

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP dba
PACIFIC POWER & LIGHT COMPANY,

Respondent.

Docket No. UE-230482

PACIFICORP'S REPLY BRIEF

REDACTED

July 12, 2024

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I. INTRODUCTION

1. PacifiCorp dba Pacific Power and Light Company (PacifiCorp or Company) respectfully submits this Reply Brief to the Washington Utilities and Transportation Commission (Commission) responding to post-hearing briefs filed by Commission Staff, Public Counsel, and the Alliance of Western Energy Consumers (AWEC).
2. PacifiCorp does not address every argument from the parties' post-hearing briefs, but PacifiCorp's limited response in this brief should not be interpreted as support for the parties' arguments. PacifiCorp addresses newly raised arguments from parties' briefs regarding the Company's gas and power hedging and recommended changes to the Washington Inter-Jurisdictional Allocation Methodology (WIJAM) balancing adjustment. PacifiCorp's Post-Hearing Brief sufficiently addressed many of the arguments in parties' briefs, including Staff's recommendations to incorporate a minimum gas hedging level for the Company's west side and to order a third-party audit of PacifiCorp's dispatch decisions and Public Counsel's argument that the Company had not prudently addressed Washington customers' modeled market exposure through its long-term resource planning. Those arguments are not repeated here.

II. ARGUMENT

A. The Company prudently hedged its 2022 gas requirements.

1. West side hedging was [REDACTED].
3. Public Counsel and AWEC argue that because PacifiCorp hedged its gas requirements [REDACTED] the Company hedged its [REDACTED] facilities [REDACTED]. [REDACTED] However, undermining both parties' arguments is the fact that during the deferral

¹ Initial Brief of Public Counsel at 19, 21 (July 3, 2024); Post Hearing Brief of AWEC at 14-15 (July 3, 2024).

period [REDACTED]
[REDACTED].² As a result, hedging the entirety
of PacifiCorp's [REDACTED] gas requirements at [REDACTED] would have been [REDACTED].³

4. AWEC argues that the Company failed to demonstrate the [REDACTED] at
[REDACTED] because the Company's testimony discussed available offers on the
Intercontinental Exchange (ICE) platform but [REDACTED]

[REDACTED].⁴ [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].⁶ [REDACTED]
[REDACTED]

2. AWEC's counterfactuals provide no basis for its adjustment.

5. Public Counsel and AWEC both rely on counterfactuals included in AWEC's
testimony to support their arguments that the Company [REDACTED]
[REDACTED].⁷ Two of AWEC's counterfactuals relied on improper
hindsight analysis, and AWEC now asserts that those analyses are merely a "check on the
reasonableness" of AWEC's final counterfactual, which used a September 30, 2021

² Staples, Exh. DRS-1CT at 26:2-8.

³ *Id.* at 26:9-27:6.

⁴ Post Hearing Brief of AWEC at 10.

⁵ Staples, TR. 83:7-12.

⁶ *Id.* at 83:14-25.

⁷ Initial Brief of Public Counsel at 27; Post Hearing Brief of AWEC at 9.

position report.⁸ This hindsight analysis, whether offered to support AWEC's adjustment or merely to "check" that adjustment, should be given no weight.⁹

6. Moreover, AWEC's third counterfactual is also flawed, because in that counterfactual AWEC [REDACTED]
[REDACTED]
[REDACTED].¹⁰

As a result, AWEC's adjustment maximizes the proposed disallowance but fails to accurately represent how the Company would have hedged [REDACTED]. Additionally, AWEC witness Mullins' argument in this case that PacifiCorp should have secured additional hedges beginning in 2018 is directly inconsistent with his testimony from 2018 asserting that that the Company was over-hedging to the detriment of customers.¹¹ In other words, based on the information available at the time, witness Mullins believed the Company hedged too much, and only with hindsight does he now assert that PacifiCorp's [REDACTED] resources were under-hedged.

7. AWEC misrepresents the Company's challenges to witness Mullins' counterfactuals, asserting that the Company opposes "the concept of a counterfactual analysis on principle because the past cannot be rewritten, and it cannot be known with certainty what precisely PacifiCorp would have done under this alternative scenario."¹² This is wrong because PacifiCorp has provided its own counterfactual allocating additional gas hedge benefits to Washington customers.¹³ PacifiCorp's [REDACTED]

⁸ Post Hearing Brief of AWEC at 9.

⁹ *WUTC v. Pac. Power & Light Co., a Div. of PacifiCorp*, Docket UE-152253, Order 12 at ¶ 94 (Sept. 1, 2016).

¹⁰ Staples, TR. 87:15-88:2.

¹¹ Exh. BGM-15X at 20:7-22:10; Mullins, TR. 156:2-162:12.

¹² Post Hearing Brief of AWEC at 11.

¹³ Staples, Exh. DRS-1CT at 39:7-10.

[REDACTED]

[REDACTED]

[REDACTED].¹⁴

8. Relying on AWEC’s counterfactuals, Public Counsel falsely states that “PacifiCorp admits that under its current hedging policy, [REDACTED] [REDACTED].”¹⁵ The figure that Public Counsel cites is the amount by which hedging benefits *for* [REDACTED] [REDACTED] would have increased if the Company had [REDACTED] [REDACTED].¹⁶ Only a fraction of those additional benefits would have been allocated to Washington. Moreover, the counterfactual was based on [REDACTED] that are unsupported by reality, deviates from how the Company would have hedged in the real world without the benefit of hindsight to maximize the disallowance, and is contrary to Staff’s own testimony that the Company should optimize its total system.¹⁷ The fact a party with perfect hindsight can develop a counterfactual that reduces net power costs (NPC) does not demonstrate that the Company’s actual hedging activities were imprudent.¹⁸

3. Hedging for the total system is prudent.

9. Staff, Public Counsel, and AWEC all suggest that the Company could not effectively hedge the gas requirements [REDACTED] using hedges [REDACTED]

¹⁴ Staples, TR. 88:3-23.

¹⁵ Initial Brief of Public Counsel at 27.

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

¹⁷ *Id.* at 36:16-20; Yeomans, Exh. WY-8T at 4:21-5:4.

¹⁸ Staples, Exh. DRS-1CT at 30:11-20; *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705 (Consolidated), Order 11 at ¶ 337 (Apr. 2, 2010).

[REDACTED]. Public Counsel asserts that an appropriate allocation of hedging benefits “takes into account the risks Washington was facing.”¹⁹ AWEC similarly argues that the Company’s [REDACTED] natural gas supplies “are unique and distinct from the supplies that are used to fuel [REDACTED] of PacifiCorp’s system.”²⁰ And Staff argues that the natural gas [REDACTED] are “not fungible” between the Company’s east and west service areas.²¹ However, [REDACTED] [REDACTED] is a widely accepted risk management practice, and due to the reasonably high correlation between the daily prices at [REDACTED], the Company was able to stabilize gas costs [REDACTED].²² As Staff explained, “hedging natural gas fuel costs [REDACTED] is reasonable because PacifiCorp [REDACTED] [.]”²³

4. The Company’s allocation proposal is reasonable.

10. The parties also argue that because PacifiCorp hedges its gas requirements [REDACTED] the benefits of those hedges should be [REDACTED].²⁴ PacifiCorp agrees that additional gas hedging benefits should be allocated to Washington, but the other parties’ proposed adjustments were not representative of how the Company manages its positions when it is actually trading, and instead the Company’s \$1.9 million adjustment was more reasonable.²⁵
11. AWEC argues that PacifiCorp’s adjustment is flawed because it [REDACTED]
[REDACTED]

¹⁹ Initial Brief of Public Counsel at 23.

²⁰ Post Hearing Brief of AWEC at 8 (quoting Mullins, Exh. BGM-1CT at 43:4-5).

²¹ Post-Hearing Brief of Staff at 7-8 (July 3, 2024).

²² Staples, Exh. DRS-1CT at 28:6-29:20.

²³ Yeomans, Exh. WY-8T at 5:1-2.

²⁴ Post Hearing Brief of AWEC at 12; Initial Brief of Public Counsel at 23; Post-Hearing Brief of Staff at 5.

²⁵ Staples, Exh. DRS-1CT at 37:16-39:10; Staples, TR. 94:12-16.

[REDACTED].²⁶ AWEC further asserts that PacifiCorp's adjustment is insufficient because it [REDACTED]. However, both these arguments are based on an unsupported assumption that the Company could, in fact, have hedged [REDACTED]. PacifiCorp's ability to hedge its [REDACTED] was limited by [REDACTED] and AWEC's assumption that the Company [REDACTED] is not supported by any evidence in the record.²⁷

B. PacifiCorp's power hedging was prudent.

1. AWEC's testimony contradicts its argument that PacifiCorp was imprudent.

12. AWEC's brief argues PacifiCorp's power hedging decisions were imprudent.²⁸ However, this assertion is inconsistent with AWEC witness Mullins' testimony, who explained that his challenges to the Company's hedging benefits were [REDACTED].²⁹ AWEC's argument that the Company's hedging was imprudent is therefore not supported by its own testimony. And if AWEC is now arguing that the power hedging was imprudent, that argument explicitly relies "data that was not available to Company when it was actually executing its hedges," as admitted by AWEC witness Mullins at hearing.³⁰ There is no evidence in the record that the Company's power hedging was imprudent based on what the Company knew when it was executing those hedges.

²⁶ Post Hearing Brief of AWEC at 14-15.

²⁷ Staples, Exh. DRS-1CT at 40:3-8.

²⁸ Post Hearing Brief of AWEC at 16.

²⁹ Mullins, TR. 170:15-19.

³⁰ *Id.* at 169:22-170:15.

2. The Company should not hedge separately for Washington.

13. Public Counsel asserts that “PacifiCorp designed its hedging program on a system-wide basis, and does not maintain a separate hedge book for Washington.”³¹ Public Counsel recommends that the Commission adopt either AWEC’s or Public Counsel’s adjustment to purportedly calculate “costs that could have been avoided had Washington been hedged separately.”³² However, hedging systematically instead of for each state independently allows PacifiCorp to take advantage of its service area’s geographical diversity, which drives economic benefit to customers in each state.³³ Moreover, Staff agrees that it is unreasonable to hedge specifically for Washington because “a system wide hedging program for power is the least cost approach for power hedging” and hedging specifically for Washington could actually increase Washington-allocated NPC because doing so “would likely result in a more expensive long-term hedging cost for Washington customers because this approach would not consider the least cost nature of dispatching and transferring east power to the Washington area and would not consider the synergy and diversity benefits of a larger system.”³⁴

14. AWEC further argues that PacifiCorp “has taken no actions to specifically protect Washington customers and has steadfastly maintained that it has no such obligation.”³⁵ However, AWEC’s assertion is plainly inconsistent with the evidence in the record. As the Company explained, [REDACTED]

[REDACTED].³⁶

³¹ Initial Brief of Public Counsel at 20.
³² *Id.* at 26.
³³ Mitchell, Exh. RJM-1T at 5:14-6:11.
³⁴ Yeomans, Exh. WY-8T at 7:10-12, 8:6-10.
³⁵ Post Hearing Brief of AWEC at 1.
³⁶ Staples, TR. 105:4-12.

Moreover, because PacifiCorp took actions to address the rising frequency of scarcity events, the [REDACTED]

[REDACTED].³⁷ The Company also presented evidence that hedging separately for Washington would increase NPC.³⁸

3. The only evidence that the Company under-hedged for Washington is AWEC's hindsight review.

15. AWEC argues that Washington was [REDACTED]

[REDACTED].³⁹ Public Counsel similarly argues that the hedges allocated to Washington were not sufficient [REDACTED]

[REDACTED].⁴⁰ These arguments, however, are premised on AWEC's after-the-fact measure of the so-called WIJAM open position, which AWEC witness Mullins admitted was based on hindsight review of actual power transactions, not a forecast.⁴¹ There is no evidence in the record that the WIJAM was under-hedged based on *forecasted* expectations of power purchases, even if the Commission were to accept that the Company should separately hedge for Washington. In addition, [REDACTED]

[REDACTED]⁴²

³⁷ Staples, Exh. DRS-1CT at 18:15-20; *see also id.* at 19-20, Confidential Tables 3-5.

³⁸ Mitchell, Exh. RJM-1T at 12:1-5.

³⁹ Post Hearing Brief of AWEC at 17.

⁴⁰ Initial Brief of Public Counsel at 21-22.

⁴¹ Mullins, TR. 167:11-20; 169:22-170:15.

⁴² Staples, TR. 105:10-12.

16. Both AWEC and Public Counsel fault PacifiCorp for not offering “alternative calculations” correcting the errors identified in their analyses, and suggest that the record therefore supports their recommended adjustments.⁴³ However, alternative calculations were not necessary because Public Counsel’s and AWEC’s assertions were based on the incorrect premise that the Company did not reasonably secure hedges when, as discussed above, the Company updated its hedging policy to reflect the increasing instances of scarcity pricing in the Western energy markets and as a result [REDACTED].

4. The WIJAM allocates additional hedging benefits to Washington.

17. Staff argues that the Commission should reject attempts to “merge” discussion of the WIJAM and hedging, largely because the WIJAM is a retrospective accounting mechanism and hedging addresses prospective price volatility.⁴⁴ Staff misstates PacifiCorp’s position. PacifiCorp prospectively manages the risk of price volatility through its hedging program.⁴⁵ The Company then subsequently allocates additional hedging benefits to Washington through the WIJAM, both when prospectively setting rates and when trueing-up NPC in the PCAM.⁴⁶ As Staff acknowledges in their brief, this retroactive allocation of hedging benefits “blunt[s] the force of price volatility,” thereby achieving the same purpose as hedging.⁴⁷

⁴³ Initial Brief of Public Counsel at 26; Post Hearing Brief of AWEC at 18-19.

⁴⁴ Post-Hearing Brief of Staff at 3-4.

⁴⁵ Mitchell, Exh. RJM-1T at 3:19-4:5.

⁴⁶ Staples, TR. 104:20-25.

⁴⁷ Post-Hearing Brief of Staff at 4; Mitchell, Exh. RJM-1T at 4:1.

C. PacifiCorp valued the WIJAM open position consistent with past practice.

1. PacifiCorp is not obligated to re-establish the reasonableness of the WIJAM in every case.

18. Public Counsel argues that the Company has an “ongoing” duty to justify use of the WIJAM, seemingly suggesting that PacifiCorp must prove the prudence of its interstate allocations in every single case.⁴⁸ This position is contrary to established precedent. The WIJAM is the Commission-approved interjurisdictional cost allocation methodology for Washington rates.⁴⁹ The Commission approved the WIJAM based on support from all parties, including Public Counsel.⁵⁰ Upon approval, the WIJAM became the only methodology for allocating costs to Washington customers. The NPC baseline in this case was set using the WIJAM and the balancing adjustment methodology supported by PacifiCorp; consistency requires the same methodology apply here.⁵¹

2. Contrary to Public Counsel, Washington cannot take the benefits of system resources without paying the costs.

19. Public Counsel argues that Washington rates should reflect the Company’s actual cost of generation when that cost is lower than market prices, even when the generating resources are not included in Washington rates.⁵² Public Counsel specifically takes issue with the fact that a portion of the actual power serving Washington customers may be produced by coal and gas resources that are not allocated to Washington through the WIJAM.⁵³ Public Counsel argues that, while these coal and gas resources are not included

⁴⁸ Initial Brief of Public Counsel at 3.

⁴⁹ *WUTC v. PacifiCorp, d/b/a Pac. Power & Light Co.*, Dockets UE-191024 *et al.*, Final Order 09/07/12 at ¶ 112 (Dec. 14, 2020).

⁵⁰ *Id.* at ¶ 97.

⁵¹ *WUTC v. Pac. Power & Light Co., a Div. of PacifiCorp*, Dockets UE-140762 *et al.*, Order 09 at ¶ 39 (May 26, 2015) (quoting Staff’s Response to Commission Questions).

⁵² Initial Brief of Public Counsel at 12.

⁵³ *Id.* at 6.

in rates, PacifiCorp should value the energy served to Washington customers at the cost of those resources' generation.⁵⁴

20. However, Public Counsel's assertion that Washington rates should reflect the costs of thermal generation resources in the Company's eastern BAA is entirely inconsistent with cost causation and the principle that benefits should follow burdens.⁵⁵ The capital costs of the coal and gas resources are excluded from Washington rates, and therefore Washington customers cannot receive the benefits of that generation, including reduced NPC.⁵⁶ When adopting the Western Control Area (WCA) allocation methodology, the Commission expressly rejected similar arguments that customers could receive the NPC benefits of resources while excluding from rates the capital costs of those resources.⁵⁷ The Commission also acknowledged that the WCA allocation increased Washington customers' NPC compared to using resources located in PacifiCorp's eastern BAA due to an increased proportion of market purchases included in Washington rates.⁵⁸ The same is true under the WIJAM.

3. The balancing adjustment is valued using actual transaction costs.

21. Public Counsel argues that the WIJAM "is a fiction in which PacifiCorp pretends not to use coal and gas power in Washington" and instead charges Washington customers "pseudo-actual cost[s]," which are "not recoverable."⁵⁹ Public Counsel specifically

⁵⁴ *Id.* at 13.

⁵⁵ *See* Docket UE-152253, Order 12 at ¶ 216 (applying "the Commission's long-standing principle of benefits following burden").

⁵⁶ Mitchell, TR. 57:4-13.

⁵⁷ *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Dockets UE-061546, UE-060817 (consolidated), Order 8 at ¶ 51 n.29 (June 21, 2007).

⁵⁸ *Id.* at ¶ 50.

⁵⁹ Initial Brief of Public Counsel at 5.

challenges the use of “post-hoc calculated market prices” for calculating the balancing adjustment.⁶⁰

22. However, PacifiCorp does not allocate “post-hoc calculated market prices” to close Washington’s short position under the WIJAM. Rather, the Company uses the actual transaction costs incurred during 2022 to close the open position.⁶¹ Public Counsel’s assertion that the Company uses “pseudo-actual” costs to value the WIJAM balancing adjustment is also incorrect. PacifiCorp values the open position in the WIJAM using the *actual* monthly average price of short-term firm sales and purchases.⁶² These actual average costs are not analogous to the computer-generated model costs the Commission previously rejected as “pseudo-actual.”⁶³

4. Washington customers benefit from PacifiCorp’s geographical diversity.

23. Public Counsel also argues that the Company’s WIJAM balancing adjustment “frustrates” the benefits of geographic diversity because “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.”⁶⁴ To the extent Public Counsel is referring to generation from PacifiCorp’s east side thermal resources, that generation is excluded from Washington rates for the reasons discussed above.

⁶⁰ *Id.*

⁶¹ Mitchell, Exh. RJM-3CT at 2:14-20.

⁶² *Id.*

⁶³ Public Counsel cites a 2007 order in which the Commission declined to adopt PacifiCorp’s proposed PCAM because the true-up costs proposed to be used in that mechanism would have been modeled by a computer. Dockets UE-061546, UE-060817 (consolidated), Order 8 at ¶ 77. However, Public Counsel’s argument omits the subsequent precedent in which the Commission adopted PacifiCorp’s PCAM based on testimony that the current mechanism “abandon[ed] the use of ‘pseudo-actual, computer-generated’ data[.]” Dockets UE-140762 *et al.*, Order 09 at ¶ 39 (quoting Staff’s Response to Commission Questions). The concern regarding pseudo-actual costs has been addressed by adopting the current PCAM.

⁶⁴ Initial Brief of Public Counsel at 7-8.

24. However, as part of PacifiCorp’s integrated system, Washington customers benefit from resources on the east side of PacifiCorp’s system, including wind resources in Wyoming with a higher capacity factor than similar resources on the west side of the system.⁶⁵ PacifiCorp’s integrated system also enables the Company to maintain reserves on its east side generation resources, thereby avoiding duplicate reserve obligations in both BAAs and the higher costs to Washington customers that would result from holding reserves for Washington exclusively on WIJAM-allocated generation.⁶⁶ This geographic diversity enables Washington customers to benefit more from a resource being located in the optimal location throughout PacifiCorp’s system.

5. Situs-assigned resources would increase Washington rates.

25. Public Counsel argues that PacifiCorp “blocks Washington from closing its short position rationally with Washington situs generation projects” because the Company focuses on system costs and benefits.⁶⁷ However, a state-specific resource situs-assigned to Washington would, by definition, be more expensive than the least-cost, least-risk system-wide solution identified through PacifiCorp’s Integrated Resource Plan (IRP).⁶⁸ PacifiCorp plans for its entire system on a least-cost least-risk basis.⁶⁹ The IRP process optimizes the system to use transmission capability and generation resources when doing so is more cost-effective than market transactions. As a result, a state-specific resource situs-assigned to Washington would, by definition, be a more expensive resource than those identified in the system-wide preferred portfolio, including market transactions.

⁶⁵ Wilding, TR. 209:7-17.

⁶⁶ Wilding, Exh. MGW-1T at 3:19-22.

⁶⁷ Initial Brief of Public Counsel at 17.

⁶⁸ Wilding, TR. 213:3-12.

⁶⁹ *Id.* at 212:20-213:12.

Put another way, if a Washington-situs assigned resource were lower-cost and lower-risk than the market, that resource would be selected to optimize the entire system.

6. The WIJAM balancing adjustment should not be valued using day-ahead Mid-Columbia prices.

26. Staff has asserted that the WIJAM balancing adjustment should be valued using the day-ahead pricing at Mid-Columbia (Mid-C).⁷⁰ PacifiCorp addressed much of Staff’s argument in the Company’s Post-Hearing Brief,⁷¹ but Staff raises one new argument in its brief. Staff references the Maximum Import Bid Price (MIBP) calculations and claims that Mid-C is “an input in calculating the hub price for electricity within the” Energy Imbalance Market (EIM). However, contrary to Staff’s assertion, the MIBP does not rely solely on Mid-C but rather is based on the *higher* of either the Mid-C price or the Palo Verde price.⁷² Moreover, the MIBP is used for the narrow purpose of screening generator dispatch costs and calibrating market penalty prices. The MIBP does not support Staff’s assertion that Mid-C is the best pricing benchmark for Washington customers.

⁷⁰ Post-Hearing Brief of Staff at 13-14.

⁷¹ PacifiCorp’s Post-Hearing Brief at 23-24 (July 3, 2024).

⁷² Business Practice Manual for Market Instruments, CALIFORNIA ISO at 487-88 (Apr. 9, 2024) (available at https://bpmcm.caiso.com/BPM%20Document%20Library/Market%20Instruments/BPM_for_Market%20Instruments_V85_Redline.pdf) (last visited July 11, 2024).

III. CONCLUSION

27. For the foregoing reasons, the Commission should approve the Company's requested PCAM recovery.

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