

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of

PACIFIC POWER & LIGHT COMPANY

2022 Power Cost Adjustment Mechanism
Annual Report.

DOCKET UE-230482

REPLY BRIEF ON BEHALF OF COMMISSION STAFF

July 12, 2024

ROBERT W. FERGUSON
Attorney General

/s/ Josephine R. K. Strauss, WSBA No. 58283

Assistant Attorney General
Office of the Attorney General
Utilities and Transportation Division
PO Box 40128
Olympia, WA 98504-0128
(360) 709-4850
Josephine.Strauss@atg.wa.gov

CONFIDENTIAL PER PROTECTIVE ORDER - REDACTED VERSION

TABLE OF CONTENT

I. INTRODUCTION1

II. DISCUSSION.....1

 A. Valuing the WIJAM Balancing Adjustment at Mid-C Provides the Most Accurate Pricing for Power Delivered to Washington Customers.1

 B. Hedges Should Be Allocated the Same Way the System Is Hedged; Any Other Approach Is Inequitable and Inconsistent.3

 C. The Commission Should Order an Audit of Chehalis and Hermiston Aased on Evidence of Uneconomic Dispatch.5

III. CONCLUSION.....7

TABLE OF AUTHORITIES

Cases

Estate of McCartney by and through McCartney v. Pierce County,
22 Wash. App. 2d 665, 513 P.3d 119 (2022)3

Statutes

RCW 34.05.452(5)2

Other Authorities

Wholesale Electricity and Natural Gas Market Data,
U.S. Energy Information Administration (Jun. 27, 2024),
<https://www.eia.gov/electricity/wholesale/#history>2

About EIA,
U.S. Energy Information Administration, <https://www.eia.gov/about/>
(last visited Jul. 11, 2024)3

I. INTRODUCTION

1 Staff submits this reply brief to address three issues: (1) the proper pricing of power in PacifiCorp's WIJAM balancing adjustment, (2) the proper allocation of hedging benefits, and (3) the desirability of an audit into the dispatch of PacifiCorp's Chehalis and Hermiston plants. The Commission should order PacifiCorp to price the Balancing Adjustment using Mid-C pricing as Mid-C provides the most accurate information for the Washington power market and is more transparent as pricing data is more readily available. It should also order PacifiCorp to allocated hedges on a system basis, just as it hedges. Any other allocation process is inequitable and needlessly raises Washington prices. Finally, the Commission should order an external audit of dispatch of Chehalis and Hermiston since there is evidence indicating that dispatch is uneconomical and PacifiCorp does retain control over the procedures that provide the data informing dispatch decisions.

II. DISCUSSION

A. Valuing the WIJAM Balancing Adjustment at Mid-C Provides the Most Accurate Pricing for Power Delivered to Washington Customers.

1. Mid-C pricing is the appropriate valuation of the WIJAM Balancing Adjustment.

2 Public Counsel argues that the WIJAM Balancing Adjustment be valued based on the actual costs incurred. The WIJAM Balancing Adjustment is itself "a deviation from a strict cost-of-service approach to net power costs."¹ This is because the PacifiCorp system includes resources not directly allocated to Washington customers, and thus an accounting adjustment is made to reflect the value of power supplied to Washington.² So the question comes down to how to value this power, and the answer is that it should be valued at Mid-C

¹ Wilson, Exh. JDW-1CT at 37:6-7.

² Wilson, Exh. JDW-1CT at 37:8-11.

prices. As stated in Staff’s previous briefing, system transactions are an inappropriate benchmark for valuation. System transaction prices and costs are already included in net power costs, so the WIJAM Balancing Adjustment essentially causes these purchases to be sold a second time.³ Using system prices also has constraints and may result in higher prices since those prices fail to take into account factors such as transmission availability, which may cause system prices to be higher for Washington customers than purchase power prices at Mid-C or generation at Chehalis.⁴

3 In the absence of cost-of-service valuation, Mid-C pricing is the fairest benchmark for Washington customers. These prices are reflective of the Washington market and are a transparent benchmark.⁵ These prices are not determined by PacifiCorp, but rather the collective actions of multiple buyers and sellers. These are added benefits that protect customers from potential improper costs. Reliance on a western market for pricing is also more reflective of the realities for Washington customers and thus provides a fairer valuation of the power being delivered to these customers.

2. PacifiCorp’s concern over Mid-C price increases is misplaced.

4 PacifiCorp contends that higher Mid-C prices in 2023 are indicative of long-term price increases at the Mid-C hub. However, a higher average price at Mid-C over a one year period is not indicative of a trend moving forward. Additionally, PacifiCorp has not provided evidence that the CCA was the cause of these price increases, as it contends.

Indeed, according to Staff’s review of data from U.S. Energy Information Administration,⁶

³ Wilson, Exh. JDW-1CT at 37:12-17.

⁴ Wilson, Exh. JDW-1CT at 28:5-11.

⁵ Wilson, JDW-1CT at 15-19.

⁶ *Wholesale Electricity and Natural Gas Market Data*, U.S. Energy Information Administration (Jun. 27, 2024), <https://www.eia.gov/electricity/wholesale/#history>. Staff requests that the Commission take official notice of the data found on this website as permitted under RCW 34.05.452(5). A fact may be judicially noticed if it is one “ ‘not subject to reasonable dispute in that it is either (1) generally known within the territorial jurisdiction of the trial court or (2) capable of accurate and ready determination by resort to sources

the price at Mid-C during 2024 has reverted back to close to the average considering the other hubs. If prices at Mid-C do prove to be higher on average going forward, Staff sees no issue with choosing another transparent market index at which to value the Balancing Adjustment. Staff encourages the Commission to order PacifiCorp to price the Balancing Adjustment based on a transparent market and for PacifiCorp to work with Staff and interested stakeholders to negotiate which market that should be given the data available. That negotiation is not necessary to resolve the issues related to the 2022 PCAM, as discussed next.

5 Putting aside price changes at Mid-C in 2023, the reality is that for 2022, Mid-C had the *lowest* prices amongst five power trading hubs reviewed by PacifiCorp.⁷ According to PacifiCorp’s math in assessing these five regional hubs (COB, Palo Verde, Mid-C, Mona, Four Corners, and MEAD) Mid-C averaged out to \$ [REDACTED] in 2022, the next lowest price being at COB on the southern border of Oregon, which was priced at \$ [REDACTED].⁸ Based on this information, at minimum the Commission should use Mid-C for pricing the 2022 WIJAM Balancing Adjustment.

B. Hedges Should Be Allocated the Same Way the System Is Hedged; Any Other Approach Is Inequitable and Inconsistent.

6 PacifiCorp, in brief, makes the argument for allocating the benefits of hedges on the basis of the gas supply being hedged, and offers to adjust its allocation policy to [REDACTED]

whose accuracy cannot reasonably be questioned.’ . . . The trial court may take judicial notice of public documents if their authenticity cannot be reasonably disputed.” *Estate of McCartney by and through McCartney v. Pierce County*, 22 Wash. App. 2d 665, 677, 513 P.3d 119 (2022). The data contained on the U.S. EIA website is data “whose accuracy cannot reasonably be questioned” and its authenticity not “reasonably disputed.” It is data compiled by a federal agency charge with “collect[ing], analyz[ing], and disseminat[ing] independent and impartial energy information to promote sound policymaking, efficient markets, and public understanding of energy and its interaction with the economy and the environment.” *About EIA*, U.S. Energy Information Administration, <https://www.eia.gov/about/> (last visited Jul. 11, 2024).

⁷ Mitchell, Exh. RJM-3CT at 7 n. 18.

⁸ Mitchell, Exh. RJM-3CT at 7 n. 18.

[REDACTED]

The practice of hedging on the system, a system designed to take advantage of the geographic diversity of PacifiCorp's far-reaching system, and then allocating based on other factors, like resources available to that state, is inconsistent. As PacifiCorp stated in the hearing, there are "benefits of diversity across the system[]" and "that is better for power costs."¹⁰ PacifiCorp tries to argue that Washington rates "should appropriately reflect" [REDACTED], despite the whole point of PacifiCorp's holistic hedging is to take advantage of the fact that it has access to resources and markets across multiple states. It is perplexing to tout the benefits of a geographically diverse system that bases its risk management on the fact that it has access to other resources outside the immediate state of concern, just to turn around and claim those benefits do not apply to one state, because that state is geographically located in a place where those resources otherwise do not exist. PacifiCorp's whole argument in its brief begs the question of why bother holistically hedging then? Or even better, can this even be considered holistic hedging, or is it just word play to gild poorly-made choices? The whole point of hedging on the system is to protect different parts of the system when those regions are [REDACTED]. The benefits and the costs should be borne in the same way.

7 This reasoning specifically applies to the allocation of gas swaps, with some minor adjustments given the non-fungibility of swaps across PACE and PACW. PacifiCorp's proposal as described in its brief is still inconsistent with the practice of system-based hedging. Gas swaps are not fungible across the east and west, hence Staff's recommendation that a change to the policy be made to acquire more west side swaps to account for this lack

⁹ As opposed to Staff's recommendation that PacifiCorp acquire minimum west hedges due to gas swap non-fungibility.

¹⁰ Mitchell, TR. 59:1-2.

of transferability. As appropriately stated by PacifiCorp witness Staples, “[t]he way that the WIJAM is structured prevents the benefits of the Company’s gas hedging program from fully adhering to Washington customers, and that is an issue worth solving.”¹¹ The solution is adjusting the gas hedging policy to account for additional west side hedges.

8 The Commission should order PacifiCorp to allocate hedging on a holistic, system-wide basis, just as it claims it does for hedging. Anything less is a disservice to Washington ratepayers.

C. The Commission Should Order an Audit of Chehalis and Hermiston Aased on Evidence of Uneconomic Dispatch.

9 The Commission should order a full audit of the dispatch of Chehalis and Hermiston by a third party as a complete analysis cannot be done in a spreadsheet and requires complete access to PacifiCorp’s records. PacifiCorp’s assertion that “Staff has not provided any evidence that such an audit is necessary” is without merit.¹² Based on data provided by PacifiCorp to Staff, Staff was able to estimate a cost savings of \$ [REDACTED] if these plants were dispatched purely on an economic basis.¹³ PacifiCorp contends that number may not be entirely accurate, especially considering factors such as EIM. That was exactly Staff’s point, Staff recognized the limitations of this number, which is why it advised the Commission to *not* adopt it;¹⁴ but rather provided the estimate to demonstrate how significant the potential impacts of the dispatch of those plants are. Notwithstanding, a calculation based on economic dispatch should not be measuring in the [REDACTED] if PacifiCorp was providing proper instructions that ensured the unit would be efficiently dispatched. There is strong evidence that dispatch from either of these plants “did not closely track economic indicators,

¹¹ Staples, Exh. DRS-1Ct at 35:17-19.

¹² PacifiCorp Post Hearing brief at page 26 paragraph 65.

¹³ Wilson, Exh. JDW-1CT at 51:19-21.

¹⁴ Wilson, Exh. JDW-1CT at 52:7-8.

particularly in the day-ahead market”¹⁵ and dismissing that evidence based on the conclusion that the EIM has some control over dispatch is merely pointing fingers.

10 PacifiCorp’s claims that the plants are dispatched by the EIM based on the EIM footprint is also a non-starter argument. Such presentations are not only misleading but are veiled attempts by PacifiCorp to shed responsibility for the bid prices, plant nominating, and plant regulating instructions it supplies for these plants —the EIM does not supply, control, or regulate these factors.¹⁶ While EIM may have some control over when the plants are dispatched, those decisions are based on data produced by instructions supplied by PacifiCorp.¹⁷ These are PacifiCorp assets and responsibility for their dispatch rests with the Company while it controls the foundation upon which dispatch decisions are made.

11 The requisite analysis Staff proposes requires far more data than was made available to Staff by PacifiCorp during this proceeding, and goes beyond what can be accomplished in a spreadsheet. A full audit by a third party specializing in these sorts of analyses is the most effective option for understanding the situations occurring at Chehalis and Hermiston.

12 Audit costs should not be shared between PacifiCorp and ratepayers. Ratepayers have no control over the complex procedures that control the dispatch of gas plants. These are decisions purely within PacifiCorp’s control and not dependent on external factors (as compared to something like power costs which can be influenced by external factors, such as extreme weather events). Permitting PacifiCorp to recover audit costs in rates may (depending on the outcome of the audit) just reward the Company for poor management practices rather than encouraging the Company to use foresight and periodically review plant operating procedures to ensure that the indicators for dispatch are economically

¹⁵ Wilson, Exh. JDW-1CT at 51:1-3.

¹⁶ Mitchell, TR. at 38:2-10.

¹⁷ Mitchell, Exh. RJM-4X.

optimized. PacifiCorp may not have full control of when a plant is dispatched, but it does have control over the processes that inform dispatch, and if those processes are out of date or based on improper metrics, the responsibility for those shortcomings belong to PacifiCorp, not a ratepayer who would not even be permitted to obtain copies of these documents if they were requested.

III. CONCLUSION

13 The Commission is presented with an opportunity in this proceeding to order constructive changes that encourage an equitable approach to PacifiCorp's power costs. This starts with pricing of the WIJAM Balancing Adjustment, which should be valued on Mid-C prices which are a more accurate and transparent approach to valuing power in Washington than opaquely calculated system prices. Second, the Commission should order that the allocation of hedges be assigned on a system basis, just as the hedges are acquired. Assignment based on any other basis is just opening the door for excessive cost allocation. Finally, Staff has presented evidence indicating that the Chehalis and Hermiston plants are not being economically dispatched; however, this can only be confirmed with a full audit, something outside the capabilities of individuals working with spreadsheets and limited data. The Commission has an opportunity to ensure these plants are being run as efficiently as possible, and it should take it.

Respectfully submitted this 12th day of July, 2024.

ROBERT W. FERGUSON
Attorney General

/s/ Josephine R. K. Strauss, WSBA No. 58283
Assistant Attorney General
Office of the Attorney General
Utilities and Transportation Division
PO Box 40128
Olympia, WA 98504-0128
(360) 709-4850
Josephine.Strauss@atg.wa.gov