power cost model. Any concerns were resolved by PacifiCorp’s clarification that no new long-term contracts will be included in the compliance filing.

²⁸³ Settlement ¶ 12.

²⁸⁴ Joint Testimony, Exh. JT-1CTr at 11:1-5. *Accord* Gomez, Exh. DCG-1CT at 5:1-11.

²⁸⁵ Wilding, TR 146:2-12.

²⁸⁶ *Id.* at 146:13-18.

²⁸⁷ BR-3 (Response to Bench Request 2) (citing Wilding, Exh. MGW-2C).

²⁸⁸ *Id.*

²⁸⁹ *See* 2006 PSE GRC Order ¶ 105; 2011 PSE GRC Order ¶ 226. *See also* BR-3 (Response to Bench Request No. 2) (“Staff’s research did not produce a prior final order where the Commission has explicitly allowed a utility to include any new long-term purchase power agreements ... in a Company’s compliance stage update.”).

²⁹⁰ *See* Wilding, Exh. MGW-2Cr (Washington-Allocated Net Power Costs).

²⁹¹ *See* Settlement ¶ 8.

- 135 AWEC suggests that PacifiCorp may update other cost items, such as updating the benefits for its participation in the Energy Imbalance Market (EIM).²⁹² This does not give us cause for concern under the circumstances presented here. PacifiCorp witness Wilding explains that the Company will reforecast EIM benefits and other inputs based on the same OFPC used for the update.²⁹³ This follows the same methodology as used in the Company's initial filing, which the Settling Parties have agreed to.²⁹⁴
- 136 AWEC has also challenged various aspects of PacifiCorp's modeling. These arguments have shifted over the course of the proceeding. For instance, in opposition testimony, AWEC witness Mullins argues that the use of actual data for the first three months of the test period could result in "[m]any unforeseen consequences" and is thus not reasonable.²⁹⁵ Mullins argues that the baseline is supposed to represent a normalized forecast.²⁹⁶ In its Brief, AWEC changes tack and acknowledges that "changing an input to the model will not change the mathematical algorithms that the model employs."²⁹⁷ But AWEC argues that the use of actual data "changes what the model represents."²⁹⁸
- 137 We do not find these arguments persuasive. The Settling Parties have chosen to set the NPC baseline based on a 12-month period (January to December 2022) that does not precisely align with the rate year (May 2022 to April 2023). The Company proposes to use an average of settled daily prices in place of broker quotes for the first three months of the test period.²⁹⁹ Because the Settlement represents a compromise of the Settling Parties' positions,³⁰⁰ various factors may have played into why the Settlement is structured in this way. But the question in this case is whether the use of actuals for the first three months of the test period renders PacifiCorp's modeling unreliable or otherwise warrants rejecting the Settlement. The evidence does not establish that this is the case. As Staff witness Gomez explains, the differences between PacifiCorp's modeling and other utilities' modeling does not change the need for a power cost

²⁹² Mullins, Exh. BGM-1CT at 13:4-7.

²⁹³ Wilding, Exh. MGW-6Tr at 2:5-15. *Accord id.* at 6:4-7.

²⁹⁴ *Id.* at 2:16-19.

²⁹⁵ Mullins, Exh. BGM-1CT at 16:14-20.

²⁹⁶ Mullins, Exh. BGM-1CT at 16:20-21. *Accord id.* at 17:8-9.

²⁹⁷ AWEC Brief ¶ 38.

²⁹⁸ *Id.*

²⁹⁹ Joint Testimony, Exh. JT-1CTr at 11:6-12. *See also* Wilding, Exh. MGW-6Tr at 9:1-3 ("That new NPC baseline will be calculated based on an Aurora run that includes some actual data for cost inputs for January to April 2022 and forecast data for the rest of the year.").

³⁰⁰ Settlement ¶ 23.

update.³⁰¹ And as Company witness Wilding explains, the market price inputs were never normalized to begin with.³⁰² Wilding maintains that the Company is simply using the most accurate data available for the first three months of the test period, and this does not change the operation of the model.³⁰³ We agree with Gomez's and Wilding's testimony on this issue. AWEC has not established that PacifiCorp's power cost modeling is unreliable, unpredictable, or should otherwise be rejected.

138 We therefore reject AWEC's arguments that the Settlement's power cost update departs from Commission practice or that the Company's modeling is somehow unreliable. The inputs to PacifiCorp's power cost model are sufficiently documented in the record.

The Settlement raises concerns regarding the prudence of the Company's application of its hedging practices to Washington customers' loads and resources.

139 This period of market volatility and increased natural gas and power prices has also raised issues regarding PacifiCorp's reliance on market purchases to fulfill Washington load.³⁰⁴ AWEC argues that PacifiCorp has failed to protect Washington customers from increasing market prices and that the Company's hedging practices are not prudent.³⁰⁵ AWEC argues that the full cost and extent of these imprudent actions will not be apparent until the Settlement's power cost update, at the compliance stage, and that the Commission should therefore reject this power cost update.³⁰⁶

140 We share AWEC's concerns that Washington customers may be faced with significant, increased power costs and that PacifiCorp has not appropriately managed risk for its Washington portfolio. To address this issue, we take official notice of past Commission orders and Integrated Resource Plan (IRP) acknowledgment letters, which have repeatedly cautioned the Company about the risks of relying on market purchases.³⁰⁷

141 Under the purchases of electricity rules, WAC 480-107-015, an electric utility is required to issue an RFP when its Integrated Resource Plan (IRP) shows a capacity need within

³⁰¹ Gomez, TR 113:6-8. *See also id.* at 124:2-8.

³⁰² Wilding, Exh. MGW-6Tr at 9:18-19.

³⁰³ *Id.* at 9:7-14.

³⁰⁴ *See, e.g.,* Joint Testimony, Exh. JT-1CTr at 10:17-20 (noting that the Company forecasts an average base price increase to all classes of 15.42 percent).

³⁰⁵ AWEC Brief ¶¶ 10-11.

³⁰⁶ *Id.* ¶ 15.

³⁰⁷ *See* WAC 480-07-495(2)(a)(i)(A) (stating that the Commission may take official notice of documents such as Commission rules, policy statements, and orders).

three years.³⁰⁸ While PacifiCorp's 2011, 2013, 2015, and 2017 IRPs each showed a capacity (and energy) need within three years,³⁰⁹ in each case the Company chose to not issue an RFP for long-term resources and instead requested (and was granted) a waiver from the rule.³¹⁰

142 Over this period, the Commission raised concerns with PacifiCorp's continued reliance on market purchases for meeting the Company's projected capacity needs. The Commission has stressed the importance of an active risk management program in combination with a prudent long-term portfolio strategy. In its acknowledgment of PacifiCorp's 2011 IRP, the Commission stated:

The Plan concludes that strategic reliance on market purchases can reduce portfolio costs under current market projections. However, we caution the Company to have an active risk management program that is vigilant to changes in the actual market conditions from those projected in this Plan that may expose the Company to greater risk. It is the inherent obligation and responsibility of the utility to match active risk management with the long-term portfolio strategy to maintain reasonable levels of risk.³¹¹

143 In granting the 2015 waiver, the Commission required a market reliance risk assessment as part of PacifiCorp's 2017 IRP, commenting:

We find that granting the Petition, subject to the condition that the Company incorporate a market reliance risk assessment into its 2017 IRP, is in the public interest. The market reliance risk assessment analysis

³⁰⁸ The Commission amended the purchase of electricity rules in 2020, but the preceding version of the rules contained the same requirement. *See generally In the Matter of Amending, Adopting, and Repealing Sections of WAC 480-107*, Docket UE-190837 General Order R-602 Appendix B at 5 (December 28, 2020).

³⁰⁹ In December 2019, PacifiCorp changed its business name with the Commission from "Pacific Power & Light Company" to "PacifiCorp dba Pacific Power & Light Company." *See Pacific Power & Light Company's Request to Change Name to PacifiCorp*, Docket UE-191004 (December 5, 2019).

³¹⁰ *See In the Matter of Pacific Power and Light Company*, Docket UE-111418, Order 01 (October 14, 2011); *In the Matter of Pacific Power and Light Company*, Docket UE-131670, Order 01 (October 10, 2013); *In the Matter of Pacific Power and Light Company*, Docket UE-151694, Order 01 (October 29, 2015); *In the Matter of Pacific Power and Light Company*, Docket UE-170885, Order 01 (October 12, 2017).

³¹¹ PacifiCorp 2011 Electric IRP Commission Acknowledgement Letter, Docket UE-100514, Attachment at 1 (November 15, 2011).

proposed by Staff is an important first step to more clearly identify the Company's resource needs in 2021 and beyond. It will also generate a more reasonable projection of future market costs.³¹²

144 In its 2017 IRP, the Company increased its market exposure for the first 10 years of its planning horizon, raising its reliance on front office transactions (short-term power purchases to fill energy and capacity gaps) from 843 MW to 1,128 MW.³¹³ In its acknowledgment letter, the Commission found that "the Company's 2017 market reliance risk assessment is substantively similar to its 2015 assessment, and vulnerable to the same criticisms."³¹⁴ The Commission further stated that, "Given Pacific Power's long-term reliance on Mid-Columbia market purchases, it is imperative that the Company understand the risks it faces as many regional plant retirements draw nearer."³¹⁵

145 The Commission has been clear that the prudence of PacifiCorp's decisions to rely on market purchases would be considered within the context of power cost rate recovery. In approving the 2017 waiver, the Commission stated that "determining recovery for power costs includes determining whether decisions to accept risk – such as the risk of relying on the market – were *prudently made*."³¹⁶

146 PacifiCorp has made significant investments in recent years,³¹⁷ but the evidence in this case shows that the Company's continued reliance on market purchases has exposed Washington customers to significant price increases. The Settling Parties explain that more than 20 percent of Washington load is satisfied using modeled market interactions, and this has exposed Washington customers to large increases in power costs.³¹⁸ PacifiCorp witness Wilding similarly explains that Washington is allocated a greater

³¹² *In the Matter of Pacific Power and Light Company*, Docket UE-151694, Order 01 ¶ 11 (October 29, 2015).

³¹³ Pacific Power and Light Company IRP Acknowledgment Letter, Docket UE-160353, Attachment, page 3 (May 7, 2018).

³¹⁴ *Id.* at 9.

³¹⁵ *Id.*

³¹⁶ *In the Matter of Pacific Power and Light Company*, Docket UE-170885, Order ¶ 10 (October 12, 2017) (emphasis added).

³¹⁷ *See, e.g., WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Dockets UE-210532 & UE-210328 (consolidated), Final Order 06/03 (January 18, 2022) (approving the prudence of renewable energy and transmission investments in a Limited Issue Rate Filing).

³¹⁸ *Id.* at 12:8-10.

share of market purchases under the WIJAM and that this makes Washington “*uniquely vulnerable* to market price volatility.”³¹⁹

- 147 After considering all of this evidence, our past orders, and our past IRP acknowledgment letters, we are concerned that PacifiCorp has not prudently managed its power costs and that this has exposed Washington customers to significant price increases. PacifiCorp has repeatedly sought waivers from Commission rules that would require the Company to issue an RFP for long-term resources. 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 prudence 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.³²⁰ The Company also hedges for its system as a whole and does not separately hedge for its Washington-allocated resources and Washington load.³²¹ 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 prudence of its power costs for Washington customers.
- 148 PacifiCorp argues that WIJAM is outside the scope of this proceeding³²² and that, even if it was relevant, the difference between Washington and total-Company NPC is driven primarily by the lack of thermal resources allocated to Washington.³²³ We agree that WIJAM is generally outside the scope of the proceeding. But the Company attributes its increasing Washington-allocated power costs to WIJAM, and we must clarify this issue.
- 149 In PacifiCorp’s last general rate case, we approved WIJAM, a new inter-jurisdictional cost allocation methodology for the Company.³²⁴ We observed that there were several benefits to WIJAM, including decreased NPC and greater flexibility for compliance with

³¹⁹ Wilding, Exh. MGW-6Tr at 7:17-19 (emphasis added).

³²⁰ See BR-4 Attachment(C) (Response to Bench Request No. 3) (indicating the specific amount of Washington load that the Company was required to meet with market purchases).

³²¹ Wilding, Exh. MGW-6Tr at 7:5-6.

³²² AWEC Reply Brief ¶ 26.

³²³ *Id.* ¶ 27.

³²⁴ 2019 PacifiCorp GRC Order ¶ 95.

the Clean Energy Transformation Act (CETA).³²⁵ WIJAM has several implications for the Company's power costs.

150 For example, citing WIJAM, the Settling Parties note that Washington's allocation of generation resources remains short against Washington load after the allocation of hedges and resources."³²⁶ But as Wilding acknowledges, WIJAM does not use the term "allocation of hedges."³²⁷ Hedges are allocated as net power costs, but the allocation of market hedges is not specifically stated in WIJAM.³²⁸ Wilding also admits that the terms of WIJAM do not relieve the Company from considering Washington's market exposure.³²⁹

151 In fact, there is no evidence that WIJAM, or the associated 2020 PacifiCorp Inter-Jurisdictional Allocation Protocol, prevents the Company from performing more comprehensive market risk reliance assessments or from prudently managing the risks of its Washington-allocated power costs.³³⁰ Because WIJAM does not specifically address the Company's hedging practices, it is not persuasive for PacifiCorp to defend the prudence of its risk management and hedging practices by pointing to this cost allocation methodology.

152 We therefore agree with AWEC's that Washington customers may be faced with significant, increased power costs and that PacifiCorp may not have appropriately managed risk for its Washington portfolio.

153 We are not persuaded, however, that the correct remedy is to reject the Settlement's power cost update. AWEC's proposed remedy would arbitrarily exclude many hedging contracts from the NPC baseline update.³³¹ Setting the NPC baseline based on the Company's initial filing may also increase the likelihood of a surcharge to customers later.³³² Instead, we find that additional evidence would be helpful to determine the prudence of the Company's power costs and the extent to which the Company prudently

³²⁵ *Id.* ¶¶ 98-99.

³²⁶ Joint Testimony, Exh. JT-1CTr at 12:6-8.

³²⁷ Wilding, TR 161:25-162:3.

³²⁸ *See* Wilding, TR. at 162:3-15.

³²⁹ *See* Wilding, TR 163:8-12.

³³⁰ *See* AWEC Brief ¶ 25.

³³¹ PacifiCorp Brief ¶ 24.

³³² *See* Gomez, TR 127:19-128:1 (noting that setting a lower NPC baseline would increase "already growing deferral balances").

hedged against price increases. It is appropriate to consider this issue in the Company's next PCAM filing, which will provide an opportunity to consider "extreme, short-term imbalances between power cost recoveries and actual power costs" that are beyond the Company's control.³³³

154 We therefore condition our acceptance of the Settlement as follows: PacifiCorp will perform the power cost update as set forth in the Settlement, but the Company's recovery of the difference between NPC baseline based on the March OFPC and the NPC baseline set forth in the Company's initial filing will be subject to later review and possible refund. In its next PCAM filing, the Company must address the issue of the prudence of its power costs, specifically the prudence 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.

155 To be clear, we agree with AWEC's broader concerns, but disagree with much of its analysis. Citing Exhibit BGM-3C, AWEC witness Mullins argues that PacifiCorp has not sufficiently hedged against price volatility.³³⁴ But as Wilding explains, this exhibit does not correctly reflect the Company's hedging positions.³³⁵ AWEC does not persuasively refute Wilding's testimony on this point. Wilding also explains that the Company hedges ratably over time and that the most actively managed hedging period is the prompt 12-month window at any given point in time.³³⁶ At the time of the Company's initial filing, most of the test period was outside this actively managed window.³³⁷ We therefore agree that BGM-3C is not, in itself, evidence that the Company failed to hedge prudently.³³⁸ We thus do not rely on this exhibit in making our determination.

156 **Nodal Pricing Model (NPM).** In PacifiCorp's last general rate case, the Company explained that it would be moving to a nodal pricing model (NPM) using the Aurora modeling software.³³⁹ Public Counsel anticipated that NPM would result in more

³³³ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-072300 & UG-072301 Order 13 ¶ 8 (January 15, 2009).

³³⁴ Mullins, Exh. BGM-1CT at 14:10-12 (citing Mullins, Exh. BGM-3C).

³³⁵ See Wilding, TR. at 81:17-82:7, 100:5-101:1.

³³⁶ Wilding, Exh. MGW-6Tr at 7:20-8:1.

³³⁷ *Id.* at 8:1-3.

³³⁸ PacifiCorp Brief at ¶ 27.

³³⁹ 2019 PacifiCorp GRC Order ¶ 65.

accurate NPC forecasts going forward.³⁴⁰ In this case, we address both the Settlement’s proposed treatment of NPM costs and the Settlement’s implicit assumptions regarding NPM benefits.

157 We first turn to the issue of NPM costs. In PacifiCorp’s 2019 general rate case, the settling parties agreed that this PCORC proceeding would be an opportunity to review the prudence of the costs associated with nodal dispatch and modeling nodal dispatch.³⁴¹

158 In supplemental testimony, Company witness Wilding explains that the Company incurs an annual fee of \$8.3 million for NPM services from CAISO, but only \$4 million was included in the NPC baseline in this proceeding.³⁴² As part of the Settlement, PacifiCorp agrees to forego making the correction for NPM costs (amounting to \$312,000 in Washington-allocated costs), but the Company may correct this error in its next general rate case.³⁴³

159 We accept the Settlement’s treatment of NPM costs. No party has disputed the prudence of PacifiCorp’s investments in NPM.³⁴⁴ As part of the give-and-take of negotiations, the Settling Parties have agreed that PacifiCorp will not make the correction recommended in the Company’s supplemental testimony, but the Company may correct this error in a subsequent proceeding.³⁴⁵ This is a reasonable compromise among the parties. We find this to be lawful and consistent with the public interest.

160 The treatment of NPM benefits is a more controversial issue. The Settlement does not provide for any adjustments to the NPC baseline that reflect the cost-savings resulting from the use of NPM. AWEC witness Mullins asserts that if PacifiCorp cannot quantify the benefits of NPM then it has failed to carry its burden, and the Commission should “identify a reasonable approximation of those benefits or disallow the costs of the NPM” included in the Settlement.³⁴⁶ Both PacifiCorp and Staff disagree, arguing that the

³⁴⁰ *Id.* (internal citation omitted).

³⁴¹ 2019 PacifiCorp GRC Order ¶ 64.

³⁴² *Id.* at 8:1-3.

³⁴³ Settlement ¶ 11; *see also id.* ¶ 11, n.12.

³⁴⁴ *E.g.*, Wilding, Exh. MGW-3Tr at 6:12-13.

³⁴⁵ Settlement ¶ 11; *see also id.* ¶ 11, n.12.

³⁴⁶ Mullins, Exh. BGM-1CT at 22:11-21.

benefits of NPM are difficult to quantify and manifest through lower actual power costs.³⁴⁷

161 We decline to place conditions on the Settlement to account for NPM benefits, as AWEC recommends. PacifiCorp's use of NPM allows the Company to more accurately track and allocate NPC between the six states in the Company's service area.³⁴⁸ It may also result in more accurate NPC forecasts that create cost-savings for customers.³⁴⁹ As a general matter, we encourage the Company's investment in this area. The present record does not persuade us to disallow NPM costs or impute NPM benefits.

162 We specifically reject AWEC's argument that the Commission should "impute" NPM benefits following a recent order from the Oregon Public Utilities Commission (PUC). Mullins asserts that the Oregon PUC determined that PacifiCorp failed to carry its burden of proof of benefits and "imputed saving from the NPM equal to one-half of its costs."³⁵⁰ Yet, as Company witness Wilding explains, the Oregon PUC's decision was premised on certain limitations with an earlier model, the Generation and Regulation Initiative Decision Tool.³⁵¹ The Oregon PUC only imputed benefits for the Company's 2022 TAM, noting the Company would soon transition to Aurora.³⁵² Because PacifiCorp has already transitioned to using Aurora in this proceeding, this Oregon PUC decision has limited relevance. We are not persuaded that it is necessary to impute NPM benefits in the Company's NPC baseline at this time.

163 However, we agree with AWEC's broader argument that PacifiCorp carries the burden of proof and that it must establish the benefits of NPM in generating more accurate NPC forecasts.³⁵³ As Staff witness Gomez explains, the Settlement "implicitly presumes" that NPM benefits manifest through lower actual power costs.³⁵⁴ But this is a temporary solution, "until such time when NPM benefits can be observed and quantified through

³⁴⁷ See, e.g., Wilding, Exh. MGW-6Tr at 11:15-12:14; Gomez, Exh. DCG-1CT at 30:15-31:15.

³⁴⁸ Wilding, Exh. MGW-6Tr at 12:7-10. Accord Gomez, Exh. DCG-1CT at 31:5-8.

³⁴⁹ Mullins, Exh. BGM-1CT at 21:9-4. Accord Gomez, Exh. DCG-1CT at 31:1-3. See also 2019 PacifiCorp GRC Order ¶ 65 (noting that Public Counsel's witness anticipated that NPM would result in more accurate NPC forecasts).

³⁵⁰ Mullins, Exh. BGM-1CT at 22:15-21 (citing *In the Matter of PacifiCorp dba Pacific Power, 2022 Transition Adjustment Mechanism*, OPUC Docket No. UE 390, Order No. 21-379 at 31 (November 1, 2021) (2021 Oregon TAM Order)).

³⁵¹ Wilding, Exh. MGW-6Tr at 12:15-13:4 (citing 2021 Oregon TAM Order at 33).

³⁵² *Id.*

³⁵³ See Mullins, Exh. BGM-1CT at 22:4-13.

³⁵⁴ See Gomez, Exh. DCG-1CT at 31:13-14.

PCAM actuals.”³⁵⁵ We are persuaded by Staff’s testimony that NPM benefits may be more easily discerned with the benefit of actual power cost data in a subsequent PCAM filing. We therefore find that it is appropriate to require PacifiCorp to address the issue of NPM benefits in its next PCAM filing. PacifiCorp should present evidence as to whether the use of Aurora with NPM resulted in more accurate NPC forecasts. The Company should then address whether the Commission should make an adjustment to the NPC baseline to account for NPM benefits. Because this is merely an instruction to the Company and not a modification of the Settlement’s terms, we do not construe this requirement as placing an additional condition on the Settlement.

164 **Fly ash revenue.** The parties have also disagreed over the treatment of revenues associated with the sale of fly ash, a byproduct of coal combustion.³⁵⁶ However, the parties have agreed in the post-hearing briefing to table this issue until a future proceeding.

165 In opposition testimony, AWEC witness Mullins argued that the Commission should require PacifiCorp to incorporate approximately \$3 million (on a Washington-allocated basis) of incremental revenues related to the sale of fly ash from the Jim Bridger power plant into base rates in this proceeding.³⁵⁷ Both PacifiCorp and Staff opposed making any adjustment in this proceeding.³⁵⁸ AWEC now recommends in its brief that the Commission consider this issue in Docket UE-210852, where AWEC has filed a petition for deferred accounting treatment of these same revenues.³⁵⁹

166 We not persuaded that it is appropriate to make an adjustment for fly ash revenues in this proceeding. AWEC seeks to raise an issue that is outside of the agreed-upon scope for this PCORC.³⁶⁰ It is also only tangentially related to the issues at hand. While fly ash *production* may correlate with power generation, increased fly ash *revenue* is associated

³⁵⁵ *Id.* at 31:17-18.

³⁵⁶ Mullins, Exh. BGM-1CT at 23:14-24:9.

³⁵⁷ Mullins, Exh. BGM-1CT at 24:10-15.

³⁵⁸ *See* Wilding, Exh. MGW-6Tr at 13:12-14:3; Gomez, Exh. DCG-1CT at 28:18-29:14.

³⁵⁹ AWEC Brief ¶ 50. Accord AWEC Reply Brief ¶ 27.

³⁶⁰ 2019 PacifiCorp GRC Order ¶ 64 (noting the settling parties’ agreement that “[t]he scope of the 2021 PCORC will be limited to incorporating the change to the NPC baseline into base rates, reviewing prudence of costs associated with nodal dispatch and modeling nodal dispatch, and reviewing the deferred accounting treatment for major maintenance expense at Colstrip Unit 4 for inclusion in PacifiCorp’s next general rate case . . .”).

with the specific market for this coal byproduct.³⁶¹ These revenues are already reflected in PacifiCorp's base rates.³⁶² The Commission should consider the appropriate treatment of fly ash revenues in a future proceeding, but these revenues have limited, if any, relevance to forecasting the Company's power costs.

167 Accordingly, we agree with the parties that the issue of fly ash revenue should be addressed in Docket UE-210852. This docket is still pending before the Commission and may be set for a future open meeting.

168 **Non-firm wheeling transactions.** In rebuttal testimony, the Settling Parties agreed to AWEC's proposed adjustment of \$45,104 related to the use of the System Energy (SE) factor for non-firm wheeling costs.³⁶³ The Settling Parties confirmed this same point at the hearing.³⁶⁴

169 We agree with AWEC's proposed adjustment for wheeling costs. As AWEC witness Mullins explains, PacifiCorp's initial filing assumed that all of its wheeling expenses were on a "firm" basis.³⁶⁵ Consistent with the 2020 Multi-State Process Protocol, the Company should have allocated non-firm wheeling transactions based on the SE factor.³⁶⁶ This results in a \$45,104 reduction to Washington-allocated NPC.³⁶⁷ This adjustment is supported by the record and is not opposed by any of the Settling Parties.³⁶⁸

170 **Other, unopposed adjustments and Settlement terms.** The Settlement provides for a Production Factor Adjustment and a Production Tax Credit update.³⁶⁹ The Settling Parties

³⁶¹ Wilding, Exh. MGW-6Tr at 14:4-10 (internal citation omitted); Gomez, Exh. DCG-1CT at 29:13-14.

³⁶² See Wilding, Exh. MGW-6Tr at 13:12-14:3.

³⁶³ Wilding, Exh. MGW-6Tr at 15:4-11; Gomez, Exh. DCG-1CT at 30:4-8. See also AWEC Brief ¶ 52.

³⁶⁴ Wilding, Gomez, Collins, Kronaurer, TR 155:2-156:8.

³⁶⁵ Mullins, Exh. BGM-1CT at 25:1-10.

³⁶⁶ *Id.*

³⁶⁷ *Id.* at 25:11-14.

³⁶⁸ Wilding, Gomez, Collins, and Kronauer, TR 154:17-156-8.

³⁶⁹ Settlement ¶¶ 9-10.

also agree not to contest the prudence of the deferral of major maintenance expenses at Colstrip Unit 4 through early 2021.³⁷⁰ AWEC does not oppose these provisions.³⁷¹

171 After considering these unopposed adjustments and terms of the Settlement, we conclude that they are lawful, supported by an appropriate record, and consistent with the public interest. We should note, though, that the Commission is not bound by the Settling Parties' agreement regarding the prudence of Colstrip expenses.³⁷²

172 **Rate spread and rate design.** In its initial testimony, the Company proposed to allocate the PCORC price change to customers on the basis of each customer class's energy consumption during the test period of 12 months ending June 2019, which was used in the Company's last general rate case.³⁷³ The non-Company Settling Parties do not dispute the Company's proposal.³⁷⁴ We conclude that the Settlement reasonably updates PacifiCorp's power cost baseline to more closely reflect forecasted power costs during the rate-effective year.³⁷⁵ PacifiCorp should be allowed to recover these power costs in rates, subject to the conditions discussed above.³⁷⁶

FINDINGS OF FACT

173 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

174 (1) The Commission is an agency of the state of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including electrical companies.

³⁷⁰ Settlement ¶ 14.

³⁷¹ See AWEC Brief ¶ 4; Mullins, Exh. BGM-1CT at 2:16-24.

³⁷² See Wilding, TR 140:14-19.

³⁷³ Meredith, Exh. RMM-1T at 3:6-13.

³⁷⁴ BR-1 (Response to Bench Request No. 1).

³⁷⁵ See, e.g., Joint Testimony, Exh. JT-1CTr at 11:13-20 (citing an illustrative power cost update based on the September OFPC).

³⁷⁶ See *supra* at ¶¶ 154 and 169.

- 175 (2) PacifiCorp is a “public service company” and an “electrical company” as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PacifiCorp is engaged in Washington state in the business of supplying utility services and commodities to the public for compensation.
- 176 (3) On June 1, 2021, PacifiCorp filed with Commission revisions to its currently effective tariff WN U-76. PacifiCorp characterized its filing as a PCORC. PacifiCorp proposed to update its NPC and to increase electric rates by approximately \$13.1 million or an average increase of approximately 3.73 percent.
- 177 (4) The Commission suspended the operation of the proposed tariff revisions on June 15, 2021, pending an investigation and hearing concerning the proposed changes and whether they are fair, just, and reasonable.
- 178 (5) On November 2, 2021, the Commission issued Order 05, Granting Staff’s Motion to Reinstate and Modify Procedural Schedule in Part; Denying Motion in Part. The Commission reinstated a procedural schedule given AWEC’s opposition to the Settlement.
- 179 (6) On November 5, 2021, PacifiCorp filed a full multi-party Settlement and supporting testimony on behalf of the Company, Staff, TEP, and Walmart. The Settlement is attached as Appendix A to this Order.
- 180 (7) The Settlement provides: (1) the Company will update its baseline NPC in a compliance filing based on the most recent OFPC, following the same method as used in the Company’s initial filing; (2) a Production Factor Adjustment of 99.437 percent to the proposed NPC baseline; (3) the Company will update the Production Tax Credit rate from 2.5 cents/kWh to the expected PTC rate of 2.6 cents/kWh; (4) PacifiCorp will not correct an error identified in supplemental testimony related to the tracking of NPM costs; and (5) the Settling Parties agree not to contest the prudence of the deferral of major maintenance expenses at Colstrip Unit 4 through 2020 and early 2021.
- 181 (8) The inputs to PacifiCorp’s power cost model are sufficiently documented in the record.
- 182 (9) PacifiCorp will not include new long-term contracts in the Settlement’s power cost update that are not already included in the record.

- 183 (10) The record evidence raises concerns as to whether PacifiCorp has sufficiently managed market risk for its Washington customers.
- 184 (11) The Settlement provides that PacifiCorp will not correct an error identified in supplemental testimony related to NPM costs, but it reasonably provides that PacifiCorp may seek to recover these costs in its next general rate case.
- 185 (12) The record evidence raises concerns regarding PacifiCorp's treatment of NPM benefits.
- 186 (13) AWEC agrees that the issue of fly ash revenue should be addressed in Docket UE-210852.
- 187 (14) The Settling Parties do not object to AWEC's proposed adjustment for non-firm wheeling transactions.
- 188 (15) The record evidence supports the Settlement's Production Factor Adjustment.
- 189 (16) The record evidence supports the Settlement's treatment of Production Tax Credits.
- 190 (17) The record evidence supports the Settling Parties' agreement not to contest the deferral of major maintenance expenses for Colstrip Unit 4.
- 191 (18) PacifiCorp's currently effective rates are not fair, just, or reasonable for the services rendered.

CONCLUSIONS OF LAW

192 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

- 193 (1) The Commission has jurisdiction over the subject matter of, and parties to, these proceedings.
- 194 (2) PacifiCorp's proposed tariff revisions, filed on June 1, 2021, would not result in rates that are fair, just, or reasonable.
- 195 (3) The Settlement's power cost update is within the Commission's authority and should be approved.
- 196 (4) The inputs to PacifiCorp's power cost model are sufficiently documented in the record and should be approved.
- 197 (5) The Commission should condition its acceptance of the Settlement on PacifiCorp demonstrating the prudence of its hedging practices in the Company's next PCAM filing.
- 198 (6) The Commission should approve the Settlement's treatment of NPM costs.
- 199 (7) The Commission should require PacifiCorp to address the issue of NPM benefits in the Company's next PCAM filing.
- 200 (8) The Commission should address the issue of fly ash revenue in Docket UE-210852.
- 201 (9) The Commission should accept AWEC's proposed adjustment for non-firm wheeling transactions.
- 202 (10) The Settlement reasonably provides for a Production Factor Adjustment, and this should be approved.
- 203 (11) The Settlement reasonably updates the treatment of PacifiCorp's Production Tax Credits, and this should be approved.
- 204 (12) The Settlement reasonably provides that the Settling Parties do not contest the prudence of the deferral of certain major maintenance expenses at Colstrip Unit 4, and this should be approved.
- 205 (13) The Settlement, if approved, would result in rates for PacifiCorp that are fair, just, reasonable, and sufficient.

- 206 (14) Rates determined on the basis of the terms set forth in the Settlement would be neither unduly preferential nor discriminatory and should become effective on May 1, 2022.
- 207 (15) The Settlement fully and fairly resolves the issues in these dockets and is in the public interest.
- 208 (16) The Commission should approve and adopt the Settlement, attached to this Order as Appendix A and incorporated by reference in this Order, as a reasonable resolution of the issues presented, subject to the conditions in paragraphs 154 and 169 of this Order.
- 209 (17) The Commission Secretary should be authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 210 (18) The Commission should retain jurisdiction to effectuate the terms of this Order.

ORDER

THE COMMISSION ORDERS:

- 211 (1) The proposed tariff revisions PacifiCorp d/b/a Pacific Power and Light Company filed on June 1, 2021, and suspended by prior Commission order, are rejected.
- 212 (2) The Settlement Stipulation filed by PacifiCorp d/b/a Pacific Power and Light Company on behalf of Commission Staff, The Energy Project, and Walmart, and attached to this Order as Appendix A, is approved and adopted, subject to the conditions set forth in paragraphs 154 and 169 of this Order.
- 213 (3) Within three business days from the date of this Order, PacifiCorp d/b/a Pacific Power and Light Company, Commission Staff, The Energy Project, and Walmart must notify the Commission whether they accept or reject the conditions imposed by the Commission.
- 214 (4) PacifiCorp d/b/a Pacific Power and Light Company is authorized and required to make a compliance filing on or before April 15, 2022, including such new and revised tariff sheets as are necessary to implement the requirements of this Order, providing that the new tariffs become effective on May 1, 2022.

- 215 (5) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 216 (6) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

Dated at Lacey, Washington, and effective March 29, 2022.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.