BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of	)	
	)	
PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY,	)	DOCKET UE- 230482
	)	
2022 Power Cost Adjustment Mechanism.	)	
	)	

REPLY BRIEF OF THE ALLIANCE OF WESTERN ENERGY CONSUMERS

(REDACTED)

July 12, 2024

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I. INTRODUCTION

1 Pursuant to the Washington Utilities and Transportation Commission's ("Commission") Order 03 in the above-referenced docket, the Alliance of Western Energy Consumers ("AWEC") files this Reply Brief.

2 Nothing in the parties' Initial Post-Hearing Briefs contradicts the fundamental issue in this case, which is that PacifiCorp's (or "Company") actions in 2022 failed to adequately hedge Washington's natural gas and power positions to the levels required by the Company's Energy Risk Management Policy ("Hedging Policy"). This circumstance was unique to Washington given that it is not a full participant in all of PacifiCorp's generation resources under the Washington Inter-Jurisdictional Allocation Methodology ("WIJAM"). All other states in PacifiCorp's system were hedged in compliance with the Hedging Policy. PacifiCorp knew that Washington alone would be "uniquely vulnerable to market purchases" and did nothing.[1] This was imprudent behavior. Accordingly, the Commission should reduce the 2022 power cost adjustment mechanism ("PCAM") deferral by between $[redacted] and $[redacted] (to be adjusted for interest) to provide Washington customers with the value they would have received had PacifiCorp prudently hedged Washington's natural gas and power requirements.[2]

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1 *WUTC v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Docket No. UE-210402, PacifiCorp Post-Hearing Brief ¶ 33 (Feb. 11, 2022).

2 *See* AWEC Initial Post Hearing Brief ("Initial Brief") ¶¶ 1, 32.

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II. ARGUMENT

A. The Commission should reduce 2022 NPC to account for PacifiCorp's imprudence in failing to adequately hedge Washington's gas requirements.

1. PacifiCorp's arguments against AWEC's gas hedging adjustment lack merit.

3 PacifiCorp argues that its gas hedging was prudent because: (1) its Hedging Policy protects customers from price volatility; (2) it complied with its Hedging Policy; and (3) [redacted] The Company also argues that AWEC's counterfactual analyses lack merit and, to the extent any adjustment is reasonable, PacifiCorp's proposal to [redacted]

4 Foremost, none of PacifiCorp's arguments dispute the fundamental issue, which is that Washington's gas requirements were hedged [redacted], due to Washington's unique position in PacifiCorp's system under the WIJAM. Indeed, PacifiCorp's own reallocation proposal admits as much – [redacted].

5 For this reason, many of PacifiCorp's arguments are beside the point. The Company, for instance, argues that its [redacted] However, as noted in AWEC's Initial Post-Hearing Brief,

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PacifiCorp's only evidence related to the [redacted] market comes from a review of available offers on the Intercontinental Exchange platform, which PacifiCorp admitted [redacted].[3] Additionally, to the extent PacifiCorp's hedging activities at the Rockies market "stabilize[s] gas costs [redacted]"[4] that is only even arguably true for states that participate in the Company's east-side gas resources, given that PacifiCorp's [redacted]. Since Washington does not participate in PacifiCorp's east-side gas plants, [redacted]. That is why Washington was under-hedged in 2022 and customers paid higher prices as a consequence.

6 Similarly, the Company argues that it [redacted], and that this level of hedging "provided reasonable protections for Washington customers from impacts of price volatility."[5] But this is demonstrably false. While [redacted] the gas requirements of the [redacted][6] Thus, Washington did not receive the price protections of the rest of the system.

7 PacifiCorp knew this would be true; the Company's method for allocating gas hedges "leaves Washington customers more vulnerable to market purchases with all the risks that attend a short position generally."[7] Thus, PacifiCorp's arguments that Mr. Mullins' counterfactual analyses lack merit because two of them are based on actual gas purchased and rely on hindsight

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3 Staples, TR at 84:14-15.
4 PacifiCorp Initial Post Hearing Brief ¶ 17.
5 *Id.* ¶ 18.
6 Mullins, Exh. BGM-1CTr at 30:4-7.
7 Staples, Exh. DRS-1CT at 22:23-23:3.

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ring hollow when PacifiCorp very much did know, without the benefit of hindsight, that Washington's gas requirements were likely to be under-hedged. As noted in AWEC's Initial Brief, Mr. Mullins' ultimate recommendation relied on the Company's September 30, 2021, position report, which does not rely on actual gas purchased and hindsight review. Mr. Mullins' other two counterfactual analyses that do rely on actual gas purchased were performed as a check on the primary analysis and to provide to the Commission a range of results to demonstrate the reasonableness of Mr. Mullins' recommendation given that it is impossible to know what actions the Company would have taken had it prudently hedged Washington's position.

8 PacifiCorp argues that the counterfactual using the September 30, 2021 position report is also invalid because it increased total-Company NPC and required a reduction of total hedges.[8] However, neither of those circumstances are true with respect to the other two counterfactual analyses that rely on actual gas consumption.[9] This demonstrates that the actual result of PacifiCorp hedging its [redacted] in compliance with its Hedging Policy would not necessarily have been fewer total hedges and higher NPC for the system as a whole. Rather, lower overall NPC would have been the likely outcome.

9 PacifiCorp also attempts to discredit Mr. Mullins more generally by arguing that his recommendations in this case are contradicted by prior positions he has taken, but PacifiCorp's position is based on misinterpretations of Mr. Mullins' prior testimony. The Company, for instance, argues that Mr. Mullins previously took the position in a 2018 Oregon proceeding that

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[8] PacifiCorp Initial Post Hearing Brief ¶¶ 24, 26.
[9] Staples, Exh. DRS-11X.

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"the Company was over-hedging to the detriment of customers."[10] In fact, Mr. Mullins' analysis in that case showed that there was a risk premium built into the forward price curves PacifiCorp used to hedge its requirements, which was imposing costs on customers.[11] To address this issue, Mr. Mullins did not recommend that PacifiCorp hedge less; rather, he recommended that "there [] be a sharing of hedging gains and losses between ratepayers and shareholders using a ratio of 80/20."[12] AWEC would support this recommendation going forward, but importantly it is inapplicable to the current case. The costs at issue in this proceeding were not incurred because PacifiCorp hedged; they were incurred because PacifiCorp *did not* hedge.

10 The Company also argues that Mr. Mullins' decision to [redacted] (consistent with the level of hedging PacifiCorp actually performed [redacted] is inconsistent with a "substantively identical counterfactual AWEC witness Mullins produced in September 2023 in a Wyoming proceeding, where AWEC witness Mullins' counterfactual generally increased [redacted]"[13] Initially, PacifiCorp's statement is unsupported by the evidence in the record and, therefore, should be disregarded.[14] Moreover, Mr. Mullins' testimony in the Wyoming proceeding was provided under different circumstances. The Wyoming commission is not interested in the rate impacts to Washington, and Wyoming, unlike Washington, is a full

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10 PacifiCorp Initial Post Hearing Brief ¶ 22 (*citing* Mullins, Exh. BGM-15X at 20:7-22:10).
11 Mullins, Exh. BGM-15X at 20:9-21.
12 *Id.* at 22:6-9.
13 PacifiCorp Initial Post Hearing Brief ¶ 25 (*citing* Exh. DRS-15CX at 40).
14 Mr. Mullins summarized his analysis in his testimony, which was included as a cross-examination exhibit in the record, but his full analysis was provided in a separate exhibit, which was not admitted to the record. Exh. DRS-15CX at 40:11-23. Therefore, there is nothing in the record to support PacifiCorp's statement that Mr. Mullins' Wyoming analysis "generally increased [redacted]."

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participant in PacifiCorp's system. Thus, it is not surprising that Mr. Mullins' Wyoming analysis would differ in some ways from his Washington analysis – that does not make the two inconsistent. Furthermore, Mr. Mullins' analysis in this docket occurred after PacifiCorp had responded to the modeling he performed in Wyoming. It would, in fact, be surprising if Mr. Mullins did *not* modify his modeling to address the concerns PacifiCorp raised in that Docket.

11 The Company's testimony also attempted to identify inconsistencies in Mr. Mullins' Wyoming testimony from his testimony in this case, which similarly fall flat. Company witness Staples claimed that Mr. Mullins "appears to be advocating for the precise opposite of what he advocated for in Wyoming as recently as October 2023."[15] Mr. Staples' conclusion was based on Mr. Mullins' statement in Wyoming that PacifiCorp adopt a more holistic approach to hedging whereas, here, he advocates that PacifiCorp consider Washington specifically in its hedging practices.[16] Mr. Staples' conclusion is a bizarre one and can only be attributed to the fact that Mr. Mullins used the word "holistic" in his Wyoming testimony, although he used it in a completely different sense than PacifiCorp attributes to it.[17] PacifiCorp uses this word to mean that it hedges its gas requirements [redacted][18] By contrast, Mr. Mullins recommended, in the context of *power* (not gas) hedging, that PacifiCorp take a "holistic approach" in that it evaluate "risks related to both forward purchases and sales transactions, in addition to considering their interplay with the costs of alternative power sources like gas and coal."[19] This

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15 Staples, Exh. DRS-1CT at 7:17-19.
16 *Id.* at 7:19-8:4.
17 Exh. DRS-15CX at 45:1-5.
18 Staples, Exh. DRS-1CT at 14:10-14.
19 Exh. DRS-15CX at 45:1-5.

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clearly has nothing to do with whether PacifiCorp should [redacted], and in fact Mr. Mullins explicitly testified in Wyoming that "it was not prudent for RMP to ignore the west side of its system, particularly given the unique risks associated with the [redacted] It was not prudent for RMP to solely consider [redacted]"[20] In short, Mr. Mullins' testimony in Wyoming is not inconsistent with his testimony in this proceeding, and PacifiCorp's attempts to show that it is wholly mischaracterize his position in that state.

12 Finally, PacifiCorp attempts to support its reallocation methodology over AWEC's, but in the process undermines the reasonableness of its method. The Company argues that assigning all [redacted] is reasonable because the "[redacted] are not equivalent, but do share a meaningful statistical relationship."[21] Thus, according to PacifiCorp, only a "limited reallocation" of hedges is reasonable, as opposed to AWEC's method, which takes all [redacted].[22] Yet, PacifiCorp's position directly contradicts its rationale for implementing its gas hedging program [redacted] – that "there is a reasonably high correlation between the daily prices at [redacted], which enables the Company to stabilize gas costs [redacted] …."[23] The Company cannot argue on one hand that the differences between [redacted] are significant enough to limit the [redacted] while simultaneously argue that these markets are similar

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20 *Id.* at 40:4-7.
21 PacifiCorp Initial Post Hearing Brief ¶ 30.
22 *Id.*
23 *Id.* ¶ 17.

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enough to justify hedging [redacted]. As Mr. Mullins put it, "[i]f it is reasonable for PacifiCorp to hedge [redacted], then it is also reasonable for PacifiCorp to allocate the benefits of hedging [redacted]."[24]

13 Nor is the Company correct that its reallocation proposal "reasonably reflects how the Company would have hedged its [redacted] gas plants [redacted] …."[25] As noted in AWEC's Initial Brief, PacifiCorp's assignment of all [redacted] hedges to the [redacted] ignores that the hedges it acquired at [redacted] were transacted for [redacted] The Company's reallocation proposal ignores this issue.

14 Importantly for the Commission's consideration, all parties to this proceeding – including PacifiCorp – agree that some form of reallocation of gas hedging benefits to Washington is potentially appropriate. PacifiCorp alone supports its method despite the flaws that Staff, Public Counsel, and AWEC have all noted. Conversely, both Staff and Public Counsel agree that AWEC's reallocation method is reasonable.[27]

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[24] Mullins, Exh. BGM-1CTr at 43:4-5.
[25] PacifiCorp Initial Post Hearing Brief ¶ 31.
[26] AWEC Initial Post Hearing Brief ¶ 24; Mullins, Exh. BGM-1CTr at 30:1-33:4.
[27] Staff Initial Post Hearing Brief ¶ 14; Public Counsel Initial Post Hearing Brief ¶ 42.

2. Staff's proposal for a minimum hedge requirement for the [redacted] is confusing and under-developed.

15 Staff opposes AWEC's recommendation that PacifiCorp hedge its gas requirements with consideration of Washington's open position, but supports AWEC's alternative recommendation that the Company's gas hedges be allocated on a [redacted].[28] Simultaneously, however, it argues that PacifiCorp should incorporate a new minimum gas hedging target for the [redacted] in order to address the lack for "fungibility" between the Company's [redacted][29] Staff's positions appear to be contradictory and are not sufficiently developed for the Commission to take action in this docket.

16 For one, it is not clear why Staff would recommend a separate [redacted] hedging requirement if it believes that hedging for Washington's gas requirements "would likely cause long-term increases in costs."[30] Washington participates only in PacifiCorp's west side gas resources and, thus, a [redacted] is substantively identical to a Washington-specific hedging requirement. Additionally, recommending a separate [redacted] appears at odds with Staff's recommendation for the 2022 PCAM that the Company's total system hedges be reallocated. Staff states that "[r]e-allocating the benefits of hedging will not solve the problem created by the failure to adequately hedge the western gas

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28 Staff Initial Post Hearing Brief ¶¶ 12-14.
29 *Id.* ¶¶ 15-16.
30 *Id.* ¶ 12.

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supply."[31] If that is true, then it would not make sense to re-allocate PacifiCorp's 2022 gas hedges, as Staff recommends.

17 In fact, if it is the case, as PacifiCorp argues, that a [redacted] to gas hedging is the least cost approach for the system as a whole, then it is not true that reallocating hedges fails to address Washington's open position. If the value (and costs) of [redacted], as AWEC recommends, then Washington's open position would be hedged consistently with the requirements of the Hedging Policy and will be protected from over-exposure to the spot market, regardless of how much hedging PacifiCorp does on the [redacted]

18 Finally, while Staff advocates for a separate [redacted] hedging target, it does not identify what that target should be – should it be a level consistent with the current Hedging Policy or something different? Staff also argues that, if the [redacted] market is illiquid as PacifiCorp alleges, then the Company's management should be allowed "to override the west minimal hedge requirement in the event of illiquidity."[32] This would seem to advocate for a "minimal" [redacted] hedging requirement that is no requirement at all.

19 AWEC agrees with Staff that a reallocation of system hedges, consistent with Mr. Mullins' approach, is a reasonable means of addressing the Company's failure to adequately hedge Washington's gas requirements in 2022. It also represents a reasonable means of

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[31] *Id.* ¶ 17.
[32] *Id.* ¶ 18.

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protecting Washington customers going forward. The Commission does not need to adopt Staff's additional proposal for an unspecified [redacted] hedging requirement.

B. The Commission should reduce 2022 NPC consistent with Washington being hedged for power at a level consistent with the Hedging Policy.

20 Both PacifiCorp and Staff recommend against AWEC's proposal to reallocate power hedges to account for Washington's short position under the WIJAM. PacifiCorp argues both that it is inefficient to [redacted] and that AWEC's adjustment improperly relies on hindsight review.[33] Staff argues that a reallocation of power hedges to Washington would result in a mismatch of costs and benefits.[34] Both parties' arguments are off point.

21 With respect to PacifiCorp's first argument that it would be inefficient to hedge for [redacted], AWEC's recommendation is not that PacifiCorp should hedge [redacted]. For one, AWEC's recommendation applies only to Washington given its unique position in PacifiCorp's system under the WIJAM, which no other state follows. Further, AWEC does not recommend that PacifiCorp adopt a separate hedging program for Washington's power requirements; it recommends that the power hedges PacifiCorp acquires on a system level be allocated in a manner that ensures both the system as a whole is hedged within the limits of the Hedging Policy *and* Washington specifically is also hedged within the limits of the Hedging Policy.[35] Since Washington's net position is

33 PacifiCorp Initial Post Hearing Brief ¶¶38-39, 44-46.
34 Staff Initial Post Hearing Brief ¶ 20.
35 Mullins, Exh. BGM-1CTr at 55:11-17.

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different from the system's net position,[36] hedging the system's net position does not necessarily protect Washington customers adequately. An allocation methodology that accounts for this difference can remedy this problem.

22 For a similar reason, PacifiCorp's complaints about hindsight review are irrelevant. Again, AWEC is not proposing that PacifiCorp adopt a different or a separate hedging strategy for Washington and did not create a counterfactual of a different hedging strategy.[37] It is only proposing that PacifiCorp allocate the [redacted] it acquires to ensure that Washington is hedged within the Hedging Policy's targets.[38] Since this is simply an exercise in allocating hedges PacifiCorp has already acquired, concerns about hindsight review are inapplicable.

23 Staff's argument that AWEC's allocation approach results in a mismatch of costs and benefits is similarly off base. Staff's argument may be valid if AWEC were proposing only to reallocate hedging *benefits* to Washington to ensure the state is hedged consistently with the Hedging Policy, but that is not the recommendation. AWEC's reallocation approach results in a reduction to Washington NPC in 2022, but it could very well result in an increase to NPC in other years. AWEC is recommending only that Washington be hedged to a level PacifiCorp's own Hedging Policy has determined is prudent, with all of the associated costs and benefits. Whether that results in a cost or a savings to Washington customers will depend on the circumstances of each year.

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[36] *Id.* at 50 (Confidential Table 8).
[37] Mullins, TR. 170:11-23.
[38] *Id.*

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24 PacifiCorp also reiterates its witness's position that the WIJAM itself provides incremental hedging benefits to Washington through the balancing adjustment.[39] The Commission should disregard this argument, which all other parties to this proceeding reject.[40] PacifiCorp's position is that, because the balancing adjustment is "calculated based on all short-term firm transactions delivered during the deferral period," the price impacts of the balancing adjustment include the value of hedges incorporated into those short-term firm transactions.[41] But this is not an allocation of hedges, it is simply a means of pricing Washington's energy consumption in a manner that avoids including the Company's east side fossil-fueled resources in Washington rates, which are prohibited by the WIJAM. As both Public Counsel and Staff recognize, "the balancing adjustment is a ratemaking and accounting exercise, not a hedging policy."[42] Moreover, even if the balancing adjustment were considered to be some form of hedge re-allocation exercise, Washington was *still* not hedged up to the requirements of the Hedging Policy. Mr. Mullins' analysis starts from the WIJAM baseline PacifiCorp used to calculate NPC and determines an adjustment from there, so it already includes whatever benefit could be construed from the balancing adjustment.

III. CONCLUSION

25 For the foregoing reasons and the reasons provided in AWEC's Initial Brief and Mr. Mullins' testimony, AWEC continues to recommend a reduction to PacifiCorp's 2022 NPC of between $[redacted] and $[redacted], adjusted for ongoing interest.

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39 PacifiCorp Initial Post Hearing Brief ¶¶ 40-43.

40 *See* Staff Initial Post Hearing Brief ¶¶24-25; Public Counsel Initial Post Hearing Brief ¶¶ 9-24.

41 PacifiCorp Initial Post Hearing Brief ¶ 42.

42 Public Counsel Initial Brief ¶ 44; Staff Post-Hearing Brief ¶ 10.

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Dated this 12th day of July 2024.

Respectfully submitted,

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