



STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

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April 28, 2022

Amanda Maxwell, Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE Lacey, WA 98503

PacifiCorp – Docket No. UE-210402 – Rate Year Power Cost Update Compliance Filing

Dear Executive Director and Secretary Maxwell:

On March 29, 2022, the Washington Utilities and Transportation Commission (Commission) entered its Final Order (Order 06) in the above-referenced docket. Order 06, among other things, required PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) 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.”¹ As specified in the settlement stipulation approved by the Commission in Order 06; “[t]he 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.”²

In particular, Order 06 required the Company to:

- (1) Update the NPC baseline in a compliance filing in conformance with the settlement stipulation and not include any new long-term Purchase Power Agreements (PPAs);
- (2) Update the NPC baseline to reflect a Production Factor Adjustment of 99.437 percent;
- (3) Update the Production Tax Credit rate from 2.5 cents/kWh to the expected PTC Rate of 2.6 cents/kWh;

¹ *WUTC v. PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210402, Order 06 at ¶ 214 (March 29, 2022).

² *Id.* at Appendix A to Order 06 at ¶ 12.

- (4) Update the NPC baseline to reflect a Non-firm Wheeling Transactions Adjustment of \$45,104; and
- (5) Not correct an error identified in supplemental testimony related to the tracking of NPM costs.

Staff has confirmed that the \$145.2 million NPC baseline represented within the compliance filing was updated in conformance with Final Order 06 in this docket. Working in collaboration with PacifiCorp, Staff has determined that the Company has updated the correct inputs in the NPC model and verified that the Company used the correct data within the NPC model inputs. Staff has also confirmed that the updated baseline does not include any new long-term PPAs that were not included within PacifiCorp’s initial filing. The new NPC baseline includes both the Production Factor Adjustment and Non-firm Wheeling Transactions Adjustment. These two adjustments together approximately lowered the NPC baseline by \$0.9 million. The updated NPC baseline does not include the updated Production Tax Credit rate, as this adjustment reduces the base rates and not the NPC baseline—which regardless is still included in the calculation of the overall change to base rates. Consistent with what was represented in Exhibit JT-2, Staff has confirmed that PacifiCorp updated the PTC rate to provide an additional approximate \$765,000 in benefits to ratepayers as a result of the change in the PTC rate. In a minor oversight within its cover letter to the compliance filing, PacifiCorp included the additional PTC benefits to reduce the NPC baseline instead of a reduction to overall base rates. This oversight is only contained within the non-confidential cover letter, and the substance of PacifiCorp’s compliance filing and confidential workpapers provided support for the correct \$145.2 million NPC baseline. Staff has also confirmed that the Company did not correct the error pertaining to the tracking on NPC costs.

Under the new NPC baseline and the new PTC rate, the average residential customer using 1,200 kWh per month will see an increase of \$12.63 per month (12.24 percent). The table below shows the various NPC baselines (WA allocated in millions) related to this case:

2021 GRC As-filed	2021 GRC October Update	2021 GRC DNBA	2022 PCORC Initial Filing	2022 PCORC October Update	2022 PCORC NPC Final Update
\$106.5	\$119.5 ³	\$102.0 ⁴	\$114.8	\$157.6	\$145.2

DISCUSSION

The \$30.4 million increase in PacifiCorp’s NPC from the PCORC initial filing is largely driven by the dramatic increase in power and gas market prices that occurred in 2022. To illustrate this rise in prices during the pendency of this PCORC, Staff includes two charts; Figure 1, showing the trajectory of the Around-The-Clock (ATC) forward price for power at the Mid-C and Figure 2, the forward price of gas at the Sumas Trading Hub.

³ The 2021 GRC settlement originally specified that an increase in baseline NPC as a result of the October Update would be offset by the balance in the deferral account for the 2020 Power Cost Adjustment Mechanism (PCAM). However, the PCAM deferred balancing account only had a balance of \$9.5 million at the time. Since the October Update NPC increase was greater than the balance of the PCAM deferred balancing account at that time, to make up for the shortfall between the NPC baseline from the October Update and the estimated baseline established in the Stipulation, parties to that docket proposed, and the Commission approved, the reflection of the \$17.5 million difference in the PCAM deferred balancing account through the DNBA.

⁴ DNBA refers to the “Deferred NPC Baseline Adjustment” which is reflected in the rates that went into effect after PacifiCorp’s 2021 GRC.

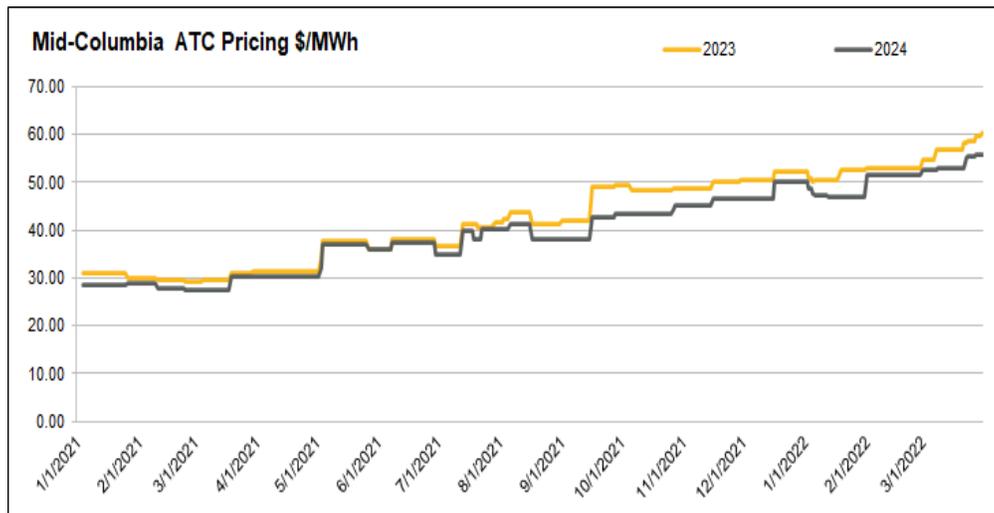


Figure 1; SNL Mid-Columbia Forwards

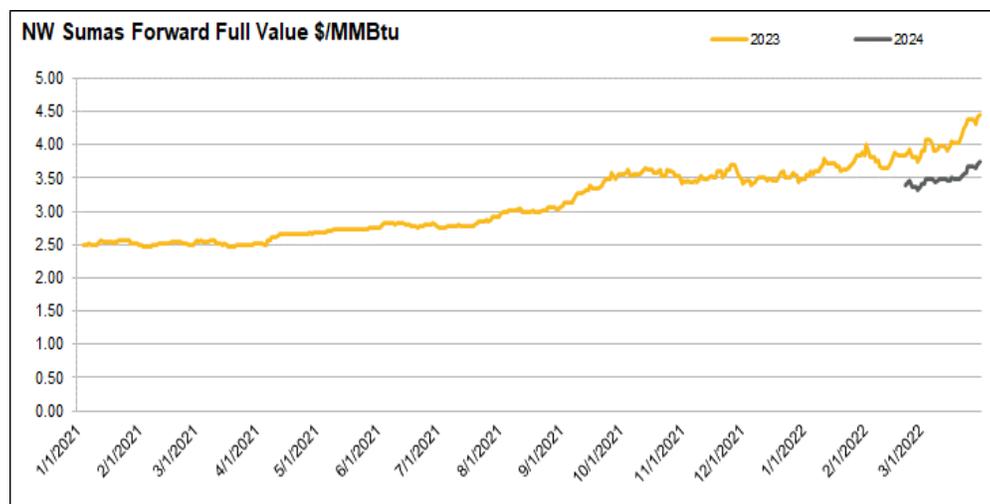


Figure 2; SNL Sumas Forwards

In examining the NPC update of April 15, 2022, Staff began with a review of PacifiCorp’s system level NPC and makes the following observations:

1. About a third of the As-filed MWhs of Total System Balancing Purchases were firmed and reclassified as Short Term Firm Purchases. This is to be expected as the Company gets closer to the rate effective period.
2. Gas generation was displaced by coal in dispatch merit order due to the rise in market prices for gas. Coal fuel costs and MWhs increased as a result.
3. Gas fuel costs went up by 63 percent in spite of the change in generation mix. However, PacifiCorp also updated its system level financial hedges which mitigated this increase to only 6.8 percent.⁵

⁵ Referring to the Company’s rebuttal testimony in Commission Order 06, Pacific witness Wilding explains that the Company hedges ratably over time and that the most actively managed hedging period is the prompt 12-month.

4. Both Purchased Power and Wholesale Sales MWhs changed slightly with market prices for power affecting their rate year dollar amounts significantly. However, the rise in power market prices also helped by increasing the value of Wholesale Sales which offset entirely the increase to Purchased Power expense from the update.
5. No change in renewable energy and hydro generation.
6. EIM benefits were recalculated by Pacific in the update. Like Wholesale Sales, which benefited from higher power market prices, EIM dollar benefits also increased by 300 percent from the As-filed.

While PacifiCorp's system level rate year NPC decreased as a result of the update, Washington allocated NPC went up. This effect, as observed by the Commission in its final order in this docket, is the result of the Washington Inter-Jurisdictional Allocation Methodology (WIJAM). Total Company net power costs (NPC) decreased by 1.5 percent, while Washington allocated NPC increased by 27 percent. The volume of purchased power remained stable in both allocations when compared to the initial filing, however, market prices have increased, resulting in a net increase to purchased power expense. As noted above, increased power prices have resulted in forecasted EIM benefits increasing in value. Since Washington is allocated a percentage of these benefits, the net change between the benefits and the price increase results in an increase to Washington NPC, but a reduction to total company NPC.

Staff also investigated an error discovered by the Alliance of Western Energy Consumers (AWEC) within a confidential workpaper provided by PacifiCorp. While the workpaper did include an error, upon further investigation by Staff, it was determined that the values contained in PacifiCorp's NPC update were correct and the error in the workpaper was the result of an administrative error by PacifiCorp. Staff informed AWEC, via email, of the results of its investigation and asked if it had additional concerns on April 27, 2022. As of the filing of this letter, AWEC has not responded to Staff's April 27, 2022, email communication.

Staff also met with PacifiCorp and AWEC on April 28, 2022. In this brief meeting, AWEC had a few questions pertaining to gas physical and financial transactions reflected in the update. Staff did not detect a particular issue from AWEC with the compliance filing in this meeting. Staff also directly asked AWEC at this meeting if it would be contesting the compliance filing, to which AWEC responded it did not know at that time. Staff has informed AWEC on two separate occasions that concerns it may have with the compliance filing should be promptly identified and attempted to be resolved in a collaborative and good faith manner within the two-week review period, as opposed to AWEC possibly withholding any concerns from Staff and thereafter seeking to delay the rate effective date of May 1, 2022.

COMPLIANCE WITH ORDER 06

On April 15, 2022, PacifiCorp made its required compliance filing to update its rate year NPC baseline which included supporting workpapers and revised tariff sheets with an effective date of May 1, 2022. Pursuant to WAC 480-07-880(3), the Commission must approve or accept any compliance filing before it can be effective. Staff has completed its review of PacifiCorp's April

window at any given point in time. At the time of the Company's initial filing, most of the test period was outside this actively managed window. Wilding submits that an update is therefore necessary to fully capture the Company's hedging activity.

15, 2022, compliance filing in UE-210402. Staff recommends that the Commission approve PacifiCorp's April 15, 2022, compliance filing as in compliance with the terms contained within the Commission's Final Order 06 in this docket. Staff requests that the Commission approve the compliance filing on Friday April 29, 2022 to facilitate a rate effective date of Sunday May 1, 2022.

Sincerely,

David C. Gómez
Assistant Power Supply Manager, Energy Regulation