DBEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PACIFIC POWER & LIGHT COMPANY 2022 Power Cost Adjustment Mechanism Annual Report.	DOCKET UE-230482

POST-HEARING BRIEF OF COMMISSION STAFF

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CONFIDENTIAL PER PROTECTIVE ORDER – REDACTED VERSION

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I. INTRODUCTION

1 This proceeding concerns PacifiCorp's request to recover its deferred 2022 net power costs through its Power Cost Adjustment Mechanism (PCAM). Disposing of PacifiCorp's petition will require the Commission to engage in various accounting exercises to answer three main questions: (1) how should the Commission allocate the benefits of that hedging program, (2) how should the Commission value the balancing adjustment used in PacifiCorp's WIJAM cost-allocation method, and (3) should the Commission order an audit of PacifiCorp's dispatch of its Washington-allocated gas plants given evidence of their uneconomic dispatch?

2 The Commission should conclude that PacifiCorp's hedging program is a proper risk-responsive hedging program, as discussed by Staff witness Wesley Yeomans. However, the Commission should order PacifiCorp to procure more gas hedges for its west-side power plants to recognize the non-fungibility of those hedges between the Company's east and west sides. Further, the Commission should order PacifiCorp to allocate the benefits and costs of its hedging program on a system basis. This recommendation properly aligns PacifiCorp's power cost allocation methodology with its hedging policy and would result in a roughly [redacted] reduction to the PCAM balance. The Commission should value the power delivered on an hourly basis using the hub price used by Washington utilities (Mid-Columbia or "Mid-C"). Using an hourly basis for calculating costs more accurately reflects the power needs and thus the costs incurred by Washington customers. Finally, the Commission should order a third party audit of PacifiCorp's dispatch decisions for 2022 for Chehalis and Hermiston, as there is evidence to indicate that the dispatch for these units was uneconomical.

II. BACKGROUND

3 PacifiCorp's PCAM is a deferral and true-up mechanism that allows the Company to defer, on a monthly basis, the difference between forecasted and actual power costs, subject to

the application of dead and sharing bands that require the Company to absorb some of the difference between forecasted and actual power costs during a given time period.[1] If the cumulative deferred PCAM balance exceeds a set threshold, PacifiCorp must file to adjust the rates prescribed by Schedule 97.[2]

4 In June 2023, PacifiCorp petitioned to adjust Schedule 97 to recover a deferred PCAM balance of $71.5 million.[3] The parties engaged in some informal process, after which intervenor Alliance of Western Energy Consumers (AWEC) petitioned for a full adjudication. The Commission's grant of that petition resulted in a hearing on the merits in early June 2024.

III. DISCUSSION

5 The Commission is charged with setting rates for electric and gas utility service that are "just, reasonable, and sufficient."[4] In 2015, the Commission approved PacifiCorp's current PCAM, and provided procedures for review of the accumulated balance, triggers for when a surcharge or credit are applied to customer bills, and a process to challenge the deferred balance.[5] Under the adopted PCAM framework, recovery of amounts deferred are not automatic, and "[d]etermining recovery for power costs includes determining whether decisions to accept risk – such as the risk of relying on the market – were *prudently made*."[6]

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[1] *See generally* Painter, Exh. JP-1T at 4:10:-12, 5:9-25.
[2] The threshold is currently set at $17 million. Painter, Exh. JP-1T at 3:21-23.
[3] *In the Matter of PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-230482, PacifiCorp's Petition to Extend the Amortization of the PCAM Surcharge, 2 ¶ 5 (Jun. 15, 2023) (Petition). Due to the high deferral balance, PacifiCorp requested a 24-month (as opposed to 12-month) amortization period, which results in a total of $77.3 million collected through rates. *Id.* at 3 ¶ 7-8.
[4] RCW 80.28.020; *see* RCW 80.28.010.
[5] *Wash. Utils & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-140762, Order 09, 12, ¶ 33-13 ¶ 35 (May 26, 2015). That adoption order carries the force and effect of law. RCW 80.04.380.
[6] *In the Matter of Pac. Power & Light Co.'s Petition for Waiver from Certain Request for Proposals Requirement and Approval of its Draft Request for Proposals*, Docket UE-170885, Order 01, 3 ¶ 10 (Oct. 12, 2017); *cf. People's Org. for Wash. Energy Res. v. Utils. & Transp. Comm'n*, 104 Wash.2d 798, 810, 711 P.2d 319 (1985) (the Commission "has the power to review operating expenses incurred by a utility and to disallow those which were not prudent incurred.").

A. PacifiCorp's Hedging

6 Public Counsel and AWEC challenge PacifiCorp's hedging practices as imprudent. The Commission should reject that claim, but order the Company to allocate both power and gas hedges on a system basis and to acquire more west-side gas hedges. This is because PacifiCorp hedges on a system basis and because its gas hedges are not fungible between PacifiCorp East (PACE) and PacifiCorp West (PACW).

1. The Commission should reject PacifiCorp's various attempts to merge the distinct concepts of ratemaking, accounting, and hedging.

7 This proceeding involves three concepts: ratemaking, done by the Commission on a forward-looking basis to set rates based on accounted for costs and revenues; accounting, done by the Company and adjusted by other parties on a backward looking basis to account for those costs and revenues; and hedging, done by the Company on a forward looking basis to manage the risks. These are separate concepts that can impact one another, but are not the same. PacifiCorp attempts to merge these concepts in two ways: PacifiCorp claims that the WIJAM Balancing Adjustment: (1) hedges the Company's power costs, and (2) is a form of ratemaking hedging. Neither has merit. The Balancing Adjustment is an accounting tool that allocates the benefits of hedges entered into by the Company; it does nothing itself to manage PacifiCorp's power cost risk nor does it make rates.

8 With regard to the first claim, PacifiCorp witness Mitchell, in his pre-filed testimony, attempts to classify the Balancing Adjustment in the WIJAM as a form of hedging.[7] However, at hearing, witness Mitchell confirmed that the WIJAM is in fact an accounting mechanism employed to assign costs to power supplied by resources not allocated to Washington for

[7] Mitchell, Exh. RJM-3CT at 2:12-3:12.

ratemaking purposes.[8] He also admitted during the hearing that the Balancing Adjustment does not itself hedge PacifiCorp's power costs;[9] a proper admission given that hedging is "locking in a specific energy price *ahead of time*" prior to the energy being used, which is plainly impossible with the retrospective accounting done through the balancing adjustment.[10] Simply stated, hedging is a forward looking tool, the WIJAM is a retrospective looking analysis. Conflating the two is a gross misconception.

9 While there may be some level of cost management through the WIJAM, retroactively managing costs and hedging are different. Now, PacifiCorp may argue that there are some cost benefits to allocating hedges in the WIJAM, and even if this does blunt the force of price volatility, it is not the same as managing for risk prospectively. Relying heavily on the WIJAM to perform the function of proper risk management through hedging leaves Washington customers subject to a game of roulette as risks are not being planned for but rather reacted to.

10 With regard to PacifiCorp's second claim, witness Mitchell states that the WIJAM balancing adjustment is "an exercise in ratemaking hedging"[11] and that hedging and the WIJAM are necessarily "intertwined."[12] However, ratemaking and hedging are not the same thing, and not intertwined in the manner Mitchell asserts. Indeed, while the WIJAM is utilized to determine cost allocation, and hedges are a cost, the WIJAM does not create rates, nor does hedging. While, hedging is a future looking practice, ratemaking is "a retrospective look at calendar year 2022 power costs, and that retrospective look will end up flowing to customer rates."[13] The

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[8] Mitchell, TR. 25:13-16.
[9] Mitchell, TR. 26:312.
[10] Mitchell, TR. 27:7-11.
[11] Mitchell, Exh. RJM-3CT at 4:2-3.
[12] Mitchell, TR. 31:13 (emphasis removed).
[13] Mitchell, TR. 31:21-24.

practice of "ratemaking is the calculation of rates charged to customers to recover PacifiCorp's costs and provide an opportunity to earn a reasonable rate of return."[14] Simply put, hedging costs are used in ratemaking, but ratemaking does not hedge PacifiCorp's power cost risks. This concept of "ratemaking hedging" does not exist in Washington ratemaking practice and nor should it, since it obfuscates the purpose of hedging, which is to manage risks prior to their occurrence to reduce volatility.

2. PacifiCorp should be allocating hedging benefits (or costs) on a system basis.

11 PacifiCorp repeatedly emphasizes that it "hedges its entire system holistically" on the basis that the geographic diversity of its system creates an economic benefit.[15] Perplexingly, however, PacifiCorp does not allocate its hedges on a system basis, but rather through an accounting practice that allocates hedges "based on the specific supplies being hedged" across PacifiCorp's different regions.[16] Under the WIJAM, "[h]edges are allocated as net power costs, but the allocation of market hedges is not specifically stated in WIJAM."[17] The current practice of hedging the system holistically, but then allocating hedges regionally is fundamentally unfair to Washington customers as they receive fewer hedges and thus protection from price volatility.

a. PacifiCorp should acquire more west hedges going forward due to east gas hedges not being fungible to the west; however, it should not be ordered to hedge Washington separately.

12 PacifiCorp should continue with its current gas hedging program, however, it should add an "enhancement" to the program to account for the west-side's exposure to volatility in the gas

[14] Mitchell, TR. 31:7-12.
[15] Mitchell, Exh. RJM-1T at 5:9-16.
[16] Mullins, Exh. BGM-1CTr at 42:19-43:5.
[17] *Wash. Utils. & Transp. Comm'n v. PacifiCorp b/d/a Pac. Power & Light Co.*, Docket UE-210402, Order 06, 41, ¶ 150 (Mar. 29, 2022).

market.[18] Staff does *not* recommend that PacifiCorp be ordered to hedge Washington separately from the rest of the system, as this would likely cause long-term increases in costs.

i. Hedges should be allocated on a system basis if PacifiCorp continues to hedge its system holistically.

13 Per PacifiCorp's current practice, for year 2022, only [redacted] of total system gas swaps were allocated to west-side resources whereas these plants made up [redacted] of the forecast gas requirement when PacifiCorp was conducting hedging.[19] The discrepancy between the forecast and allocation of swaps for 2022, nearly [redacted], is a clear indicator that the current practice is improper.

14 The Commission should reject PacifiCorp's current allocation of hedging benefits. If PacifiCorp continues its hedging on a system basis, "it is most reasonable . . . to allocate the benefits (or costs) of that hedging on a system basis."[20] This will align PacifiCorp's accounting and operational practices, ensuring that the former follows the latter, rather than vice versa.[21] If the best practice for hedging is doing so on a system basis (as opposed to hedging east and west separately) then the WIJAM needs to be implemented differently to account for hedging benefits (or costs) being allocated on a system basis.[22] As such, the Commission should order a [redacted][23] decrease to NPC to reflect the allocation of the hedging benefits on a system basis.[24] There is no structural barrier to this sort of change, as the WIJAM does not contain

[18] Yeomans, Exh. WY-8T at 4:21-5:4.
[19] Mullins, Exh. BGM-1CTr at 43:10-11 and 43:17-18.
[20] Wilson, Exh. JDW-15CT at 1:21-2:1.
[21] Wilson, Exh. JDW-15CT at 8:1-3.
[22] Wilson, Exh. JDW-15CT at 5:15-16 and 5:20-22.
[23] [redacted]. Mullins, Exh. BGM-1CTr at 44:2-4.
[24] Wilson, Exh. JDW-15CT at 6:9-12; Mullins, Exh. BGM-1CTr at 44:2-4.

explicit provisions for the allocation of market hedges.[25] Consistency between hedging and WIJAM allocation is crucial to ensuring that Washington rates are equitable and consistent with other PacifiCorp jurisdictions.

ii. Setting an additional, regional target for west-side gas hedges is a reasonable solution to the lack of fungibility of gas swaps.

15 While hedging on a system basis is efficient, gas swaps are not fungible from the east to the west and thus have reduced utility in reducing west gas price volatility.[26] The benefits of the geographic diversity that are the bedrock of PacifiCorp's hedging program are thus not realized in these financial gas swaps.[27] This non-fungibility is problematic because PacifiCorp under-hedges its fuel requirements for its western control area, and "the lack of requirement for hedging fuel costs in the west area . . . leaves customers unnecessarily exposed to fuel cost risk."[28] Indeed, by [redacted].[29] [redacted].[30]

16 To address this problem, the Commission should order PacifiCorp to incorporate "a new minimum gas hedging requirement . . . into [its] hedging policy" to mitigate this risk.[31] PacifiCorp currently purchases a great deal of eastside financial gas swaps, but these swaps do

[25] *Wash. Utils. & Transp. Comm'n v. PacifiCorp b/d/a Pac. Power & Light Co.*, Docket UE-210402, Order 06, 41, ¶ 150 (Mar. 29, 2022).
[26] Yeomans, Exh. WY-8T at 7:1-2. To be clear, this fungibility issue does not apply to PacifiCorp's power hedging practices since physical power can be transferred between east and west. Yeomans, Exh. WY-8T at 7:8-10. This is truly a phenomenon of the financial swaps used to hedge gas on PacifiCorp's system.
[27] Yeomans, Exh. WY-8T at 7:12-14.
[28] Yeomans, Exh. WY-8T at 5:2-4.
[29] Staples, TR. at 119:14-19.
[30] Staples, TR. at 98:15-20.
[31] Yeomans, Exh. WY-8T at 5:5-7.

not "provide protections against expensive gas purchases" during west gas market volatility.[32] As such, the cost protections afforded by these east swaps are "not fungible" to the west.[33]

17 Re-allocating the benefits of hedging will not solve the problem created by the failure to adequately hedge the western gas supply. Even if gas hedges are acquired on the east, that may have little to no impact on west volatility due to fungibility issues.

18 PacifiCorp has expressed concerns with a west-side gas hedge requirement and liquidity of those hedges in the west. PacifiCorp witness Staples testified that [redacted].[34] However, witness Staples could not make any [redacted].[35] If [redacted], the solution is to incorporate into the risk management program a mechanism that allows PacifiCorp management [redacted]. Again, requiring a minimum hedge does not mean that PacifiCorp must hedge an entire new position, but rather acquire minimal hedges to adequately protect Washington ratepayers from market exposure. As the Commission stated in the 2021 PCORC, the WIJAM does not relieve PacifiCorp of considering Washington market exposure.[36] It is clear from the outcome of the 2022 PCAM that the current practice does not adequately consider Washington market exposure. A minimal gas swaps requirement provides the bridge to rectify this gap without requiring PacifiCorp to design

[32] Yeomans, Exh. WY-8T at 5:21-6:1.
[33] Yeomans, Exh. WY-8T at 6:1-2; witness Yeomans provides an example of this phenomenon in his cross-answering testimony, WY-8T at 6:4-7:4.
[34] Staples, TR. at 83:14-19.
[35] Staples, TR. at 85:18-23.
[36] *Wash. Utils. & Transp. Comm'n v. PacifiCorp b/d/a Pac. Power & Light Co.*, Docket UE-210402, Order 06 at 41, ¶ 150 (Mar. 29, 2022).

an entirely new hedging program. PacifiCorp's whole system hedging strategy can persist, it just needs to be adjusted to meet a minimal requirement in the west.

b. Power hedges should be allocated on a system basis since power is fungible across the system.

19 Unlike natural gas, PacifiCorp may transfer power between PACW and PACE. PacifiCorp has stated that "the Company has a magnitude of transmission rights to move power from PACE to PACW" and that the Company's models "economically optimize the transfer of energy from East to West."[37] Indeed, "[s]ome of the physical power can be scheduled and transferred from an area with excess physical power to an area that is short of physical power via the PacifiCorp system dispatch program."[38] This fungibility of power across regions is what makes the geographic diversity of PacifiCorp's system[39] beneficial in the concept of hedging for the system. PacifiCorp leans heavily on the position that hedging:

> [S]olely from the perspective of and for one state as an independent system limits the ability of that system to absorb unfavorable shocks. On the other hand, expanding the geographical footprint of the system to encompass multiple states across multiple geographic regions limits the risks of those state specific unfavorable shocks and this geographical diversity is in and of itself a type of hedge.[40]

20 PacifiCorp's interconnected power system makes hedging on the system relatively straight forward. The benefits of hedges (or the costs) should be awarded to the whole system in the same way the acquisition of those hedges in calculated. Assigning the benefits (or costs) of power hedges based on a different allocation method can only result in inequitable outcomes as benefits or costs are not being spread in accordance with how they were incurred. This regional allocation is counter-intuitive, and it defeats the purpose of thinking of the system as a whole.

[37] Wilson, Exh. JDW-15CT at 9:22-25.
[38] Yeomans, Exh. WY-8T at 8-10.
[39] Mitchell, Exh. RJM-1T at 5:16-6:3.
[40] Mitchell, Exh. RJM-1T at 6:4-8.

Additionally, unlike with gas swaps, the transmission capabilities exist to transfer east power to west. This transmission ability accomplishes the goals of power sharing that a geographically diverse system is set up to provide.

B. WIJAM Balancing Adjustment Methodology

21 There are two flaws in PacifiCorp's balancing adjustment: (1) the current "method calculates costs based on Washington's monthly net position rather than an hourly net position," and (2) the current method "values the WIJAM Balancing Adjustment using system power prices."[41] To correct issues with the valuation of the balancing adjustment, the Commission should direct PacifiCorp to base valuation on the power costs that represent resources that are "immediately deliverable to Washington customers."[42]

1. Costs should be calculated using the hourly net position, not the monthly net position.

22 Costs should be calculated on an hourly basis because that is a more accurate representation of prices and Washington need. Under the current methodology (which was in effect in 2022), "there are hours in which the WIJAM net position is long and the price to purchase and sell power varies considerably from hour to hour."[43] Indeed, "most power costs are incurred on an hourly or even sub-hourly basis" and not calculating on that basis creates a "conceptual error in the calculation process."[44] As such, it is "more reasonable" to value power as costs are incurred rather averaging over a month.[45] For example, in September 2022, the monthly net position came out to 10,000 MWh and the hourly accounting showed a net position

[41] Wilson, Exh. JDW-1CT at 3:8-14 (Staff submitted two versions of Mr. Wilson's response testimony, one on March 28, 2024 and the other on April 5, 2024. All citations herein are to the version filed on April 5, 2024).
[42] Wilson, Exh. JDW-1CT at 3:15-18.
[43] Wilson, Exh. JDW-1CT at 30:16-18.
[44] Wilson, Exh. JDW-1CT at 3:10-12.
[45] Wilson, Exh. JDW-1CT at 30:18-20.

of 9,000 MWh, which means the WIJAM included costs for 1,000 MWh in excess of what Washington customers required.[46] Admittedly, there was not a significant difference overall in 2022 between the hourly and monthly accounting.[47] However, this may not always be true, as future prices could fluctuate in a way that makes monthly accounting more inaccurate leading to distorted results in power cost updates. The more equitable way to calculate costs should be the method that is the most accurate, which is based on hourly data.

23 To quickly address a concern brought up by the Company. PacifiCorp witness Mitchell stated in testimony that closing the WIJAM's open position with hourly prices rather than the monthly average "completely exposes Washington's open position to the spot market" in what PacifiCorp classifies as "the very opposite of hedging."[48] However, this is a misleading concept, and in fact, what is more likely to happen under PacifiCorp's current strategy[49] [redacted].[50] As clarified in the hearing "Staff's adjustments assigns a monetary value to a ratemaking calculated supply/demand deficit"[51]; Staff is not suggesting PacifiCorp buy power and re-dispatch it to 2022 era customers.[52] Now, the question may arise about potential "exposure" in future purchases if positions are closed on hourly prices, but the requirement that PacifiCorp behave prudently is still there and PacifiCorp

[46] Wilson, Exh. JDW-1CT at 19:12-18.
[47] Wilson, Exh. JDW-1CT at 19:19-20.
[48] Mitchell, Exh. RJM-3CT at 5: 5-9.
[49] Mitchell TR. at 36:7-9 ("Washington load is hedged as the other five jurisdictions are, and then hedged again in the WIJAM.").
[50] Mullins TR. at 158:12-19 ("[redacted]."); 159:16-18 ("[redacted]").
[51] Mitchell, TR. 33:6-8.
[52] Mitchell, TR. 32:14-17.

still retains the responsibility to effectively manage its power costs.

2. System power prices are an improper benchmark for valuing the WIJAM Balancing Adjustment because they are not based on resources immediately deliverable to Washington and improperly calculated on a monthly basis.

24 Applying PacifiCorp's system power pricing in valuing the WIJAM Balancing Adjustment provides a distorted measure of costs. One problem with PacifiCorp system power prices for valuing the WIJAM is that this method essentially causes transactions costs to be double counted.[53] System transactions are already included in net power costs and allocated to PacifiCorp states under an allocation agreement.[54] Notably, "[t]he marginal cost of power varies across PacifiCorp's service territories" and constraints in the system can cause the Company to purchase power at one hub, when the price at a different hub or a Company-owned plant, may be cheaper.[55] When the WIJAM Balancing Adjustment is valued using system power transaction prices, those prices do not account for factors that affect Washington differently than other states on the grid; factors such as transmission availability and ancillary service requirements.[56] Additionally, system power prices are often not based on resources immediately deliverable to Washington. Evidently, the current monthly approach may be leading to results where Washington resources are not optimally dispatched.[57] Valuing the WIJAM on system price can cause an inflated price as it is based on market transactions that occur far away from Mid-C, which is recognized as the "best pricing benchmark for Washington power customers"[58]

25 PacifiCorp should be ordered to value its system at Mid-C, which will create a more accurate representation of the value of the Balancing Adjustment. For the reasons previously

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[53] Wilson, Exh. JDW-1CT at 37:12-17.
[54] Wilson, Exh. JDW-1CT at 37:12-17.
[55] Wilson, Exh. JDW-1CT at 38:4-7.
[56] Wilson, Exh. JDW-1CT at 38:7-10.
[57] Wilson, Exh. JDW-1CT at 16:16-17:4.
[58] Wilson, Exh. JDW-1CT at 38:13-14; 38:16-17.

stated above, these prices should be based on hourly positions, not monthly ones, as hourly positions are more accurate and take into account important regional attributes.

3. The Mid-C power market hub pricing is the proper valuation.

26 The WIJAM Balancing Adjustment should be valued "based on the day-ahead price for the Mid-Columbia power hub."[59] As previously stated, Mid-C is the "best pricing benchmark for Washington power customers."[60] PacifiCorp's argument in opposition to applying Mid-C pricing is perplexing. Witness Mitchell asserts that "Mid-C trading hub is not a node" and that there is no nodal pricing within the "WEIM that represents Mid-C."[61] Witness Mitchell claims that Staff's support for Mid-C pricing is misplaced, and erroneously based on hydroelectric generator bids.[62] However, witness Mitchell is incorrect, as the Business Practice Manual for Market Instruments, produced by CAISO, calculates of the Maximum Import Bid Price (MIBP) "to approximate the prevailing energy prices outside the CAISO's [balancing authority area] on an hourly basis."[63] The manual, also cited by Mitchell in testimony, lists Mid-C as an input in calculating the hub price for electricity within the WEIM.[64] PacifiCorp was a participant in WEIM in 2022. Additionally, as noted in its 2023 General Rate Case, PacifiCorp plans to join the Extended Day-Ahead Market (EDAM) in the future,[65] which means MIBP, and thus Mid-C

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[59] Wilson, Exh. JDW-1CT at 3:17-18.
[60] Wilson, Exh. JDW-1CT at 38:13-14; 38:16-17.
[61] Mitchell, Exh. RJM-3CT at 9:18-19.
[62] Mitchell, Exh. RJM-3CT at 6:12.
[63] *Business Practice Manual for Market Instruments*, California ISO at 487 (Apr. 9, 2024) available at https://bpmcm.caiso.com/Pages/BPMDetails.aspx?BPM=Market%Instruments.
[64] Mitchell, Exh. RJM-3CT at 6 n. 17 (MIBP calculation can be found on page 487 of the *Business Practice Manual for Market Instruments*).
[65] *Wash. Utils & Transp. Comm'n v. PacifiCorp dba Pac. Power & Light Co.*, Dockets UE-230172 & UE-210852, JP-2T at 2:12-14 (Oct. 27, 2023).

pricing, will remain relevant to the Company. Furthermore, several PacifiCorp witnesses testified to using Mid-C in energy transactions. PacifiCorp witness Staples referred to [redacted].[66] Witness Wilding discussed utilizing Mid-C to create system diversity across the transmission system.[67]

27 Given the relevancy of Mid-C to WEIM in 2022, and the fact that PacifiCorp plans to join the EDAM, the Commission should order the Company to utilize Mid-C pricing in its WIJAM Balancing Adjustment valuations. Mid-C provides a more accurate representation of prices for Washington customers and also provides the proper benchmark for generation verse power purchases. PacifiCorp's arguments do not support disuse of these prices as a benchmark, and it is unclear how it came to such conclusions in testimony. Importantly, Mid-C provides the most accurate price signaling for Washington customers.

C. The Commission Should Order an Audit of PacifiCorp's Dispatch of Hermiston and Chehalis, as There is Evidence That These Plants Are Not Being Economically Dispatched

28 The Commission should order PacifiCorp to participate in a third-party audit of its dispatch of the Chehalis and Hermiston gas plants. Based on the data available during this review, there is reasonable concern that PacifiCorp did not dispatch these plants in response to market prices.[68] Based on an assessment of this data, "the most significant issue is underdispatch[69]" of these two plants.[70] Essentially, the plants were not being dispatched at points where market prices, when compared with plant operating costs, would place the plants in a

[66] Staples, TR. at 102:22-103:2.
[67] Wilding, TR. at 210:1-6.
[68] Wilson, Exh. JDW-1CT at 42:19-21.
[69] For the purpose of this analysis, Staff witness Wilson considered "underdispatch" to be at times when the Mid-C day-ahead price was greater than the cost of operating the unit (fuel and variable operating). Wilson, Exh. JDW-1CT at 44:6-7.
[70] Wilson, Exh. JDW-1CT at 45:1.

position to generate additional revenue that had the potential to lower Washington NPC. To illustrate this point, on September 2, 2022, if the plants had been run at full output, they would have generated [redacted] in additional revenue.[71] However, there were also instances where Hermiston and Chehalis were overdispatched[72], causing PacifiCorp to incur uneconomic costs to the point that if these plants had been offline and replaced with Mid-C power purchases, NPC could be have been reduced by [redacted].[73] The data thus indicated that PacifiCorp seemingly does "not put great importance on market power prices" in the operating practices for these plants.[74]

29 The main concerns are when and how PacifiCorp is operating these plants. When dispatched, these plants were "usually operated with a capacity factor between [redacted]."[75] Considering the hours where both plants dispatched at a capacity factor of at least [redacted], the correlation of the plant capacity factor with the Mid-C price was [redacted] for Hermiston and [redacted] for Chehalis.[76] As illustrated by Table 7 in witness Wilson's testimony, there were numerous instances of underdispatch and overdispatch that impacted NPC.[77]

30 PacifiCorp's response to this is that the "gas plants . . . participate in and are economically dispatched by the WEIM."[78] PacifiCorp continues this line of thinking by asserting that for Staff's logic to be followed "the entire West should therefore be re-dispatched."[79] This

[71] Wilson, Exh. JDW-1CT at 45:14.
[72] Witness Wilson defines "overdispatch" as instances where costs to operate the unit are greater than the Mid-C day-ahead price. Wilson, Exh. JDW-1CT at 44:8.
[73] Wilson, Exh. JDW-1CT at 46:9-11.
[74] Wilson, Exh. JDW-1CT at 43:10-11.
[75] Wilson, Exh. JDW-1CT at 43:2-3.
[76] Wilson, Exh. JDW-1CT at 43:3-5.
[77] Wilson, Exh. JDW-1CT at 45, Table 7.
[78] Mitchell, Exh. RJM-3CT at 7:16-17.
[79] Mitchell, Exh. RJM-3CT at 8:2-3.

line of argument is misplaced: the Commission is engaged in a ratemaking and accounting exercise here, not an operational one. As witness Mitchell testified in the hearing, the power has already been dispatched, power now cannot be re-dispatched to 2022 era customers.[80] Furthermore, even if the resources are dispatched in the WEIM, PacifiCorp still maintains control of the bid prices and plant nominating and regulating instructions.[81] These instructions impact generator bids, and therefore plant dispatch in the WEIM. In fact, as witness Mitchell states in response to Staff Data Requests, "generator bids for all WEIM resources across the entirety of the WEIM footnote are either a result of actions taken by [PacifiCorp]" or CAISO.[82] An audit of dispatch practices at these two plants is necessary to truly understand if uneconomic dispatch is occurring.

31 Staff strongly urges the Commission to order a full audit of these plants because of the difficulties of performing a full analysis in a spreadsheet that properly accounts for "all the confounding factors" is not feasible.[83] The audit that Staff recommends requires "full access to PacifiCorp's records, including purchases and sales of gas for each facility, regulation requirements, and other factors that were used to determine its generation bids."[84]

IV. CONCLUSION

32 The Commission should find that PacifiCorp's hedging program is prudent, but that the hedges should be allocated on a system basis for both power and gas. On the gas side, Staff urges the Commission to order PacifiCorp to conduct minimal additional west-side hedges to account for the lack of fungibility across the system. To make up for this lack of gas hedges on the west-

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[80] Mitchell, TR. at 37:5-10.
[81] Mitchell, TR. at 38:6-9.
[82] Mitchell, Exh. RJM-4X, PacifiCorp response to UTC Staff DR 39.
[83] Wilson, Exh. JDW-1CT at 51:9-10.
[84] Wilson, Exh. JDW-1CT at 51:11-13.

side of the system in 2022, the Commission should reduce the PCAM deferral amount by [redacted]. Finally, the Commission should order a third party audit of Hermiston and Chehalis, PacifiCorp's Washington-allocated gas plants to assess for uneconomic dispatch.

Respectfully submitted this 3rd day of July, 2024.

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