

**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-230482

INITIAL BRIEF OF PUBLIC COUNSEL

July 3, 2024

Shaded Information is Designated as Confidential per WAC 480-07-160

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I. INTRODUCTION

1. The Washington Utilities and Transportation Commission (Commission) should reject PacifiCorp’s (or the Company) request for its 2022 Power Cost Adjustment Mechanism (PCAM) adjustment for three reasons. First, the Commission should determine that PacifiCorp’s valuation of the Washington Inter-Jurisdictional Adjustment Mechanism (WIJAM) does not constitute “actual costs” recoverable in a power cost proceedings. Second, the Commission should determine that PacifiCorp’s choice to maintain Washington’s significant market exposure was imprudent.¹ Until PacifiCorp takes appropriate steps to reduce Washington’s market exposure, the Commission should disallow recovery of power costs caused by Washington’s “unique” vulnerability to the market. Third, PacifiCorp admitted during testimony that it imprudently failed to design its hedging policy to the reality of the WIJAM. If the Commission permits PacifiCorp’s market rate recovery, it should adopt Mr. Mullins’ hedging adjustment for gas costs and either Dr. Earle or Mr. Mullins’ hedging adjustment for electric power costs.

II. PACIFICORP BEARS THE BURDEN OF PROVING WASHINGTON RATEPAYERS ARE TREATED EQUITABLY IN POWER COSTS.

2. In March 2022, the Commission voiced concern that PacifiCorp “may not have prudently managed market risk for its Washington customers”² and gave specific direction to PacifiCorp for its 2022 PCAM proceeding:

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.³

¹ Direct Test. of Robert L. Earle, Exh. RLE-1T at 5:10–11.

² *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 6, ¶ 3 (Mar. 29, 2022).

³ *Id.* ¶ 154.

3. In considering these specific burdens, Commission precedent guides decision making. Generally, a utility's rates and practices must be equitable, fair, just, reasonable, and sufficient.⁴

This means that rates must be:

fair to customers and to the Company's owners; just in the sense of being based solely on the record developed following principles of due process of law; reasonable in light of the range of possible outcomes supported by the evidence and; sufficient to meet the needs of the Company to cover its expenses and attract necessary capital on reasonable terms.⁵

4. The Commission's proper concern in power cost adjustment is compensation for actual power costs. As the Commission explained, "the core idea" of a power cost adjustment proceeding is to allow PacifiCorp to true-up "estimated costs with actual costs that are the measured and documented costs that did occur in a given year."⁶ The Commission specifically rejected the use of what it called "pseudo-actual costs" that arose out of PacifiCorp's WCA allocation methodology.⁷ Ultimately, the Commission authorized a PCAM that "offered to report actual net power costs (NPC) per its books and records."⁸

5. In any proceeding that increases rates, PacifiCorp bears the burden of proof to show that such an increase is just and reasonable and prudent.⁹ The Commission has long held this requires a utility to make an affirmative showing of the reasonableness and prudence, even in the absence

⁴ RCW 80.28.010, RCW 80.28.425, *Wash Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-220066, UG-220067, UG-210198 (*consolidated*), Order 24, ¶¶ 53–57 (Dec. 22, 2022).

⁵ *Wash Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-072300 & UG-072301, Order 12, ¶ 66 (Oct. 8, 2008).

⁶ *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets UE-061546, UE-060817 (*consolidated*), Order 8, ¶ 76 (June 21, 2007).

⁷ *Id.* ¶ 77.

⁸ *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets UE-140762, UE-140617, UE-131384, & UE-140094 (*consolidated*), Order 9, ¶ 9 (May 26, 2015). This concern was explicitly about the WCA methodology and the "energy imbalance [that] exists after accounting for actual loads and resources." *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets UE-140762, UE-140617, UE-131384, & UE-140094 (*consolidated*), Order 8, ¶ 39 (Mar. 25, 2015).

⁹ RCW 80.04.130(4).

of challenge.¹⁰ Prudence is examined from the view of what company management would have decided given what they knew or reasonably should have known to be true at the time the decision is made.¹¹ This includes making cost effective decisions considering all options available.¹² And prudence does not end upon initial approval; decisions should be continually evaluated for prudence both from the perspective of need and impact on ratepayers.¹³ As the Commission acknowledged when it first approved PacifiCorp’s PCAM, “further refinement may be required as the PCAM is applied in actual practice.”¹⁴ And when the Commission approved the WIJAM in December 2020, it acknowledged that increased power costs would affect future analysis of WIJAM’s benefits.¹⁵ PacifiCorp’s duty to justify WIJAM is not static, but ongoing.

6. This requirement is not changed by PacifiCorp’s status as a multistate utility; as the Commission explained in the order approving PacifiCorp’s merger, the Commission’s proper focus is that “Washington ratepayers receive an equitable share of the benefits.”¹⁶ Whether a particular policy may result in optimal results across PacifiCorp’s entire system is irrelevant if Washington ratepayers do not receive an equitable share of benefits from that policy. Thus, as here, where PacifiCorp’s application of WIJAM resulted in Washington ratepayers assuming 17 percent of the increased total-system costs from short term purchases when Washington

¹⁰ *Wash. Utils. & Transp. Comm’n v. Puget Sound Power and Light Co.*, Dockets UE-920499, UE-921262 Eleventh Supplemental Order, at 19 (Sept. 21, 1993).

¹¹ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-090704, UG-090705 (*consolidated*), Order 11, ¶ 319 (Apr. 2, 2010).

¹² *Id.* ¶ 320.

¹³ *Wash. Utils. & Transp. Comm’n v. Wash. Water Power Co.*, Docket U-83-26, Fifth Suppl. Order at 13 (Jan. 19, 1984).

¹⁴ *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-140762, UE-140617, UE-131384, & UE-140094 (*consolidated*), Order 08, ¶ 54 (Mar. 25, 2015).

¹⁵ *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets. UE-191024, UE-190750, UE-190929, UE-190981, & UE-180778 (*consolidated*), Order 09/07/12, at 39, fn.112 (Dec. 14, 2020).

¹⁶ *In re PacifiCorp Maine*, Docket U-87-1338-AT, Second Suppl. Order (July 15, 1988).

would have been allocated eight percent without WIJAM¹⁷, the Commission should closely examine the record to determine if there are corresponding and quantifiable benefits that compensate Washington’s additional power cost burden.

7. The WIJAM itself references the appropriate analysis, defining the standard as whether WIJAM provides “quantifiable direct or indirect benefits to Washington customers, and that these benefits are commensurate with their costs.”¹⁸ By way of example, WIJAM refers to a relevant 2005 order that explained such benefits could be demonstrated “through historical system operations or modeling of the system showing that Eastside plant costs added to Washington rates would be offset by reductions to other cost categories (e.g. power costs), such that overall costs to Washington would be no more than without the Eastside resources.”¹⁹ Applied here, in 2024, the question is whether this filing has demonstrated that the increased power costs through WIJAM have been actually offset by other benefits. As the analysis below demonstrates, PacifiCorp has not met that burden.

III. PACIFICORP HAS FAILED TO MEET ITS BURDEN TO SHOW THIS PCAM ADJUSTMENT IS PRUDENT

8. Applying Commission precedent, the Commission should find that PacifiCorp’s PCAM use of pseudo-market rates to value the WIJAM’s balancing adjustment is both improper and imprudent. These market rates do not represent actual costs, and are, in current market conditions, imprudent. The Commission should disallow \$83.5 million from the balancing adjustment. The Commission should also conclude that PacifiCorp’s reliance on market

¹⁷ Direct Test. of Bradley G. Mullins, Exh. BGM-1CT at 9:8–10:4.

¹⁸ Michael G. Wilding, Exh MGW-2, *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light*, Docket UE-191024 (filed on Dec. 13, 2019) (Washington Inter-Jurisdictional Allocation Methodology).

¹⁹ *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-050684 & UE-050412, Order 4, ¶ 69 (Apr. 17, 2006).

purchases in favor of allocating or building new resources is imprudent. Until PacifiCorp demonstrates it has actively pursued reducing Washington's market reliance, the Commission should disallow power costs caused by Washington's WIJAM-created market exposure. Separately, and independently, the Commission should also find that PacifiCorp's hedging policy was imprudent because it did not shape itself to the WIJAM allocation. Alternatively, the Commission should adopt either Mr. Mullins' gas hedging adjustment or Dr. Earle or Mr. Mullins' electric hedging adjustment.

A. PacifiCorp's PCAM Improperly and Imprudently Uses Market Prices as Part of Its Balancing Adjustment for WIJAM.

9. At its core, WIJAM is a fiction in which PacifiCorp pretends not to use coal and gas power in Washington and instead to "sell" Washington consumers that same power at post-hoc calculated market prices rather than at the cost of generation. As a matter of precedent, this kind of pseudo-actual cost is not recoverable. As a matter of prudence, PacifiCorp has utterly failed to demonstrate that Washington receives a quantifiable benefit from allowing PacifiCorp's fiction to dictate power costs. The Commission should disallow the \$83.5 million dollar balancing adjustment based on pseudo-market prices.

1. The Record Demonstrates WIJAM Is An Accounting Exercise With Real Impact on Washington Consumers Without A Corresponding Benefit.

10. Through WIJAM, PacifiCorp allocates system resources in a way that makes it appear Washington must purchase power. Conceived, in part, to help PacifiCorp meet its Clean Energy

Transformation Act (CETA) obligations²⁰, WIJAM is “purely an accounting exercise”²¹ in which, among other things, certain coal and gas power plants located in PacifiCorp’s East Balancing Authority (PACE) are removed from Washington’s rates.²² The WIJAM allocation does permit Washington to be allocated non-emitting resources such as wind and power also located in PACE.²³ Washington is, however, only allocated eight percent of these plants’ generation.²⁴ Even with access to renewable energy sources, Washington is “short,” meaning Washington’s load exceeds its generation capacity. In 2022, through the WIJAM allocation, Washington was 948,614 MWh short.²⁵

11. Despite being short in an accounting sense, “PacifiCorp is not making more market purchases because of Washington’s cost allocation.”²⁶ In the “real world”, PacifiCorp meets Washington’s power needs with its system generation.²⁷ In fact, PacifiCorp continues to meet Washington’s load with coal and gas resources that are not allocated to Washington through WIJAM.²⁸ Functionally, this means that Washington consumers receive the same power as they did before PacifiCorp implemented the WIJAM. The price PacifiCorp charges for that power is the WIJAM balancing adjustment.

²⁰ Wilding, *supra*, Exh. MGW-2 (“PacifiCorp’s proposed modification to the WCA will facilitate a reasonable path towards PacifiCorp’s compliance with CETA”). *See also*, *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets. UE-191024, UE-190750, UE-190929, UE-190981, & UE-180778 (*consolidated*), Order 09/07/12, ¶ 99 (Dec. 14, 2020).

²¹ Ramon Mitchell, TR. 25:12–14.

²² Direct Test. of Ramon J. Mitchell, Exh. RJM-1T at 10:3–7.

²³ *Id.* at 14:12–17.

²⁴ Direct Test. of Michael G. Wilding, Exh. MGW-1Tr at 11 (See the 2022 Actual Wind Generation table showing a “WA Allocation Factor” of 7.97%).

²⁵ PacifiCorp, *PAC-PCAM-WP3-6-15-23*, at tab “Net Position Balancing”, cell D-16, “Net Position – Long (Short)”, and cell D-23 and D-27 (filed June, 15, 2023).

²⁶ Wilding, Exh. MGW-1Tr at 16:10–13.

²⁷ Mitchell, Exh. RJM-1T at 13:14–18. Mitchell, TR. 23:12–15 (Conceding that at no point did PacifiCorp not meet Washington’s load).

²⁸ Mitchell, Exh. RJM-3CT at 10:14–19.

12. In a telling omission, PacifiCorp chose not provide the Commission with the data necessary to calculate its actual costs incurred in providing Washington with this power. PacifiCorp could have calculated the cost of generation and transmission; the data is “factual and tracked.”²⁹ Nonetheless PacifiCorp provided no calculation of the difference between its actual generation costs and market prices.³⁰ PacifiCorp admits, however, that the cost to generate power is normally lower than the market price.³¹ This was particularly true in 2022, “which had extremely high market prices.”³² A reasonable inference from PacifiCorp’s strategic omission is that WIJAM resulted in a significant windfall for PacifiCorp, which re-priced coal and gas-generated power from the cost of generation to market price.
13. In this PCAM proceeding, instead of actual costs, PacifiCorp proposes Washington consumers pay pseudo-market prices to close the WIJAM short position.³³ Because PacifiCorp did not actually buy the power, it cannot use actual market prices; it must estimate them. As Mr. Mitchell conceded, PacifiCorp used ‘prices that were functionally similar’ to market prices but ultimately it used “effectively a forecast” to close the “accounting supply/demand deficit.”³⁴ PacifiCorp’s post-hoc valuation for the accounting short created by WIJAM was \$83,490,680.³⁵
14. The basic inequity of using market prices to value WIJAM’s balancing adjustment is illustrated by considering how it frustrates what PacifiCorp describes as the main benefit of its integrated system: geographic diversity. Mr. Mitchell explained that PacifiCorp’s geographical diversity permits power to transfer from east to west to prevent unnecessary, and expensive,

²⁹ Mitchell, TR. 53:19–54:1.

³⁰ Mitchell, TR. 54:12–55:12. Mitchell, TR. 57:11–13.

³¹ Mitchell, TR. 56:8–15.

³² *Id.* at 56:18–22.

³³ Mitchell, TR. 34:15–20; Direct Test. of John Wilson, Exh. JDW-1CT at 39:6-11.

³⁴ Mitchell, TR. 30:9–25.

³⁵ PacifiCorp, *PAC-PCAM-WP3-6-15-23*, at tab “Net Position Balancing”, cells D-23 and D-27 (filed June 15, 2023).

market purchases.³⁶ In theory, the load conditions between east and west “would average out and diminish reliance on market purchases during stressed peak load conditions.”³⁷ But valuing the WIJAM balancing adjustment at market prices means that Washington consumers pay market prices even when taking advantage of power elsewhere on PacifiCorp’s system. Forcing market prices on Washington consumers effectively deprives Washington of the advantage of cheaper system power.

15. Because PacifiCorp is using an accounting model to assign value to the WIJAM balancing adjustment, its valuation can be changed without affecting PacifiCorp’s operation.³⁸ PacifiCorp witness Mr. Staples conceded as much, by proposing a cost allocation alteration [REDACTED] [REDACTED] in order to allow Washington to more fully benefit from hedging.³⁹ By proposing a retroactive modification, PacifiCorp admits that the balancing adjustment valuation is properly the subject of retroactive review and equitable adjustment.

16. In this filing, the use of market prices has a significant unfair and detrimental impact on Washington consumers. As PacifiCorp’s manager of Net Power Costs, Ramon Mitchell, testified, this “ratemaking exposure has real net power cost implications for Washington consumers,”⁴⁰ conceding WIJAM leads to a greater percentage increase in Washington power costs than the percentage increase of total power costs throughout the system.⁴¹ Both Public Counsel and the Alliance of Western Energy Consumers (AWEC) testified the “real net power

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³⁶ Mitchell, Exh. RJM-1T at 5:20–6:11.

³⁷ *Id.* at 7:2–4.

³⁸ *Id.* at 52:23–56:3.

³⁹ Rebuttal Test. of Douglas R. Staples, Exh. DRS-1CT at 16:16–17:1 & 37:22–38:11.

⁴⁰ Mitchell, Exh. RJM-1T at 13:22–23.

⁴¹ *Id.* at 14:15–18.

consequences” are significant. AWEC notes Washington, which is allocated eight percent of system costs, absorbed 17 percent of the increased total-system power costs, confirming that WIJAM’s valuation of power is inequitable for Washington consumers, who pay a much higher price for their power.⁴² In 2022, Washington consumers paid 44 percent more per MWh than PacifiCorp’s other jurisdictions.⁴³ Thus, Washington consumers paid \$67 million more for power than they would have paid at the costs charged to the rest of PacifiCorp’s system.⁴⁴ Additionally, as discussed further below, the WIJAM accounting valuation prices do not include sufficient hedging assumptions.

17. PacifiCorp attempts to deflect criticism by claiming to give Washington consumers a price break. It values a portion of this accounting short position at average short term firm sales prices (the price at which PacifiCorp sold power to third parties) with the majority valued at the average price, both hedged and spot, at which PacifiCorp actually purchased power across its system.⁴⁵ If PacifiCorp had valued all of the accounting short at the average market purchase price, Washington consumers would have paid an additional \$7,175,974.⁴⁶ Even with the discount, however, WIJAM’s balancing adjustment means that Washington consumers are “uniquely vulnerable to market purchase”⁴⁷ and Washington consumers see higher power costs than the rest of PacifiCorp’s system.⁴⁸ Moreover, PacifiCorp’s beneficence is possible only because PacifiCorp is still receiving a mark-up above the actual cost.

⁴² Mullins, Exh. BGM-1CT at 9:9–10:4.

⁴³ Earle, Exh. RLE-1T at 10–11.

⁴⁴ Public Counsel, *RLE-WPI_3-28-2024*, at cell L6 (filed Mar. 28, 2024). The issue began in 2021; when 2021 and 2022 are considered together, Washington paid \$110 Million more than it would have at PacifiCorp’s system rates. Earle, Exh. RLE-1T at 5:11–14.

⁴⁵ Mitchell, Exh. RJM-3CT at 2:14–20.

⁴⁶ Mitchell, Exh. RJM-2.

⁴⁷ Mitchell, Exh. RJM-3CT, at 13:18–14:1 (“This is true”).

⁴⁸ Mitchell, Exh. RJM-1T at 14:2–4.

18. Staff agrees that PacifiCorp’s balancing adjustment is untethered from actual costs.⁴⁹ Staff reasons that “while PacifiCorp’s system power transactions may be reasonable from a system perspective, it is not reasonable to create valuation prices for that balancing adjustment that are, evidently, inflated by the cost of market transactions that occur far away from Mid-C.”⁵⁰ Where Staff’s analysis goes awry is in proposing an alternative market price benchmark.⁵¹ Staff fails to recognize that by valuing the WIJAM balancing adjustment at market prices, PacifiCorp denies Washington ability to “economically optimize” by shifting power at the cheaper cost of generation from PACE to Washington.⁵² As a result, Staff’s adjustment, like any attempt to find a “benchmark” for fictional power transactions moves “farther and farther than actual costs.”⁵³ Market pricing of the balancing adjustment is fundamentally inequitable to Washington and cannot be fixed by “monkeying” with a market price.⁵⁴

19. Neither the Commission nor the parties agreed to market pricing through WIJAM. The WIJAM provides that “actual NPC for ratemaking purposes will include only generation resources included in Washington rates and will be calculated using a spreadsheet.”⁵⁵ The balancing adjustment is not mentioned in the agreement, and does not represent “generation resources included in Washington rates.” By plain language, the balancing adjustment should not be included in power costs as it is not a generation resource. Other provisions make it clear that the price at which the balancing adjustment should be valued is an open question. The agreement specifically permits “any party” to dispute the prudence of particular costs and makes it clear that

⁴⁹ Wilson, Exh. JDW-1CT at 39:10-11.

⁵⁰ Wilson, Exh. JDW-1CT at 38:11-14.

⁵¹ Wilson, Exh. JDW-15CT at 10:15-18.

⁵² Wilson, Exh. JDW-15CT at 9:12-25 (accepting PacifiCorp’s representation about geographic benefit).

⁵³ *Id.* ¶ 77.

⁵⁴ Mitchell, TR. 52:11-22.

⁵⁵ Wilding, *supra*, Exh. MGW-2.

the agreement does not abrogate the Commission’s obligation to base rates on the record in a rate proceeding.⁵⁶ WIJAM was an agreement on allocation percentage, not an agreement to specific pricing or imprudent costs.

20. Nor can PacifiCorp justify its market valuation by arguing its net power cost projections included market valuation.⁵⁷ Initially, PacifiCorp admits that those projections were inaccurate by \$71.5 million. The Commission does not conduct prudence review before the costs are actually incurred and specifically observed that it remained to be seen whether WIJAM was prudent.⁵⁸ Moreover, even if the use of market prices to value the accounting short created by WIJAM’s allocation might have been defensible in 2020 when WIJAM was negotiated, PacifiCorp knew by April 2021 that reliance on market prices [REDACTED]

[REDACTED].⁵⁹ Further, PacifiCorp [REDACTED]

[REDACTED].⁶⁰ In fact, PacifiCorp describes its “essential objective” as being less short.⁶¹ Thus, by April 2021, Pacific knew that its market price methodology was directly contrary to its system goals and was inequitable to Washington consumers. As discussed below, PacifiCorp market price valuation fails prudence review.

2. The Commission Should Find Valuing the WIJAM Balancing Adjustment at Market Prices is Improper.

21. Under Commission precedent, the Commission should reject PacifiCorp’s \$83.5 million balancing adjustment because it does not represent an actual cost; it is a pseudo-actual cost of the

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⁵⁶ *Id.*

⁵⁷ Mitchell, TR. 26:19–23.

⁵⁸ *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets. UE-191024, UE-190750, UE-190929, UE-190981, & UE-180778 (*consolidated*), Order 09/07/12, at 39 fn.112 (Dec. 14, 2020).

⁵⁹ John Fritz, TR. 138:10–23 (confidential).

⁶⁰ *Id.* at 139:19–140:11.

⁶¹ Staples, Exh. DRS-1CT at 7:2–10.

kind previously rejected by the Commission.⁶² PacifiCorp’s admission that it was conducting “effectively a forecast” of valuation is fatal to PacifiCorp’s filing, as it conclusively confirms that the balancing adjustment is a pseudo-actual cost. All of the parties debate whether different hedging assumptions can make the market valuation more equitable, but this is precisely the dilemma that the Commission foresaw when it rejected PacifiCorp’s first proposed PCAM; “truing-up one estimate with another more precise estimate” will lead the Commission “farther and farther from actual costs.”⁶³ The Commission should reject the post-hoc valuation of power costs at market rates and require presentation of actual costs in these proceedings.

22. From a prudence perspective, PacifiCorp’s market valuation of the balancing adjustment offers no tangible or quantifiable benefits to justify higher prices; to the contrary, it deprives Washington the supposed geographic benefits of PacifiCorp’s system. Because the cost of generation is lower than market price, Washington pays more money for the same power.⁶⁴ This runs directly contrary to the Commission requirement that Washington consumers must receive an equitable share of the benefits and dictates the Commission should find this valuation imprudent.⁶⁵

23. WIJAM’s supposed benefits for CETA compliance is no justification for higher prices; CETA compliance is a benefit that inures only to PacifiCorp.⁶⁶ PacifiCorp, not ratepayers, has the legal obligation to eliminate coal-fired resources from rates.⁶⁷ PacifiCorp, not ratepayers, faces fines for failure to comply with renewable targets.⁶⁸ Whatever benefit ratepayers derive

⁶² *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets UE-061546 & UE-060817 (*consolidated*), Order 8, ¶ 76 (June 21, 2007).

⁶³ *Id.* ¶ 77.

⁶⁴ Mitchell, TR. 56:13–22.

⁶⁵ *In re PacifiCorp Maine*, Docket U-87-1338-AT, Second Suppl. Order (July 15, 1988).

⁶⁶ Wilding, *supra*, Exh. MGW-2.

⁶⁷ RCW 19.405.030.

⁶⁸ RCW 19.405.090.

from clean energy legislative policy, it is not realized when Washington money goes to a company providing coal and gas power at marked-up prices. Even though the Commission may permit PacifiCorp to reach CETA compliance, in part, through WIJAM's paper allocation, it does not follow that Washington consumers should pay a market premium for coal and gas power. Nor does expanded access to renewable resources under WIJAM justify paying market prices for the balancing adjustment. Washington consumers already pay for those resources in rates. It is entirely consistent with WIJAM to remove coal and gas generated power from rates and still value the energy actually consumed by Washington at PacifiCorp's cost of generation. As Mr. Mitchell and Mr. Staples concede, WIJAM's balancing adjustment is an accounting issue, and "money is fungible."⁶⁹

24. Because it is PacifiCorp's burden of proof to justify an increase, the Commission should disallow the full \$83.5 million requested in the balancing adjustment here. In the alternative, the Commission could direct PacifiCorp to refile a petition using actual costs. There are several possibilities. The Company conceded that it tracks the power actually transferred to Washington; it could calculate the cost at which that power was generated and transmitted.⁷⁰ PacifiCorp could use the cost of power that other jurisdictions pay per MWh, the "system cost" as Dr. Earle calculated.⁷¹ Or, in the alternative, PacifiCorp can value the additional power at a price equivalent to what Washington would be paying if gas generation remained in rates. It is PacifiCorp's burden to select and defend an appropriate methodology. What is not justified in this filing is using market rates in lieu of actual costs.

⁶⁹ Mitchell, TR. 52:11–22.

⁷⁰ Mitchell, TR. 53:19–54:1.

⁷¹ Public Counsel, *RLE-WPI_3-28-2024*, at cell L6 (filed Mar. 28, 2024).

B. The Commission Should Find That PacifiCorp’s Management of Washington’s Market Exposure is Imprudent.

25. Whatever the Commission decides regarding actual costs, the Commission should also find that PacifiCorp’s long-term resource planning has been imprudent for creating, maintaining, and expanding Washington’s market exposure when economic conditions indicated market exposure was increasingly risky. Under Commission precedent, PacifiCorp had an obligation to re-evaluate Washington’s market exposure both before and after WIJAM as market conditions changed.⁷² Even if PacifiCorp initially believed that the WIJAM’s balancing would provide a benefit in power costs, prudence is an ongoing obligation requiring PacifiCorp consider whether WIJAM was still cost effective as market conditions changed.⁷³ The remedy for this imprudence is disallowance of the balancing adjustment.

26. Washington’s market exposure is a long-standing concern, the culmination of over a decade of planning decisions. In 2022, the Commission recounted that PacifiCorp identified a need for capacity and energy in 2011, 2013, 2015, and 2017, and requested a waiver from the rule requiring it to issue requests for proposal to acquire new resources.⁷⁴ In each instance, the Commission identified the risk of market reliance, specifically warning PacifiCorp that “recovery for power costs includes determining whether decisions to accept risk—such as relying on the market—were *prudently made*.”⁷⁵ In this proceeding, the Commission directed the

⁷² Wash. Utils. & Transp. Comm’n v. *Wash. Water Power Co.*, Docket U-83-26, Fifth Suppl. Order at 13 (Jan. 19, 1984).

⁷³ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-090704, UG-090705 (*consolidated*), Order 11, ¶ 320 (Apr. 2, 2010).

⁷⁴ *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 06, ¶141 (June 21, 2007).

⁷⁵ *Id.* ¶ 145 (emphasis in the original).

Company to create a record to consider whether the power cost increases were the result of “extreme, short-term imbalances” that were beyond the Company’s control.⁷⁶

27. WIJAM did not significantly address Washington’s market exposure. All of the witnesses agree that under WIJAM, Washington is allocated short, although PacifiCorp is generally long on a system basis because of generation in its east control area, PACE.⁷⁷ When the Commission approved WIJAM in December 2020, PacifiCorp claimed that its adoption would save net power costs.⁷⁸ Even then, the Commission was already dubious of that claim, noting that rising power costs may well change the analysis.⁷⁹

28. The record here demonstrates that continued reliance on the market was, and is, imprudent. Recent power increases are not short-term imbalances but an ongoing problem. PacifiCorp describes these increases as part of a “sustained upward trend.”⁸⁰ Indeed, the Commission should take note of PacifiCorp’s recent PCAM update filing, which shows a \$33,996,043 differential between projected and actual expenses for January 2024 alone.⁸¹ Nor are these power costs increases beyond PacifiCorp’s control; they are a direct result of a decade of a market reliance strategy.

29. By April 2021, the failure to address market exposure tipped from a concern to imprudence. In a presentation justifying an increase in hedging, PacifiCorp specifically notified

⁷⁶ *Id.* ¶ 153.

⁷⁷ Earle, Exh. RLE-1T at 12:13–18; Mullins, Exh. BGM-1CT 4:3–16; Wilding, Exh. MGW-1Tr at 15:1–2; Mitchell, Exh. RJM-1T at 10:3–7; Staples, Exh. DRS-1CT at 22:23–23:3; Fritz, TR. 142:3–5.

⁷⁸ *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets UE-191024, UE-190750, UE-190929, UE-190981, UE-180778 (*consolidated*), Order 09/07/12, ¶ 98 (Dec. 14, 2020).

⁷⁹ *Id.* at 39 fn.112.

⁸⁰ *Wash Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-231072, UE-210852 (*consolidated*), Order 08, ¶ 249 (Mar. 19, 2024).

⁸¹ PacifiCorp, PAC-PCAM-Q1-Attachment 1, *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210447 (filed June 14, 2024).

the Commission and its staff that it was essential that [REDACTED]

[REDACTED]”⁸² In the context of the actually observed economic conditions, expecting Washington to “purchase” [REDACTED] of its power at market prices⁸³ was not prudent. Despite knowing that market prices were likely to spike, PacifiCorp made no effort to revisit the significant accounting shortage that WIJAM created because it was “unnecessary.”⁸⁴ PacifiCorp’s failure to re-evaluate Washington’s market exposure was imprudent and independently justifies rejecting this PCAM filing.

30. Moreover, PacifiCorp has no current plan to address or ameliorate Washington’s WIJAM market exposure. Despite the increasing market risk, PacifiCorp cancelled its more recent request for proposal for new power resources and offers no plans for how to acquire sufficient additional power resources to address Washington’s short position.⁸⁵ PacifiCorp claims that it concluded in its 2023 Integrated Resource Plan (IRP) that market reliance was reasonable.⁸⁶ Initially, PacifiCorp’s reliance on its 2023 IRP is not well-taken. The specific section PacifiCorp cites was an evaluation of whether there would be power available on the market, and did not defend the cost-effectiveness of market reliance.⁸⁷ And PacifiCorp actually concluded that “planning to rely exclusively on markets and imports at the same levels is becoming riskier.”⁸⁸ PacifiCorp, which

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⁸² Staples, Exh. DRS-1CT at 7:2–10.

⁸³ Mullins, Exh. BGM-1CT at 50:7–12.

⁸⁴ Staples, Exh. DRS-1CT at 7:2–10; Wilding, TR. 196:10–14.

⁸⁵ Mullins, Exh. BGM-1CT at 4:19–5:9; Wilding, Exh. MGW-2X at 95:1–6 (“Yeah, I mean—you know I have to be fairly transparent. I mean we don’t have a smooth path.”).

⁸⁶ Mitchell, Exh. RJM-1T at 13:3–10.

⁸⁷ PacifiCorp, *Integrated Resource Plan 2023 Vol. I Final* at 125–26 (2023).

https://www.pacificorp.com/content/dam/pcorp/documents/en/pacificorp/energy/integrated-resource-plan/2023-irp/2023_IRP_Volume_I_Final_WA_5-31-23.pdf.

⁸⁸ *Id.* at 126, ¶ 1.

carries the burden of proving that its market exposure strategy is reasonable, presents no means to escape market volatility. Washington consumers are, apparently, supposed to continue shouldering all of the market risk.

31. What makes this intolerable is that PacifiCorp’s system already has enough power to meet Washington’s needs.⁸⁹ PacifiCorp’s real issue is an allocation problem. Even accounting for Washington’s statutory mandate for clean energy, there is sufficient energy to allocate to Washington; PacifiCorp added 7.2 million MWh in renewable energy to its total system since 2020.⁹⁰ The fact that PacifiCorp only allocated 7.9 percent of that new power to Washington under WIJAM is what makes adding power resources too expensive; the system takes 92 percent of any new resources. PacifiCorp’s system-first approach blocks Washington from closing its short position rationally with Washington situs generation projects.

32. That system-first approach is, however, within PacifiCorp’s control. PacifiCorp acknowledged that it is possible to reallocate power to Washington. In an open public meeting in March 2024, PacifiCorp explained it was “getting to the point where....situs...that developing new resources just for particular states is probably where we have to go...[I]nstead of Washington taking 8 percent of a resource, a solar resource, say a 200 megawatt solar resource, it might take 100 percent or split it with Oregon...”⁹¹ PacifiCorp acknowledged that it has been engaged in a multi-state negotiation process since 2020 to create an fair allocation methodology with other states.⁹² Those negotiations are “complicated” and “difficult.”⁹³ Whether complicated or difficult, a change in allocation would be effective at ameliorating WIJAM market exposure.

⁸⁹ Mitchell, Exh. RJM-1T at 13:14–18.

⁹⁰ Wilding, Exh. MGW-1Tr at 11 (see the table).

⁹¹ Wilding, Exh. MGW-2X, at 90:20–91:3.

⁹² Wilding, TR. 215:5–216:7.

⁹³ Wilding, Exh. MGW-2X, at 95:4–13.

33. PacifiCorp would have the Commission believe that this is a Gordian knot; Washington is locked into an untenable market exposure through the WIJAM allocation agreement but acquiring new resources while WIJAM is in place is prohibitively expensive. WIJAM, however, provides the Commission with the sword of prudence to cut through PacifiCorp's intransigence at proposing a solution. WIJAM specifically reserves the right of any party to challenge the prudence of these costs.⁹⁴ And the Commission does not need to negotiate with other states to set fair, just, and reasonable rates for power costs; the Commission has the statutory power to determine that the increased power costs are not prudent and to disallow power costs caused by Washington's market exposure (here, the \$83.4 million dollar balancing adjustment).⁹⁵ The Commission can, and should, disallow the entire amount.

This determination is not unfair to PacifiCorp, which has not been a passive bystander in creating Washington's market exposure. The fact that it is now difficult to reverse a decade of market reliance is attributable solely to PacifiCorp management decisions. While Washington waits for PacifiCorp to acquire additional Washington generation or to successfully conclude multistate allocation negotiations to meet Washington's power and clean energy statutory requirements, Washington consumers should not continue to bear the consequences of excessive market exposure. Until the Commission carries through on its threat to disallow imprudent power costs after a decade of warnings, PacifiCorp has demonstrated it will not change its behavior.

C. PacifiCorp Has Failed to Demonstrate Its Hedging Policy Was Prudent.

34. Independently, if the Commission approves market pricing, the Commission should order adjustments to the allowed amount to account for PacifiCorp's imprudent hedging policy. To use

⁹⁴ Wilding, *supra* Exh. MGW-2.

⁹⁵ RCW 80.28.020.

PacifiCorp’s own words, PacifiCorp’s hedging policy “undoubtedly creates challenges for Washington customers because of the fact that they are only partial participants in the system.”⁹⁶ Despite knowing that, PacifiCorp made no effort to alter its hedging policy or to adjust allocations to account for WIJAM. As a result, PacifiCorp hedged the west-side gas system too little and too late to protect Washington and failed to allocate sufficient electric hedges to Washington with a direct and significant detrimental impact. These actions are, from the perspective of Washington, imprudent. The Commission should accept the gas hedging adjustment proposed by AWEC’s expert, Mr. Mullins. The Commission should accept either Mr. Mullins or Dr. Earle’s adjustment for electric hedging.

1. PacifiCorp System-Wide Hedging Resulted in Washington Being Under-Hedged And Failed to Adequately Protect Washington Consumers.

35. The facts regarding PacifiCorp’s hedging program are not in dispute; PacifiCorp’s hedging was insufficient to manage market volatility in 2022. PacifiCorp hedges to manage market volatility.⁹⁷ In the summer, multiple heat waves caused market price spikes that exceeded projections by \$16.4 million for Washington.⁹⁸ In December, a winter cyclone event caused price spikes exceeding projections by \$38.6 million for Washington.⁹⁹ These were both “scarcity events” that hedging programs are designed to mitigate.¹⁰⁰ PacifiCorp defends its failure by arguing that it is not possible to perfectly hedge because it lacked perfect information.¹⁰¹

⁹⁶ Staples, Exh. DRS-1CT at 35:22–36:1.

⁹⁷ *Id.* at 2:19–23

⁹⁸ Direct test. of Jack Painter, Exh. JP-1T at 12:5–11.

⁹⁹ *Id.* at 12:20–13:4.

¹⁰⁰ Staples, Exh. DRS-1CT at 118:6–119:13.

¹⁰¹ Mitchell, Exh. RJM-1T at 74:1–5.

36. This was, however, not a failing due to imperfect information, but one of basic design. PacifiCorp designed its hedging program on a system-wide basis, and does not maintain a separate hedge book for Washington.¹⁰² In April 2021, PacifiCorp recognized it needed to alter its hedging policy to account for “increasing instances of scarcity pricing,” describing its

[REDACTED]

[REDACTED]¹⁰³

Accordingly, PacifiCorp [REDACTED] on a system basis.¹⁰⁴ [REDACTED]

[REDACTED]

[REDACTED]¹⁰⁵ [REDACTED]

[REDACTED]¹⁰⁶

37. PacifiCorp, however, failed to assess whether, it needed to protect Washington because of the WIJAM accounting position discussed above.¹⁰⁷ PacifiCorp’s Director of Risk Management explained his department [REDACTED] [REDACTED] and he took no steps to consider WIJAM.¹⁰⁸ He deferred PacifiCorp’s Vice President, Energy Supply Management, who testified that although he knew Washington was going to be allocated short, he did not consider how to adjust PacifiCorp’s hedging, “because it was unnecessary.”¹⁰⁹ As AWEC’s expert, Mr. Mullins, explained, “[REDACTED]

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¹⁰² *Id.* at 5:10–13.

¹⁰³ Staples, Exh. DRS-1CT at 7:2–10.

¹⁰⁴ Fritz, TR. 140:25–142:12 (acknowledging that [REDACTED]).

¹⁰⁵ Staples, Exh. DRS-1CT at 14:1–8, Table 1.

¹⁰⁶ *Id.* at 15:11–15, Table 2.

¹⁰⁷ Fritz, TR. 143:13–17.

¹⁰⁸ *Id.* at 143:6–12

¹⁰⁹ Wilding, TR. 196:10–14.

[REDACTED]¹¹⁰ As a result, PacifiCorp was [REDACTED]

[REDACTED]¹¹¹

38. Because PacifiCorp was not tracking how WIJAM needed to be considered in hedging,

[REDACTED]

[REDACTED]¹¹² For natural gas purchases, PacifiCorp’s hedging [REDACTED]

[REDACTED], [REDACTED]¹¹³ As a direct result,

PacifiCorp effectively ignored natural gas plants located on the west side of the system, and

PacifiCorp [REDACTED]¹¹⁴ In its cross-answering

testimony, Staff concurred, explaining that under PacifiCorp’s allocation, fuel costs in

Washington [REDACTED] while the rest of PacifiCorp’s system

was [REDACTED]¹¹⁵ Because

PacifiCorp [REDACTED], PacifiCorp [REDACTED]

[REDACTED]¹¹⁶ As a result, when hedges

were allocated to Washington, they were both too expensive and too few in number.

39. For electric hedging, PacifiCorp also [REDACTED]

[REDACTED]¹¹⁷ Under WIJAM, however, [REDACTED]

[REDACTED]¹¹⁸ But as a system, PacifiCorp is

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¹¹⁰ Mullins, TR. at 167:8–10. Staff’s hedging expert concedes that he did not evaluate whether PacifiCorp’s hedging policy was reasonable when WIJAM was taken into account. *See*, Staff-Stipulation (filed June 3, 2024). Accordingly, Staff’s testimony regarding whether PacifiCorp’s hedging policy was appropriate on a system basis largely misses the point.

¹¹¹ Mullins, TR. at 167:16–20.

¹¹² *Id.* at 168:25–169:2.

¹¹³ Mullins, Exh. BGM-1CT at 21:12–16.

¹¹⁴ *Id.* at 30:7–10.

¹¹⁵ John Wilson, Exh. JDW-15CT at 4:16–5:4. Staff observed that this was a “strong inconsistency.” *Id.* at 5:2.

¹¹⁶ Mullins, Exh. BGM-1CT at 31:19–20.

¹¹⁷ *Id.* at 41:10–18.

¹¹⁸ *Id.* at 50:7–12.

predominantly long.¹¹⁹ Accordingly, the system was not purchasing hedges commensurate with a jurisdiction so exposed to the market. As a result, when hedges were allocated to Washington through WIJAM, they were “inadequate relevant to its short position.”¹²⁰ The fact that PacifiCorp valued the balancing adjustment using actual hedge prices misses the point. WIJAM’s balancing adjustment is calculated after hedges, which are power purchases, are assigned to Washington. Taking Mr. Mitchell’s January 2022 example¹²¹, the WIJAM accounting deficit is created calculating Washington’s total requirement (515,465 MWh) and the resources assigned to Washington (329,086 MWh), leaving an accounting deficit of 186,379 MWh.¹²² But the “assigned resources” includes purchased power at 7.966 percent of the total purchased; these are the “hedges” and spot purchases that PacifiCorp assigned to Washington.¹²³ This is where PacifiCorp’s allocation of hedges is short, not in the prices assigned to the balancing adjustment. Knowing that Washington was going to be short, PacifiCorp needed to assign more hedges to Washington to protect it from market volatility.

40. The wisdom of a reallocation of hedges is not disputed. As both Mr. Mullins and Staff observed, a reallocation of hedges is consistent with WIJAM, which does not discuss allocation of hedges.¹²⁴ PacifiCorp admits hedges should be assigned based on the specific market risks being mitigated.¹²⁵ Here, PacifiCorp admits WIJAM “leaves Washington customers more vulnerable to market prices with all the risks that attend a short position generally.”¹²⁶ In fact,

¹¹⁹ *Id.* at 51:2–5.

¹²⁰ *Id.* at 55:3–9.

¹²¹ Mitchell, Exh. JRM-3CT at 3:2–21.

¹²² PacifiCorp, *PAC-PCAM-WP3-6-15-23*, at tab “WIJAM NPC Before Balancing”, column G, cells G-194, G-356, G-358 (filed June 15, 2023).

¹²³ *Id.* at tab “WIJAM NPC”, column G, cell G-300.

¹²⁴ Mullins, Exh. BGM-1CT at 42:19–43:5. *See also*, Wilson, Exh. JDW-1T at 3:3–5.

¹²⁵ Staples, Exh. DRS-1CT at 2:19–23.

¹²⁶ *Id.* at 23:1–3.

PacifiCorp concedes that reassigning more hedges to Washington is a “reasonable approach given that Washington does not subscribe to the total-Company system.”¹²⁷ PacifiCorp proposes its own reallocation because “the way the WIJAM is structured prevents benefits of the Company’s gas hedging program from fully adhering to Washington customers, and that is an issue worth solving.”¹²⁸

41. PacifiCorp’s proposed solution, [REDACTED],¹²⁹ does not go nearly far enough. The economic conditions in 2022 required aggressive hedging. In fact, in actual practice, PacifiCorp hedged [REDACTED] in some months.¹³⁰ If it was prudent in 2022 to hedge [REDACTED], it is hardly a defensible solution for 2022 to offer an adjustment up the minimum hedge position of [REDACTED]. Mr. Staples suggests that PacifiCorp’s managers normally stop at the minimum hedge limit.¹³¹ In the actual 2022 conditions, however, PacifiCorp’s own managers did not stop at the minimum percentage, and it is reasonable to provide the same more aggressive hedging to Washington.

42. An appropriate reallocation, such as Mr. Mullins proposes, takes into account the risks Washington was facing. Mr. Mullins testified that PacifiCorp could reallocate the benefits of total gas hedges to Washington by assigning Washington [REDACTED], rather than the control energy West allocation factor of 22.47 percent in the WIJAM.¹³² WIJAM quite simply under-

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¹²⁷ *Id.* at 21:16–19.

¹²⁸ *Id.* at 34:16–23.

¹²⁹ *Id.* at 37:16–38:11.

¹³⁰ *Id.* at 38:7–10.

¹³¹ Staples, TR. 94:20–95:2.

¹³² Mullins, Exh. BGM-1CT at 43:14–44:9.

allocates gas hedges. By reassigning hedges based on the actual size of gas west-side purchases rather than the WIJAM allocation of power costs and resources, Washington would achieve a [REDACTED] reduction in net power costs.¹³³ And more significantly, Mr. Mullins' reassignment of hedges would match Washington's forecast and actual exposure.

43. With respect to electric hedging, the Commission can choose to reallocate hedges or it can use Public Counsel's counterfactual demonstrating what would have happened had PacifiCorp actually purchased and hedged power, as both illustrate the magnitude of harm WIJAM does to hedging for Washington consumers. Mr. Mullins reassigned hedges for purchased power to Washington until Washington's short position was [REDACTED] in PacifiCorp's policy, which would reduce [REDACTED].¹³⁴ Mr. Mullins' analysis, however, uses the actual hedging that PacifiCorp conducted. Since those hedges were too late and were insufficient, his reallocation understates the impact on Washington's power costs.¹³⁵ Public Counsel's expert, Dr. Earle, calculated that had PacifiCorp actually purchased power and hedged for Washington in a timely fashion, net power costs would have actually been [REDACTED] lower.¹³⁶ Dr. Earle's calculation better corrects for PacifiCorp's west-side tardiness.

44. PacifiCorp suggests that, because it valued the WIJAM balancing adjustment at actual hedging prices, its pricing model gave Washington the benefit of hedging. This is factually incorrect. First, using actual hedging prices does not solve the problem that PacifiCorp hedged

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¹³³ *Id.* at 47:6–8.

¹³⁴ *Id.* at 55:11–56:10. Although Mr. Mullins stated that he was increasing hedges to the policy limits, in practice his calculations did not reach the minimum percentage. Earle, RLE-7CT at 6:13–15. Mr. Mullins's reassignment is, accordingly, too conservative. Dr. Earle's analysis is more accurate.

¹³⁵ Earle, Exh. RLE-7CT at 9:5–14.

¹³⁶ *Id.* at 8:15–9:2.

too late for the west side, and therefore, its actual hedges were more expensive than necessary.¹³⁷ Second, the balancing adjustment is a ratemaking and accounting exercise, not a hedging policy, and use of actual power purchases and hedges is appropriate in valuing an accounting deficit created by WIJAM.¹³⁸ As Mr. Mitchell testified, this is “purely an accounting exercise” in the context of a power-cost adjustment proceeding in which projections are replaced with actuals.¹³⁹ Mr. Staples also concedes reallocating is “a cost allocation issue” rather than a hedging policy decision.¹⁴⁰ In a ratemaking, purely accounting, process, the Commission can reassign hedges without affecting operations.¹⁴¹ PacifiCorp’s critique depends on the theory that PacifiCorp did not know the actual use when it was hedging the system. But PacifiCorp knows actual usage in this proceeding; the balancing adjustment is literally defined by the difference between forecast and actual numbers. No violence is done to PacifiCorp’s future-looking hedging policy by requiring that a post-hoc market price calculation includes equally post-hoc sufficient hedge assumptions consistent with PacifiCorp’s extant hedging policy.

2. The Commission Should Determine PacifiCorp’s Hedging Policy Was Imprudent.

45. Here, the record demonstrates that PacifiCorp’s hedging policy was imprudent and that PacifiCorp has failed to meet its burden to show that its proposed increase in rates is equitable,

¹³⁷ Mullins, Exh. BGM-1CT at 43:14–44:9; Earle, Exh. RLE-7CT at 9:5–14; Mullins, Exh. BGM-1CT at 55:11–56:10.

¹³⁸ Mullins, TR. 170:15–23, “So this is really an allocation exercise, and it get back into the table up above where, you know, because the system is generally long and the WIJAM is short, it means that more hedges should be allocated to cover the WIJAM short position...so we don’t need to work about hindsight in that respect.”

¹³⁹ Mitchell, TR. 25:12–14; *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets UE-061546, UE-060817 (*consolidated*), Order 8, ¶ 76 (June 21, 2007).

¹⁴⁰ Staples, Exh. DRS-1CT at 35:19–20 (“this is a cost allocation issue”).

¹⁴¹ Mitchell, TR. 52:23–56:3.

fair, just, reasonable or sufficient.¹⁴² In April 2021, when PacifiCorp specifically identified that it was “essential” that the company be less short in light of increasing scarcity events in the region, PacifiCorp failed to consider how to protect Washington ratepayers from the WIJAM short accounting position because it was “unnecessary.”¹⁴³ Knowing that Washington was going to be more exposed to the market, PacifiCorp’s failure to plan for a reallocation of hedges runs directly contrary to PacifiCorp’s obligation to make decisions in a cost effective manner and to consider other available options.¹⁴⁴

46. PacifiCorp’s imprudence had a significant impact on Washington ratepayers, but it can be corrected if the Commission adopts Mr. Mullins’ adjustment for reallocating gas hedges to Washington and either Mr. Mullins’ adjustment for reallocating electric hedges or Dr. Earle’s calculation of costs that could have been avoided had Washington been hedged separately. These reallocations are adequately supported by the record and approximate the results PacifiCorp could have achieved had it considered how to hedge the WIJAM market exposure. Although PacifiCorp raises various methodological concerns with these adjustments, PacifiCorp offers no alternative calculations. Accordingly, the record supports using Mr. Mullins or Dr. Earle’s adjustments.

47. The Commission should disregard PacifiCorp’s primary criticism of these adjustments: that they use actual power usage numbers to determine hedging positions.¹⁴⁵ First, this is a problem created by PacifiCorp’s own imprudence. By hedging on a system basis without considering WIJAM, PacifiCorp consigned all prudence review to counterfactual analysis. What

¹⁴² *Wash Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-072300 & UG-072301, Order 12, ¶ 66 (Oct. 8, 2008).

¹⁴³ Staples, Exh. DRS-1CT at 7:2–10; Wilding, TR. 196:10–14.

¹⁴⁴ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-090704, UG-090705 (*consolidated*), Order 11, ¶ 319 (Apr. 2, 2010).

¹⁴⁵ Staples, Exh. DRS-1CT at 36:2–15.

is left is to calculate the actual impact of its error. PacifiCorp's remedy is to provide an alternative analysis that more precise, which it chose not to do here, contenting itself with methodological sniping. Second, for Washington, the forecast and actual consumption varied by only 2.6 percent¹⁴⁶ for gas and 2.4 percent¹⁴⁷ for power. This error is not sufficient to render Mr. Mullin's and Dr. Earle's calculations unreliable.

48. PacifiCorp next attempts to critique Mr. Mullins by torturing his analysis into a proposal for a system-wide adjustment, which it is not. Mr. Mullins' counterfactual, if adopted across the system, PacifiCorp suggests, would have increased costs across the whole system.¹⁴⁸

PacifiCorp's argument is actually an illustration of how PacifiCorp's hedging is imprudent for Washington. PacifiCorp admits that under its current hedging policy, [REDACTED]

[REDACTED].¹⁴⁹ But, PacifiCorp reasons, [REDACTED].¹⁵⁰

Accordingly, PacifiCorp reasons, Washington consumers' sacrifice is a net benefit, not to Washington consumers, but to PacifiCorp's other consumers and shareholders. Because Washington does not get an equitable share of the benefit, this is impermissible reasoning under Commission precedent.¹⁵¹ And PacifiCorp's indignance misses the point; neither AWEC nor Public Counsel's proposal requires a change to PacifiCorp's hedging policy. Both propose, essentially, giving Washington consumers credit [REDACTED] they pay in service of PacifiCorp's system in the post-hoc WIJAM accounting adjustment. This is the best of both

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¹⁴⁶ Mullins, Exh. BGM-1T at 28:16.

¹⁴⁷ See, PacifiCorp, PAC-PCAM-WPI-6-15-23, at tab "WA Sales", cells D-16 and P-11 (This can be calculated by comparing actual sales with forecast sales in).

¹⁴⁸ Staples, Exh. DRS-1CT at 36:16-37:5.

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

¹⁵¹ *In re PacifiCorp Maine*, Docket U-87-1338-AT, Second Suppl. Order (July 15, 1988).

worlds; PacifiCorp [REDACTED] and Washington does not pay a penalty. This is how PacifiCorp could have better protected Washington consumers, which is, as PacifiCorp's admits, an "issue worth solving."¹⁵²

49. Commissioner Rehndahl's questioning of the expert witnesses raises a final important question for the Commission: what should PacifiCorp do going forward? That is the question that should have been asked when PacifiCorp realized its system-wide hedging policy "undoubtedly creates challenges for Washington customers because of the fact that they are only partial participants in the system."¹⁵³ To the extent that PacifiCorp wishes to avoid future prudence disallowances, it is free to examine and propose a hedging allocation approach that would protect Washington consumers from the market exposure dictated by WIJAM's allocation. Whether that is through a redesign of its system hedging or a policy of reassigning hedges in the purely accounting process of power cost adjustments, it is PacifiCorp's burden to decide and support. Either way, the Commission should find that PacifiCorp's current hedging policy, as applied to the WIJAM allocation, is imprudent because it already failed to adequately protect Washington consumers.

IV. CONCLUSION

50. The Commission should disallow all or part of PacifiCorp's 2022 Power Cost Adjustment Mechanism (PCAM) adjustment. First, PacifiCorp's valuation of the WIJAM balancing adjustment does not seek to recover actual costs as required by Commission precedent. PacifiCorp did not actually purchase \$83.5 million in power for Washington consumers, and it cannot now seek market prices for the power it actually provided. Second, the Commission

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¹⁵² Staples, Exh. DRS-1CT at 34:16-23.

¹⁵³ *Id.* at 35:22-36:1.

should determine that PacifiCorp has failed to justify the prudence of relying on the market to fill power needs in 2022 or going forward.¹⁵⁴ Until PacifiCorp concludes the multistate negotiation process and allocates sufficient generation resources to Washington, the Commission should find that PacifiCorp’s reliance on market purchases is imprudent. Alternatively, PacifiCorp admitted during testimony that it failed to design its hedging policy to the reality of WIJAM the Commission should adopt either Dr. Earle or Mr. Mullins’ hedging adjustment for electric power costs and should adopt the gas power costs proposed by Mr. Mullins.

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¹⁵⁴ Earle, Exh. RLE-1T at 5:10–11.