

**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

**REPLY BRIEF  
OF PUBLIC COUNSEL**

July 12, 2024

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

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## I. INTRODUCTION

1. In PacifiCorp's (the Company) system, Washington consumers are "uniquely vulnerable to market purchases."<sup>1</sup> Ignoring Washington's vulnerability, PacifiCorp argues that its prudence is discharged because its decisions were optimal for the overall system even while admitting its system-wide decision making did not adequately protect Washington consumers. By precedent, the Washington Utilities and Transportation Commission (Commission) must reject PacifiCorp's reasoning, which denies Washington consumers "quantifiable direct or indirect benefits"<sup>2</sup> to offset the Washington's market exposure risk. In making a prudence determination, when the Commission engages in retrospective ratemaking process in which Washington consumers are disadvantaged by the system-wide approach, the Commission can, and should, adjust PacifiCorp's Power Cost Adjustment Mechanism (PCAM) to offset that disadvantage. The Commission should disallow PacifiCorp's balancing adjustment either because it does not reflect actual costs or because it is imprudent. Failing that, the Commission should adopt the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel) and Alliance of Western Energy Consumer's (AWEC) adjustments to net power costs based on counterfactuals showing PacifiCorp could have hedged separately or can reallocate hedges to protect Washington consumers. PacifiCorp's brief offers no reason to grant its PCAM petition as written.

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<sup>1</sup> Rebuttal Testimony of Ramon J. Mitchell, Exh. RJM-3CT, at 13:18–14:1.

<sup>2</sup> 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).

## II. PRUDENCE REVIEW IS NOT IMPERMISSIBLE HINDSIGHT

2. The Commission should soundly reject PacifiCorp’s attempt to avoid prudence review by claiming that critiques of its PCAM petition depend on “impermissible hindsight” review.<sup>3</sup> As UTC Staff correctly notes, the two disputed issues—PacifiCorp’s Washington Inter-Jurisdictional Allocation Methodology (WIJAM) balancing adjustment and the assignment of hedging benefits—are retrospective accounting tools, used by PacifiCorp after the fact to square-up actual costs.<sup>4</sup> Denying or altering the valuation of the balancing adjustment or imputing hedges to Washington to account for Washington’s market exposure do not constitute impermissible hindsight review; they are a part of well-established prudence review.

3. At their core, the arguments Public Counsel, AWEC or Staff raise do not turn on hindsight bias. All of the parties admit that under WIJAM, PacifiCorp’s approach means that Washington consumers “uniquely vulnerable to market purchases.”<sup>5</sup> This facet of WIJAM was known to PacifiCorp, and the Commission has already held that WIJAM does not “prevent[] the Company from performing comprehensive market risk reliance assessments or from prudently managing the risks of its Washington-allocated power costs.”<sup>6</sup> Here, PacifiCorp presents no comprehensive market risk assessments justifying its policy and admits that, other than optimizing for its system costs, it took no steps to protect Washington consumers. The issue is whether, knowing of Washington’s unique vulnerability, PacifiCorp’s decision to ignore Washington-specific risks was prudent or whether PacifiCorp had a duty to address that

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<sup>3</sup> PacifiCorp’s Brief, ¶ 4 (filed July 3, 2024).

<sup>4</sup> Staff’s Brief, ¶ 8 (filed July 3, 2024).

<sup>5</sup> Mitchell, Exh. RJM-3CT at 13:18–14:1.

<sup>6</sup> *Wash Util. & Transp. Comm’n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-210402, Order 06, ¶ 151 (Mar. 29, 2024).

vulnerability. The Commission should find PacifiCorp had a duty and neglected it. This is prudence review of known risks. Use of actual data to quantify the error is not an unfair application of hindsight.

4. The Commission precedent PacifiCorp cites confirms that the Commission’s review of this PCAM is not impermissible. PacifiCorp suggests that prudence review requires only that the company reasonably chose among several alternatives.<sup>7</sup> In fact, the order cited stated, “it is clear from the evidence that [the utility] undertook a careful, thorough, and detailed examination of the leading candidates for acquisition that emerged during the evaluation process...”<sup>8</sup> The Commission itself identified what prudence here would require—a “comprehensive market risk assessment.” PacifiCorp offers no such assessment. Where PacifiCorp admitted that it did not consider how its hedging program needed to be adjusted to account for WIJAM<sup>9</sup> because it was “unnecessary,”<sup>10</sup> the Commission is not faced with a careful, thorough, and detailed PacifiCorp decision. PacifiCorp’s failure to make a considered decision is, in itself, a failure of prudence.

5. PacifiCorp’s next citation to Commission precedent also undermines its position here. PacifiCorp correctly cites language in which the Commission concluded that it may not use hindsight in evaluating a decision to pursue a specific capital expenditure.<sup>11</sup> However, in that case, the Commission rejected PacifiCorp’s recovery in that case because, “our examination on a specific capital expenditure is not limited to a single point in time, but is considered in the

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<sup>7</sup> PacifiCorp’s Brief, ¶ 10.

<sup>8</sup> *Wash. Util. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-090704 and UG-090705 (*consolidated*), Order 11, ¶ 337 (Apr. 2, 2010).

<sup>9</sup> John Fritz, TR. 143:6–12.

<sup>10</sup> Michael Wilding, TR. 196:10–14.

<sup>11</sup> *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, ¶ 94 (Sept. 1, 2016).

continuum of the specifics of the terms of the contract at issue.”<sup>12</sup> The Commission concluded that “based on the evidence, or lack thereof...we find the Company has failed to present the requisite contemporaneous documentation to show that the continued implementation...was ultimately prudent.”<sup>13</sup> And, in fact, the factor that PacifiCorp failed to evaluate in that case was a change in natural gas prices and a change in the Company operations.<sup>14</sup> Applied here, as market scarcity events increased and market volatility spiked, the Commission’s precedent against hindsight evaluation is no defense as circumstances change.

6. PacifiCorp cannot immunize itself from prudence review in this PCAM filing by pleading a difference between actual and projected power costs in subsequent calculations fixing the exact magnitude of the problem. The facts that PacifiCorp needed to know in April 2021 when it was designing its hedging policy or in 2020 when it proposed WIJAM, were whether Washingtonians were going to be subject to market exposure and whether that market exposure would be detrimental. And PacifiCorp freely admits these facts were known, writing in April 2021 that [REDACTED] and that the problem would be [REDACTED].<sup>15</sup> Moreover, in December 2020, the Commission specifically warned that rising power costs would affect a later prudence review of WIJAM’s allocation.<sup>16</sup> As Mr. Mitchell acknowledged, “ratemaking exposure has real net power cost implications for Washington consumers,”<sup>17</sup> While the exact magnitude needed to await

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<sup>12</sup> *Id.* at ¶ 95.

<sup>13</sup> *Id.* at ¶ 98.

<sup>14</sup> *Id.* at ¶ 101.

<sup>15</sup> Fritz, TR. 138:10–23, 139:19-140:11.

<sup>16</sup> *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).

<sup>17</sup> Mitchell, Exh. RJM-1T at 13:22–23.

confirmation through actual numbers, the problem was absolutely known. And PacifiCorp chose not to take effective steps to combat the “real net power cost implications” of its system-first focus.

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

7. For the proceeding, the Commission identified two factual inquiries; whether PacifiCorp’s choice of market exposure was prudent and whether its risk management policies for hedging were prudent.<sup>18</sup> The first factual inquiry turns on whether PacifiCorp has presented sufficient evidence to show that Washington consumers are receiving an equitable share of PacifiCorp’s purported system-wide policy benefits to justify higher market prices.<sup>19</sup> It has not. Initially, PacifiCorp offers no solution to solve Washington’s unique market vulnerability it created over a decade despite Commission warnings. This is imprudent. Moreover, because PacifiCorp’s modelled market valuation of the balancing adjustment denies Washington consumers PacifiCorp’s system-wide benefits, the Commission should reject PacifiCorp’s modelled market valuation. PacifiCorp has failed to prove its proposed valuation is fair to both the company and to ratepayers.<sup>20</sup> The second factual inquiry the Commission mandated turns on whether PacifiCorp’s system-side hedging policy adequately protected Washington consumers from market volatility; it did not. Accordingly, the Commission should approve adjustments to

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<sup>18</sup> *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 6, ¶ 3 (Mar. 29, 2022).

<sup>19</sup> *In re PacifiCorp Maine*, Docket U-87-1338-AT, Second Suppl. Order (July 15, 1988).

<sup>20</sup> *Wash Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-072300 & UG-072301, Order 12, ¶ 66 (Oct. 8, 2008).



PacifiCorp's allocation of hedges proposed by Dr. Earle and Mr. Mullins if it does not reject the balancing adjustment entirely.

**A. PacifiCorp Failed to Justify Continued Market Reliance and Failed to Justify Modelled Market Prices for the WIJAM Balancing Adjustment.**

8. From a prudence perspective, PacifiCorp failed to demonstrate that its reliance on market purchases is prudent. PacifiCorp argues that it added significant new resources and transmission for Washington consumers and that the Commission should disregard Public Counsel's argument because Public Counsel has not identified a resource acquisition that would be less expensive.<sup>21</sup> These arguments are misguided. First, the WIJAM accounting short position of 948,614 MWh already took into account new generation and transmission resources added to PacifiCorp's Washington allocation; it is a net calculation.<sup>22</sup> Whatever PacifiCorp has added, it leaves Washington uniquely exposed to the market. Second, PacifiCorp's arguments ignore the time course over which the market exposure developed; PacifiCorp projected a need for new resources for a decade and sought waivers rather than adding resources.<sup>23</sup> The fact PacifiCorp waited until this late to begin adding resources is belated recognition of imprudence, not a defense to bearing and appropriate share of the loss while it works on mitigating Washington's unique market exposure. In this case, that can be accomplished by denying the PCAM petition seeking an upward adjustment. Third, Public Counsel has quantified the market exposure—Washington consumers paid \$67 million more than if they were paying the same rates as other

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<sup>21</sup> PacifiCorp's Brief, ¶¶ 67–69.

<sup>22</sup> 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).

<sup>23</sup> *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 06, ¶ 141 (June 21, 2007).

jurisdictions in 2022.<sup>24</sup> Between 2021 and 2022, that number is \$110 million more.<sup>25</sup> And in January 2024, the differential was \$34 million.<sup>26</sup> Washington’s market exposure is costing hundreds of millions of dollars. It is PacifiCorp’s burden to evaluate and present options for mitigation or to show that spending hundreds of millions on market power is the cheaper option. PacifiCorp’s failure to carry its burden falls on the Company, not Public Counsel.

9. Additionally, PacifiCorp has failed to show that its modelled market price valuation of the WIJAM balancing adjustment is prudent. To the contrary, the record demonstrates using modelled market prices denies Washington system benefits. PacifiCorp, and to a lesser degree, Staff, emphasize that PacifiCorp’s system-first focus “allows PacifiCorp to take advantage of its service area’s geographical diversity, which drives economic benefit to customer in each state.”<sup>27</sup> This diversity provides economic benefit because it helps “diminish reliance on market purchases.”<sup>28</sup> This makes logical sense; when market prices are high, PacifiCorp is able to supply power from other parts of its system at below market and save money. But by forcing Washington into market-modelled prices for [REDACTED] Washington’s power, PacifiCorp locks Washington out of this geographic benefit, and perversely, “when market prices are above the resources costs of thermal generation in Utah, Idaho, and Wyoming, Washington customers

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<sup>24</sup> Public Counsel, *RLE-WP1\_3-28-2024*, at cell L6 (filed Mar. 28, 2024).

<sup>25</sup> Response Testimony of Robert L. Earle, Exh. RLE-1T at 5:11–14.

<sup>26</sup> 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 should also take note that PacifiCorp’s 2023 PCAM filing seeks an additional \$81 million in power costs. *See*, PacifiCorp, PAC-PCAM-Exh-JP-1CT-6-14-24(R), *Wash. Utils & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-240461 (filed June 14, 2024).

<sup>27</sup> PacifiCorp’s Brief, ¶ 38. Staff’s Brief, ¶ 19 (“This fungibility of power across regions is what make the geographic diversity of Pacific’s system beneficial.”).

<sup>28</sup> Mitchell, Exh. RJM-1T at 7:4.

may see higher net power costs than the rest of the system.”<sup>29</sup> In other words, when market prices are high, the rest of PacifiCorp’s system benefits, but Washington does not. Accordingly, the Commission should dismiss PacifiCorp’s attempt to justify market exposure with “system benefits.” To allocate an equitable share of benefits of PacifiCorp’s system to Washington consumers, PacifiCorp must alter its modelled prices to take account of the power that was shifted, at lower cost, through its system transmission.

10. PacifiCorp also fails to address the Commission’s prior orders that reject the use of modelling to define actual costs recovered in PCAM proceedings.<sup>30</sup> As the Commission foresaw, while the parties can debate which estimate for a power cost is more precise, in reality, the Commission is moving “farther and farther from actual costs.”<sup>31</sup> Whether incorporating a shift to Mid-Columbia hourly pricing or accepting PacifiCorp’s modelled-market discount of using sales prices, the use of modelled market pricing will not measure the actual costs that PacifiCorp incurred in providing the power identified in WIJAM’s balancing adjustment. Both Staff and PacifiCorp’s approach to modeling market costs for the balancing adjustment contravenes Commission precedent and should be rejected.

11. Anticipating Public Counsel’s argument, PacifiCorp offers inadequate justifications for the use of modelled market prices, suggesting that it was not objected to in prior proceedings<sup>32</sup>, and that because modelled prices were used in the forecast, they should be used in the PCAM.<sup>33</sup>

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<sup>29</sup> Mitchell, Exh. RJM-1T at 14:2–4.

<sup>30</sup> *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.* Dockets UE-061546, UE-060817 (consolidated), Order 8, ¶¶ 76–77 (June 21, 2007).

<sup>31</sup> *Id.* ¶ 76.

<sup>32</sup> PacifiCorp’s Brief, ¶ 41.

<sup>33</sup> *Id.* ¶ 55.

Neither argument is sufficient to override precedent or to establish that its continued use is prudent.

12. First, PacifiCorp overstates its argument that there was no objection to its modelled market pricing. PacifiCorp’s citation for a lack of objection from the 2023 general rate case is to AWEC “reserv[ing] its right to raise these issues [regarding the Washington Balancing Adjustment] again in a future proceeding.”<sup>34</sup> Reserving the right to object in a subsequent proceeding is not a waiver. More fundamentally, however, prudence review does not depend on objections; it must be demonstrated even when not challenged.<sup>35</sup> PacifiCorp offers no citation to a prudence determination in favor of modelled market pricing for the balancing adjustment, because it does not exist. The Commission’s direction in March 2022 power cost proceeding to require PacifiCorp to demonstrate the prudence of its choice of market exposure for Washington<sup>36</sup> is dispositive. If prudence had already been determined, the Commission would not direct PacifiCorp to undertake that task in this filing. The Commission specifically made prudence a live issue and that includes market modelled pricing.

13. The fact that PacifiCorp used modelled market pricing in its forecasts is not a defense to prudence review either. As noted above, prudence is not determined at a single point in time.<sup>37</sup> Even if the parties had decided a modelled market price was appropriate in the past, circumstances clearly changed by the middle of April 2021 when PacifiCorp identified an

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<sup>34</sup> *Wash Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-230172, UE-210852 (consolidated) Order 08/06, ¶ 292 (Mar. 19, 2024).

<sup>35</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-090704, UG-090705 (consolidated), Order 11, ¶ 319 (Apr. 2, 2010).

<sup>36</sup> *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 6, ¶ 154 (Mar. 29, 2022).

<sup>37</sup> *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light Co.*, Docket UE-152253, Order 12, ¶ 94 (Sept 1, 2016).

essential goal of the Company being less short because of increasing scarcity pricing events.<sup>38</sup> But the better interpretation is that the Commission has not resolved the prudence of modelled market pricing or market exposure. When the Commission approved WIJAM, it noted that no party had provided information about whether rising power costs affected the WIJAM benefit analysis.<sup>39</sup> This necessarily signaled that WIJAM's impact on net power costs was important to the Commission and that it would be a factor going forward. And, as noted above, the Commission's explicit direction to PacifiCorp to justify its choice of market reliance<sup>40</sup> means the issue is open.

14. PacifiCorp's failure to justify its modelled market valuation puts the Commission, and Public Counsel, in an uncomfortable situation. It is undeniable that PacifiCorp actually provided power to Washington consumers, but as PacifiCorp bore the burden of proof, the Commission is justified in disallowing PacifiCorp's only proposed valuation for the balancing adjustment as barred both by prudence and precedent. PacifiCorp can remedy its shortfall by selecting and defending an appropriate methodology that would calculate and reimburse its actual expenses connected with that power in future proceedings.<sup>41</sup> In this proceeding, however, there is simply insufficient evidence for PacifiCorp to meet its burden to show that adding the balancing adjustment to rates would be fair, just, or sufficient.<sup>42</sup>

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<sup>38</sup> Direct Testimony of Douglas R. Staples, Exh. DRS-1CT at 7:2–10.

<sup>39</sup> *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).

<sup>40</sup> *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 6, ¶ 154 (Mar. 29, 2022).

<sup>41</sup> Public Counsel provided some alternative methods for calculating actual costs in its Initial Brief.

<sup>42</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-072300 & UG-072301, Order 12, ¶ 66 (Oct. 8, 2008).

**B. The Commission Should Find PacifiCorp’s Hedging Imprudent for Failing to Take Account of the WIJAM Allocation.**

15. If the Commission reaches the issue of hedging, the Commission should find PacifiCorp’s policy imprudent. As PacifiCorp acknowledged, its system-focused hedging policy, “undoubtedly creates challenges for Washington customers because of the fact that they are only partial participants in the system.”<sup>43</sup> PacifiCorp’s duty to Washington consumers, knowing this fact, was to resolve those challenges. PacifiCorp failed to adjust its hedging policy to take account of WIJAM’s allocation<sup>44</sup> and that decision caused Washington consumers to pay more for power.<sup>45</sup> The Commission can, and should, remedy this imprudence by ordering the adjustments proposed by Public Counsel and AWEC.<sup>46</sup>

16. None of PacifiCorp’s arguments about Public Counsel, AWEC, and Staff’s proposed adjustments should stop the Commission from ordering a reallocation of hedges to account for market exposure created through WIJAM’s allocation. AWEC’s first argument, that [REDACTED] is internally inconsistent.<sup>47</sup> PacifiCorp admits that its policy allows it to hedge more [REDACTED] and that because there is a reasonably high correlation between daily prices [REDACTED], it is able to stabilize gas costs [REDACTED].<sup>48</sup> This is, PacifiCorp asserts, “a widely accepted risk management practice.”<sup>49</sup> The reality is that it is possible to reassign hedges to

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<sup>43</sup> Staples, Exh. DRS-1CT at 35:22–36:1.

<sup>44</sup> Brad Mullins, TR. 167:8–10.

<sup>45</sup> Staples, Exh. DRS-1CT at 36:16–37:5.

<sup>46</sup> Public Counsel’s Brief, ¶¶ 23–24, 42–43.

<sup>47</sup> PacifiCorp’s Brief, ¶¶ 20–22.

<sup>48</sup> *Id.* ¶ 17.

<sup>49</sup> *Id.*

protect Washington consumers from known market exposure. PacifiCorp's arguments about liquidity are not a reason to not use widely accepted risk management practices.

17. PacifiCorp's second argument is that AWEC and Public Counsel's reassignments depend on actual data which PacifiCorp could not have known in 2022<sup>50</sup> is also internally inconsistent. PacifiCorp itself proposes reassignment of hedges, with the difference being whether the hedges should be [REDACTED] or the [REDACTED] allowed by policy as proposed by AWEC and supported by Staff.<sup>51</sup> This is an admission that the reassignment of hedges can be done using forecast data; the dispute is over the amount, not the method. And here, PacifiCorp's argument returns to its complaint about west side versus east side. The lesser level of reassignment, PacifiCorp asserts is "reasonable" because it acknowledges the [REDACTED].<sup>52</sup> But either reassignment is a valid risk management tool, or it is not. PacifiCorp offers no principled reason to limit risk management for Washington consumers, when a reassignment is possible. The Commission should reject PacifiCorp's argument.

18. PacifiCorp's protests regarding power hedge reassignment are no more persuasive. PacifiCorp first assays that its compliance with its system-wide policy justifies a prudence finding.<sup>53</sup> But PacifiCorp already admitted that it did not design its hedging policy to account for WIJAM.<sup>54</sup> If the policy's design failed to account for Washington's specific market risk, the policy itself is flawed. Compliance with a flawed policy is not evidence of prudence. This is particularly true where, as here, PacifiCorp did not receive approval of its revised hedging policy

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<sup>50</sup> *Id.* ¶ 27.

<sup>51</sup> *Id.* ¶ 30.

<sup>52</sup> *Id.* ¶ 30.

<sup>53</sup> PacifiCorp's Brief, ¶ 37.

<sup>54</sup> Fritz, TR. 143:6-17, Wilding, TR. 196:10-14. Mullins, TR. 167:8-10.

in April 2021—it simply notified the parties that it was increasing hedging. This is the first PCAM proceeding after the Commission’s direction to PacifiCorp to justify the prudence of its hedging policy. The critique of PacifiCorp’s basic policy design was timely raised.

19. PacifiCorp next attempts to justify ignoring Washington’s exposure by extolling the geographic benefits of its system.<sup>55</sup> This argument is deeply flawed. As discussed above, forcing Washington to pay higher power costs denies Washington diversity benefits. PacifiCorp’s argument is a plea for Washington consumers to be underhedged in order to avoid costs to other parts of PacifiCorp’s system, which is contrary to the Commission’s purpose of ensuring Washington consumers received an equitable share of the benefits of being part of a six state system.<sup>56</sup> And it is a plea based on a false premise; the reassignment of hedges does not require PacifiCorp to alter its operations.<sup>57</sup> By reassigning hedges to adequately protect Washington consumers, PacifiCorp can both mitigate Washington’s power cost as a ratemaking accounting practice and preserve its system benefits operationally.

20. The Commission should likewise reject Staff’s argument in supporting a system-wide allocation of power hedges.<sup>58</sup> Staff’s position is internally inconsistent. Staff admits that the system-wide “power pricing” provides a “distorted measure of costs” because the “marginal cost of power varies across PacifiCorp’s service territories” and constraints on the system cause the Company to purchase more expensive power.<sup>59</sup> These system prices, Staff argues, “do not

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<sup>55</sup> PacifiCorp’s Brief, ¶ 39.

<sup>56</sup> *In re PacifiCorp Maine*, Docket U-87-1338-AT, Second Suppl. Order (July 15, 1988).

<sup>57</sup> Mitchell, TR. 52:23–56:3.

<sup>58</sup> Staff’s Brief, ¶ 20.

<sup>59</sup> *Id.* ¶ 24.



account for factors that affect Washington differently than other states on the grid.”<sup>60</sup> Staff’s proposal to change the modelled market prices hinges on accepting that Washington’s power costs should be treated differently than system power; in other words, benefits are not being equally distributed in PacifiCorp’s system. Staff’s solution is, however, a kind of half measure that fails to account for the fact that PacifiCorp’s purported geographic diversity benefit only reaches Washington consumers if Washington has access to power at the cost of generation. The debate between Staff and PacifiCorp over the best model is a wrestling match over the best bad option for Washington consumers. Either a total rejection of modelled market prices or an adoption of Public Counsel or AWEC’s reallocation of hedges are appropriate responses to pricing that does “not account for factors that affect Washington differently.”

21. Finally, PacifiCorp asserts that, as with gas hedges, Public Counsel and AWEC rely on actual transaction data.<sup>61</sup> PacifiCorp points to Dr. Earle’s statement that “[REDACTED]”<sup>62</sup> as confirmation of hindsight bias.<sup>63</sup> This is an intentional distortion of Dr. Earle’s testimony; in fact his calculation [REDACTED] [REDACTED].<sup>64</sup> But Dr. Earle’s point was that in a purely accounting exercise using modelled market prices or in reassigning hedges to an accounting power deficit, there is no logical reason not to assume perfect hedging based on actual costs. Staff is correct that PacifiCorp’s argument conflates retroactive rate making with prospective

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<sup>60</sup> *Id.*

<sup>61</sup> PacifiCorp’s Brief, ¶¶ 45–48.

<sup>62</sup> Earle, Exh. RLE-7CT at 7:19–20.

<sup>63</sup> PacifiCorp’s Brief, ¶ 47.

<sup>64</sup> Earle, Exh. RLE-7CT at 7:15–20.

hedging decisions.<sup>65</sup> PacifiCorp is free to continue hedging as a system so long as they then also assign sufficient hedges to Washington to cover the unique market exposure. What is not permissible is to continue requiring Washington consumers to accept less risk management than their market exposure requires.

#### IV. CONCLUSION

22. The Commission should disallow all or part of PacifiCorp's 2022 Power Cost Adjustment Mechanism adjustment. PacifiCorp has failed to meet the burden set for it by the Commission; it has failed to demonstrate that market reliance and its risk management for that reliance was prudent.<sup>66</sup> Moreover, its modelled market prices contravene Commission precedent and are imprudent. And PacifiCorp fails to demonstrate that its system-wide hedging policy that ignored WIJAM was prudent. The Commission should disallow the recovery for the WIJAM balancing adjustment, or in the alternative, adopt the hedging adjustments proposed by Public Counsel and AWEC.

DATED this 12th day of July 2024.

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<sup>65</sup> Staff's Brief, ¶ 10.

<sup>66</sup> *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 6, ¶ 3 (Mar. 29, 2022).