

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PACIFICORP d/b/a PACIFIC
POWER &
LIGHT COMPANY,

Petitioner,

2022 Power Cost Adjustment
Mechanism Annual Report

DOCKET UE-230482

ORDER 07

FINAL ORDER APPROVING 2022
PCAM

SUMMARY

***Synopsis:** PacifiCorp seeks to have the Commission confirm and approve the deferred PCAM balance for the previous calendar year by June 1 of each year. PacifiCorp also seeks to amortize the PCAM surcharge over 24 months instead of 12 months. The Commission approves PacifiCorp's PCAM filing and request to amortize the PCAM surcharge over 24 months instead of 12 months, subject to conditions. The Commission finds that PacifiCorp's PCAM is prudent and accepts the proposed adjustments to the PCAM offered by PacifiCorp. The Commission is concerned, however, that the Company may not have prudently managed dispatch of the Chehalis and Hermiston plants, resulting in increased costs for Washington customers. Specifically, we are concerned over PacifiCorp's lack of transparency regarding the dispatch of those sites and the allocation of gas swaps between PacifiCorp's regions of operation. Accordingly, the Commission requires that PacifiCorp and Commission Staff develop a request for proposal (RFP) to obtain a consultant to conduct an analysis and review of the Chehalis and Hermiston dispatch. Further, the Commission remains concerned that the Washington Inter-Jurisdictional Allocation Methodology (WIJAM)¹ is no longer effective in fairly allocating costs to Washington customers. While we recognize that the WIJAM was originally approved during a period of historically low electric and gas prices, given changes in market dynamics, and PacifiCorp's failure to acquire situs resources for its Western balancing authority or for Washington, we no longer find the WIJAM beneficial for Washington. Therefore, in the next rate case proceeding, the Commission requires PacifiCorp to provide justification for its continued reliance on the WIJAM, as well as an alternative allocation methodology.*

¹ The WIJAM and the 2020 PacifiCorp Inter-Jurisdictional Allocation Protocol define how resources and costs are allocated to Washington customers.

BACKGROUND

- 1 On May 26, 2015, the Utilities and Transportation Commission (Commission) issued Order 09 in Docket UE-140762 (Order 09). Order 09 approved and adopted a full Settlement Agreement that, among other things, authorized PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company)² to implement a Power Cost Adjustment Mechanism (PCAM) allowing for positive or negative adjustments to its rates to account for fluctuations in power costs outside of an authorized band for power-cost recovery in base rates. Under the Settlement Stipulation, PacifiCorp is required to file by June 1 of each year a request for the Commission to confirm and approve the deferred PCAM balance for the previous calendar year.³
- 2 **PROCEDURAL HISTORY.** On June 15, 2023, PacifiCorp filed testimony, exhibits, and supporting documentation for the Company’s PCAM for the period January 1, 2022, through December 31, 2022. The Company also filed a petition to extend the amortization period for the PCAM surcharge from 12 months to 24 months. In its filing, PacifiCorp explained actual power costs were significantly higher than the baseline, creating an under-recovery of \$72.7 million. With the PCAM’s sharing mechanism, PacifiCorp seeks \$77.3 million from customers.⁴
- 3 With the extended amortization, the Company requested a revenue increase of \$37.2 million or 9.5 percent, effective January 1, 2024. The effect of the increase to a typical residential customer using 1,200 kWh monthly, would be a monthly bill increase of \$11.09.
- 4 On October 10, 2023, AWEC filed a Petition for Adjudication alleging that there are issues of material fact that require further evaluation, which are most appropriately addressed in an adjudication.

² In 2019, PacifiCorp changed its business name with the Commission from “Pacific Power & Light Company” to “PacifiCorp d/b/a Pacific Power & Light Company.” See Pacific Power & Light Company’s Request to Change Name to PacifiCorp, Docket UE-191004 (December 5, 2019).

³ Settlement Stipulation in Docket UE-140762 at ¶19 (May 8, 2015) (Settlement Stipulation).

⁴ *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket Nos. UE-230482, Petition to Extend the Amortization of the PCAM Surcharge at ¶ 8 (June 15, 2023).

- 5 On October 30, 2023, PacifiCorp filed a Response to AWEC's Petition requesting that the Commission deny the Petition, and arguing AWEC's desires to understand Company hedging processes would be best handled through an informal collaborative process.
- 6 On November 7, 2023, AWEC filed a Motion for Leave to Reply with a proposed Reply arguing an informal collaborative process is not a proper substitute for an adjudication, and that the parties have not had an opportunity to test PacifiCorp's assertion that it is more cost-effective to hedge the Company's system as a whole.
- 7 Following AWEC's Petition for Adjudication, filed on October 10, 2023, the Commission suspended the PCAM filing on November 27, 2023. In Order 01, suspending the PCAM filing, the Commission also granted leave to AWEC to Reply and granted AWEC's Petition for Adjudication.
- 8 On January 9, 2024, the Commission held a prehearing conference before Administrative Law Judge James E. Brown II. At the prehearing conference, the Commission granted PacifiCorp's request for a Protective Order.
- 9 On January 23, 2024, the Commission entered Order 03, in which the Commission granted the petition to intervene filed by AWEC and noticed an evidentiary hearing for June 4, 2024, at 9:00 a.m. On that same day, the Commission entered Order 04, memorializing the Company's request for a Protective Order.
- 10 On February 14, 2024, AWEC filed a Petition for Case Certification and Notice of Intent to Request a Fund Grant.
- 11 On May 3, 2024, the Commission granted AWEC's Request for Case Certification in Order 05. On the same day the Commission entered Order 06, approving AWEC's proposed budget and fund grant.
- 12 On May 9, 2024, PacifiCorp filed a Motion to Allow Supplemental Rebuttal Testimony of Douglas Staples, along with proposed Exh. DRS-4CT.
- 13 On May 17, 2024, Staff filed a Motion in Limine to exclude specific excerpts of testimony from PacifiCorp witness Douglas R. Staples contained in Exh. DRS-1CT. Staff specifically requested excerpts from sections IV, VI, and VIII be excluded to the extent that testimony impermissibly covers new, foundational direct testimony, which should have been submitted on direct, in Staples' rebuttal testimony.
- 14 On May 24, 2024, PacifiCorp filed a Response to Staff's Motion in Limine. In the Response, the Company argues that each excerpt Staff requests be excluded responds to

testimony of AWEC and/or Public Counsel and is relevant to resolution of issues in the proceeding.

- 15 On June 4, 2024, the Commission held an evidentiary hearing in this matter before the Commissioners, with Administrative Law Judges, James E. Brown II and Connor A. Thompson presiding.
- 16 **PARTY REPRESENTATIVES.** Daniel J. Teimouri and Ajay Kumar, in-house counsel, along with Adam Lowney of McDowell Rackner Gibson PC, represent PacifiCorp. Jeff Roberson and Josephine R. K. Strauss, Assistant Attorneys General, Olympia, Washington, represent Commission staff (Staff).⁵ Tad Robinson O’Neill, Jessica Johanson-Kubin, and Robert Sykes, Assistant Attorneys General, Seattle, Washington, represent the Public Counsel Unit of the Attorney General’s Office (Public Counsel). Tyler C. Pepple and Sommer J. Moser, of Davison Van Cleve, P.C., represent AWEC.
- 17 **COMMISSION DETERMINATIONS.** The Commission recognizes that circumstances have changed since we approved the Washington Inter Jurisdictional Allocation Methodology (WIJAM) in December of 2020, which results in Washington customers having a significant exposure to market purchases.⁶ At the time of the WIJAM’s approval, gas and electric market prices were at historic lows. However, this is no longer the case, and Washington ratepayers are disproportionately bearing the costs of rising prices of gas and electricity on the wholesale market, based on the Company’s current allocation structure. Furthermore, we note and recall that the Commission has repeatedly encouraged PacifiCorp to build energy resources in its Western balancing authority,⁷ which may have provided some cost allocation relief to Washington ratepayers, in the present case. Therefore, in its next rate case filing in 2025, the Commission requires the

⁵ In formal proceedings such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners’ policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. See RCW 34.05.455.

⁶ *WUTC v. Pac. Power & Light Co.*, Docket Nos. UE-191024, UE-190750, UE-190929, UE-190981, and UE-180778, Final Order 09 / 07 / 12 at ¶112 (Dec. 14, 2020).

⁷ See *In the Matter of Pacific Power and Light Company*, Docket UE-111418, Order 01 (October 14, 2011); *In the Matter of Pacific Power and Light Company*, Docket UE-131670, Order 01 (October 10, 2013); *In the Matter of Pacific Power and Light Company*, Docket UE-151694, Order 01 (October 29, 2015); *In the Matter of Pacific Power and Light Company*, Docket UE-170885, Order 01 (October 12, 2017); *In the Matter of PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210779, Order 01 (November 12, 2021).

Company to justify the continued application of the WIJAM and provide an alternative for cost allocation more beneficial to Washington ratepayers.

- 18 With regard to hedging, we conclude that the adjustments proposed by PacifiCorp weigh more in favor of the public interest than those proposed by AWEC, and better balance the interests of the Company and the ratepayers. Additionally, we observe that the Company claims that it hedges for gas and electricity holistically in its system. If such is the case, Washington ratepayers need assurance that they are receiving a fair share of allocated benefits through PacifiCorp's hedging system. To better understand PacifiCorp's dispatch process for its Chehalis and Hermiston plants, we direct the Company to acquire a consultant to conduct an audit of the Company's dispatching practices for those plants. To ensure objectivity, we direct the Company to work with Commission Staff in the selection of the consultant and the scope of work of the audit.
- 19 Finally, we do find some merit in Public Counsel's argument that the PCAM adjustment should be rejected but will not reject it at this time. As described above, there are major elements in both the WIJAM and the hedging process that give us cause for concern, and we have detailed the next steps for a better understanding of these elements going forward. We may revisit Public Counsel's position in a future proceeding after further review of the WIJAM and the Company's hedging practices. In the meantime, we approve the PCAM adjustment subject to a \$1.9 million adjustment to reflect the benefits allocated to Washington ratepayers.

DISCUSSION AND DECISION

I. Applicable Law

- 20 The Commission determines the prudence of utility actions by reviewing whether the utility made reasonable business decisions in light of the facts and circumstances known or that reasonably should have been known to the utility at the time decisions were made.⁸ Prudence does not require a single, ideal decision, but requires the utility to make a reasonable decision among a number of alternatives which the Commission might find prudent.⁹

⁸ *WUTC v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12 at ¶ 19 (Apr. 7, 2004).

⁹ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG—090705 (*consolidated*), Order 11 at ¶ 337 (Apr. 2, 2010).

II. Direct Testimony

PacifiCorp's Direct Testimony

- 21 In direct testimony, PacifiCorp calculates and requests a power cost adjustment mechanism (PCAM) recovery of \$71.5 million. The final recovery amount includes the adjustments for the deadband, and asymmetrical sharing bands included in the Company's PCAM structure, as well as accrued interest on the deferral amount.¹⁰ Table 1 shows a line-item summary of the PCAM account balance.
- 22 The PCAM differential is calculated monthly by taking the Actual Net Power Costs (NPC) allocated to Washington each month through the WIJAM and subtracting the amount recovered in rates. The amount recovered in rates is determined by multiplying the actual MWh retail sales made by the Company by the Base NPC rate (\$/MWh).¹¹

Table 1: Line-item summary of the Company PCAM Account Balance¹²

<u>Calendar Year 2022 PCAM Deferral</u>	
Actual PCAM Costs (\$/MWh)	\$ 50.81
Base PCAM Costs (\$/MWh)	33.48
PCAM Cost Differential (\$/MWh)	<u>17.33</u>
Washington Sales (MWh)	4,181,079
Total PCAM Differential*	\$ 72,671,801
Total Deferrable ABOVE Deadband	-
Total Deferrable BELOW Deadband	68,671,801
Washington Deferral after Sharing	59,404,621
DNBA Adjustment	6,235,305
Interest Accrued through December 31, 2022	703,704
Interest Accrued January 1, 2023 through March 31, 2023	1,052,084
Interest Accrued April 1, 2023 through June 30, 2023	1,271,584
Interest Accrued July 1, 2023 through December 31, 2023	2,799,978
Requested PCAM Recovery	<u>\$ 71,467,276</u>
* Calculated monthly	

¹⁰ Painter, Exh. JP-1T at 6.

¹¹ Painter, Exh. JP-1T at 6:3-7:15.

¹² Painter, Exh. JP-1T at 6:3-7:15.

23 The Base NPC used for the 12-month period from January 1, 2022, through December 31, 2022 (Deferral Period) was \$137 million, which was allocated to Washington through the WIJAM. The Deferral Period utilizes two Base NPC Rates, the first from the Company’s 2021 GRC (January 1, 2022 to April 30, 2022) and the second from the Company’s 2022 PacifiCorp’s Power Cost Only Rate (PCORC) (May 1, 2022 to December 31, 2022).¹³ PacifiCorp uses deferred NPC from these two periods to calculate its requested PCAM over the Deferral Period.

24 The Actual NPC incurred by PacifiCorp over the course of the Deferral Period was approximately \$75 million greater than the Base NPC. Table 2 shows the line-item summary of the differences between the Base NPC and Actual NPC.

Table 2: Line-Item Summary of Actual NPC vs. Base NPC (\$ millions)¹⁴

Base NPC	\$ 137
Increase/(Decrease) to NPC:	
Wholesale Sales Revenue	(0)
Purchased Power Expense	43
Coal Fuel Expense	(2)
Natural Gas Expense	31
Wheeling and Other Expense	2
Total Increase/(Decrease)	75
2021 GRC Settlement Adjustment	0
Total Company NPC Difference	\$ 75
Adjusted Actual NPC	\$ 212

25 PacifiCorp explains that purchased power and natural gas expenses were the primary drivers of the difference between Actual NPC and Base NPC. Company witness Jack Painter testifies that weather events played a large role in the increase of purchased power and natural gas prices. Painter notes that summer heat waves, drought conditions in the West, and the historic winter cyclone event of December 2022 drove increased prices. The weather events also led the Company to purchase more market power than was

¹³ Painter, Exh. JP-1T at 11:1-12:2.

¹⁴ Painter, Exh. JP-1T at 11:7-8.

expected in the Base NPC. Painter further testifies that the war in Ukraine led to an increase in fuel prices in the U.S. due to the decreased supply of Russian natural gas in Europe.¹⁵

26 Painter notes that decreased coal generation, increased wholesale sales revenue, and wheeling expenses caused modest decreases in coal fuel expenses beyond Base NPC.¹⁶ These components of the PCAM balance are not contested.

27 PacifiCorp also provides testimony of how its hedging process works in general. Company witness Ramon Mitchell testifies that hedging generally is a mechanism used to protect customers against energy price volatility.¹⁷ The Company hedges against volatile prices by locking in a price, whether that be for gas or power, for a certain volume over a certain time, with the overall objective of managing price volatility ahead of time.¹⁸

28 Mitchell testifies that PacifiCorp has a strong risk management program, which manages risk and hedging across the Company's six-state regulated territory.¹⁹

29 PacifiCorp utilizes an active risk management system, which it uses to hedge for its entire system as one entity instead of each state individually.²⁰ Mitchell testifies that this means rather than hedging for Washington individually, the Company hedges holistically.²¹

30 PacifiCorp asserts in its direct testimony that systematic hedging provides benefits to customers, in large part due to geographic diversity.²² The Company explains that this geographic diversity allows the Company to shift power on its system during times of need in one geographic area from another area that may not be experiencing similar conditions.²³

31 PacifiCorp also provides testimony explaining that in part because of the WIJAM, there is a lack of capacity – or generation – to meet Washington's load with the Company's

¹⁵ Painter, Exh. JP-1T at 12:3-13:14, 14:5-21:21, 15:5-14.

¹⁶ Painter, Exh. JP-1T at 13:15-14:4, 15:1-4.

¹⁷ Mitchell, Exh. RJM-1T at 3:19-4:5.

¹⁸ *Id.*

¹⁹ *Id.* at 4:11-13.

²⁰ Mitchell, Exh. RJM-1T at 4:10-7:6.

²¹ *Id.* at 5:10-13.

²² *Id.* at 5:14-7:6.

²³ *Id.*

existing resources. Despite this deficit, Mitchell testifies that hedging for Washington separately is not in its customers' best interest. Mitchell testifies that customers benefit from addressing Washington's market exposure, which he says is due to the supply/demand imbalance, by locking in prices to cover the deficit at sales prices first and then at market purchase prices.²⁴

- 32 Next, PacifiCorp witness Mitchell details the WIJAM, which he claims "implicitly" hedges for Washington, stating that without it the NPC of the 2022 PCAM would have increased by \$7.1 million.²⁵ Mitchell explains that the least-cost portfolio identified in the 2023 Integrated Resource Plan completed by PacifiCorp incorporates market exposure at lower costs for customers.²⁶

III. Parties' Response Testimony

Staff

- 33 Staff witness John Wilson recommends an alternative method for calculating the WIJAM balancing adjustment (WIJAM BA) and a third-party audit of the dispatch of the Chehalis and Hermiston natural gas plants located in Washington.²⁷
- 34 Wilson's first recommendation is that the WIJAM BA be calculated based on an hourly basis where possible. In addition to hourly calculations, Wilson recommends that the WIJAM BA be first based on undispached capacity from Chehalis and Hermiston, followed by day-ahead market prices from the Mid-Columbia (Mid-C) hub. This would result in an NPC reduction of \$3.9 million.²⁸ If the Commission does not find it appropriate to value the balancing adjustment based on undispached capacity, then the reduction would be \$1.0 million.²⁹
- 35 Wilson's second recommendation is that the Commission order PacifiCorp to perform a third-party audit of the dispatch of Chehalis and Hermiston.³⁰ Wilson provides testimony which suggests that the Chehalis and Hermiston plants were uneconomically dispatched

²⁴ *Id.* at 11:9-12:5

²⁵ Mitchell, Exh. RJM-1T at 8:1-12:5 and Exh. RJM-2.

²⁶ Mitchell, Exh. RJM-1T at 12:6-16.

²⁷ Wilson, Exh. JDW-1CT at 3:1-4:5, 41:1-9.

²⁸ Wilson, Exh. JDW-1CT at 3:1-4:5, 41:1-9.

²⁹ Wilson, Exh. JDW-1CT at 41:10-12.

³⁰ Wilson, Exh. JDW-1CT at 4:6-16.

but admits that they are unable to perform an adequate analysis to fully justify and quantify that conclusion.³¹

- 36 Staff witness Wesley Yeomans testifies that PacifiCorp's risk management program is prudent, reasonable, and effective.³² Yeomans makes minor recommendations for the Company, including that PacifiCorp (1) strengthen its risk review processes, (2) mitigate causes of errors in its quarterly physical position workbooks, (3) review performance of its physical hedges, and (4) provide semi-annual hedging reports to the Commission.³³

Public Counsel

- 37 Public Counsel recommends that the Commission reject PacifiCorp's entire request for cost recovery through the PCAM, arguing that the Company's hedging practices, long-term planning, and integrated resource planning processes were imprudent. Public Counsel recommends that PacifiCorp be required to hedge separately for Washington as well as plan for Washington separately as a part of its integrated resource planning (IRP) process. Further, if the Company is unable or unwilling to do so, it should be required to hire an independent entity to do so at shareholder expense.³⁴ Public Counsel submits that if Washington's NPC were hedged similarly to other PacifiCorp jurisdictions in 2021 and 2022, Washington's NPC would have been \$110 million less.³⁵
- 38 Public Counsel witness Robert Earle argues that Washington's NPC has increased due to Washington's overexposure to markets, which Earle cites as being a known problem since 2007, causing NPC to roughly double from 2020 to 2022.³⁶ Additionally, Earle claims that the Company has not justified its system-wide approach to hedging and that the burden of proof is on PacifiCorp to demonstrate prudence. Earle cites the Commission's order from the 2022 PCORC, where the Commission ordered the Company to address its risk management practices with respect to hedging for Washington-allocated resources.³⁷ Witness Earle argues that the WIJAM methodology does not prevent PacifiCorp from

³¹ Wilson, Exh. JDW-1CT at 42:5-53:11.

³² Yeomans, Exh. WY-1CT at 5:1-12.

³³ Yeomans, Exh. WY-1CT at 14:9-15:12.

³⁴ Earle, Exh. RLE-1T at 3:16-5:2.

³⁵ *Id.* at 3:11-15; *see also id.* at 5:5-6:11.

³⁶ Earle, Exh. RLE-1T at 5:3-4:11.

³⁷ Earle, Exh. RLE-1T at 6:12-8:15.

hedging for Washington separately and that the Commission has previously acknowledged that fact.³⁸

39 Public Counsel also argues that the Company's short-term hedging is imprudent. Earle argues again that PacifiCorp should hedge for Washington separately because of its short position, that PacifiCorp's holistic approach is not efficient for Washington customers, and that PacifiCorp has not shown any evidence it has performed more comprehensive risk assessment or taken action to manage risks of its Washington power costs.³⁹

40 With respect to long-term resource planning, Earle testifies that the Commission warned PacifiCorp about its over-exposure to energy markets in Washington in acknowledgment letters for the 2011, 2015, and 2017 IRPs, which is a sign of imprudence on the Company's behalf.⁴⁰ Further, Earle asserts that the WIJAM does not prevent PacifiCorp from procuring additional resources for Washington.⁴¹

41 Regarding PacifiCorp's reliance on the "system-wide optimization" for hedging and resource procurement, Earle offers Avista and Puget Sound Energy as examples of utilities that can hedge separately for their respective jurisdictions.⁴²

AWEC

42 AWEC recommends that the Commission find PacifiCorp's actions imprudent for not adequately hedging the gas requirements of the western balancing area. To support its adjustment to the Company's recovery request, AWEC witness Bradley Mullins performs a counterfactual analysis of the Company's gas hedging practices. The total reduction to the PCAM balance recommended by AWEC is \$26,173,777, comprised of separate reductions from PacifiCorp's gas hedging and power hedging practices.⁴³

43 Mullins claims that the Company remained within its gas hedging policy on a system-wide basis. However, Mullins uses a counterfactual analysis to highlight the hedging discrepancies between the east and west balancing areas, which were known to

³⁸ Earle, Exh. RLE-1T at 18:7-19.

³⁹ *Id.* at 14:16-19:12.

⁴⁰ Earle, Exh. RLE-1T at 8:16-9:13.

⁴¹ Earle, Exh. RLE-1T at 10:16-12:10.

⁴² Earle, Exh. RLE-1T at 16:1-17:15. Here, Public Counsel considers PSE's electric and gas businesses to be separate entities that hedge against each other.

⁴³ Mullins, Exh. BGM-1CTr at 1:19-2:5.

PacifiCorp, showing that the eastern balancing area was over-hedged while the western balancing area was under-hedged. Mullins claims that the Company hedges for Washington on a system-wide basis but has benefits of hedges allocated on a supply-specific basis for Chehalis and Hermiston, disadvantaging Washington ratepayers.⁴⁴ As a result, Mullins proposes an adjustment to avoided fuel expenses decreasing the PCAM balance by \$13,916,286.⁴⁵

44 Alternatively, if the Commission finds that PacifiCorp's system-wide gas hedging was prudent, Mullins recommends allocating hedges on a system-wide basis. Mullins argues that \$15,405,230 of additional hedging benefits should have been allocated to Washington. However, Mullins maintains that the Commission should adjust the PCAM deferral to the smaller of these amounts, \$13,916,286, with interest.⁴⁶ Thus, Mullins recommends that the Commission approve a reduction to the PCAM balance of \$15,225,170 for gas hedging.⁴⁷

45 Mullins testifies that Washington has a greater net short position than PacifiCorp's system average, and it is necessary to allocate more system power hedges to Washington to address the additional risk allocated to Washington customers under the WIJAM.⁴⁸ Mullins contests the claim by Company witness Mitchell that the WIJAM inherently hedges for Washington, as well as the claim of \$7.1 million of hedging benefits that Washington receives from the WIJAM.⁴⁹ Since PacifiCorp hedges its net power position, and Washington does not receive the benefits of the resources contributing to the Company's frequent net long hedging position, Mullins claims it is appropriate to provide Washington with a higher allocation of power hedging benefits. Mullins concludes that the PCAM balance should be further reduced by \$10,948,606 to reflect a higher allocation of hedging benefits.⁵⁰

⁴⁴ Mullins, Exh. BGM-1CTr at 42:17-44:9.

⁴⁵ Mullins, Exh. BGM-1CTr at 3:10-12.

⁴⁶ Mullins, Exh. BGM-1CTr at 3:10-15.

⁴⁷ Mullins, Exh. BGM-1CTr at 3:14-20.

⁴⁸ Mullins, Exh. BGM-1CTr at 4:1-16, 47:10-49:8.

⁴⁹ Mullins, Exh. BGM-1CTr at 47:9-49:8.

⁵⁰ Mullins, Exh. BGM-1CTr at 4:3-16.

IV. Parties' Cross-Answering Testimony

Staff

- 46 In response to AWEC, Staff witness Yeomans comments that if the WIJAM is not adequate for allocating costs and benefits, then it may be more reasonable for PacifiCorp to execute regional power hedges such as implementing a minimum hedging requirement for the western balancing area.⁵¹ Yeomans also agrees with AWEC that the Company's hedging practices did not fully mitigate the high costs experienced in the Deferral Period, but argues that they are not designed to do so.⁵²
- 47 Staff witness Yeomans disagrees with Public Counsel's conclusions that the Company gambled on market exposure and willfully disregarded the interests of Washington ratepayers. Yeomans agrees that the Company's hedging program allows for separate hedging for Washington but believes that the Company generally acted prudently in using systemwide hedging.⁵³
- 48 Yeomans recommends that PacifiCorp continue to hedge system-wide, but provide a minimum hedging threshold for the western balancing area.⁵⁴ Yeomans also recommends that the Commission reject Public Counsel's recommendation to disallow PacifiCorp's PCAM recovery request, stating "while Public Counsel may not be satisfied with PacifiCorp's response, I wouldn't agree with a full disallowance of actual costs based on Public Counsel's claim that PacifiCorp made no attempt to demonstrate that its actions were prudent."⁵⁵

Public Counsel

- 49 Similarly, Public Counsel witness Earle does not agree with Staff witness Yeomans's findings, asserting that Yeomans did not address specific impacts on Washington customers, and therefore, his testimony is not relevant in this case.⁵⁶

⁵¹ Yeomans, Exh. WY-8T at 12:9-22.

⁵² Yeomans, Exh. WY-8T at 14:7-15:3.

⁵³ Yeomans, Exh. WY-8T at 2:10-3:8.

⁵⁴ Yeomans, Exh. WY-8T at 9:16-10:2, 4:17-6:2.

⁵⁵ Yeomans, Exh. WY-8T at 11:5-17.

⁵⁶ Earle, Exh. RLE-7CT at 4:9-5:8.

- 50 Public Counsel testifies that AWEC's analysis of power hedging assumes PacifiCorp's hedging practices as a baseline, which Public Counsel believes to be insufficient and results in a PCAM balance reduction that is too low.⁵⁷ Instead, Public Counsel's own counterfactual analysis assumes what it believes to be prudent hedging practices.⁵⁸
- 51 Alternatively, if the Commission does not reject the Company's entire PCAM request, Public Counsel recommends that the Commission reduce the PCAM balance by \$47 million. The \$47 million reduction adopts AWEC's \$14,288,067 reduction for imprudent gas hedging,⁵⁹ and an additional reduction for imprudent power hedging per Public Counsel's counterfactual analysis of \$32,826,045. Public Counsel still maintains its proposals for PacifiCorp's treatment of Washington regarding future hedging practices and IRP planning.⁶⁰

AWEC

- 52 AWEC states that Staff witness Yeomans did not assess the prudence of PacifiCorp's hedging practices as they apply to Washington, notably not considering the impacts of the WIJAM. As a result, Mullins does not believe that Yeomans' assessment is particularly relevant, given that the total system hedging leaves Washington exposed to market fluctuations.⁶¹

V. PacifiCorp's Rebuttal Testimony

Rebuttal to Staff

- 53 The Company does not agree with any recommendations made by Staff witness Wilson.⁶² The Company does agree, however, with Staff witness Yeomans' suggestion to provide comprehensive semi-annual hedging reports to Washington Staff under appropriate confidentiality protections.⁶³

⁵⁷ Earle, Exh. RLE-7CT at 9:3-14.

⁵⁸ Earle, Exh. RLE-7CT at 6:11-9:2.

⁵⁹ The Commission notes that this is not the same number cited by AWEC for its gas hedging reduction.

⁶⁰ Earle, Exh. RLE-7CT at 2:5-4:8.

⁶¹ Mullins, Exh. BGM-11T at 2:6-16, 5:5-6:2.

⁶² Mitchell, Exh. RJM-3CT at 4:20-21.

⁶³ Fritz, Exh. JMF-1CT at 7:4-8.

- 54 Regarding Staff’s recommendation to close the WIJAM open position with hourly prices instead of monthly average prices, Mitchell testifies that this recommendation would completely expose Washington to the spot market in the WIJAM calculations.⁶⁴ Mitchell also argues that this would eliminate the implicit hedging of the WIJAM BA,⁶⁵ stating that Washington’s open position is first closed using PacifiCorp’s own system sales and produces a favorable outcome for Washington ratepayers.⁶⁶ Mitchell notes that Staff found there “are not significant differences” between using hourly and monthly prices, and PacifiCorp does not believe the increased labor burden to incorporate hourly data is justified.⁶⁷
- 55 PacifiCorp also rejects the use of Mid-C spot market pricing to value the WIJAM open position. Mitchell states that the CAISO’s use of Mid-C as a proxy for hydroelectric energy bids in the Western Energy Imbalance Market (WEIM) does not relate to the WIJAM or hedging in Washington, and that Mid-C is frequently one of the highest spot market prices since the Climate Commitment Act was passed in 2023.⁶⁸
- 56 PacifiCorp claims that Staff bases its recommendation to audit the dispatch of Chehalis and Hermiston on two false premises. The first premise is that there is economic excess capacity available at Chehalis and Hermiston, which the Company argues is not true because they are economically dispatched in the WEIM and, in the future, will be dispatched in CAISO’s Extended Day-Ahead Market (EDAM). Further, the Company argues that operating the gas plants in an isolated fashion will increase costs.⁶⁹
- 57 PacifiCorp also argues that Staff’s recommendations would result in the uneconomic dispatch of the Chehalis and Hermiston gas plants. Mitchell states that Staff’s analysis compares Mid-C power trading hub prices to dispatch of Chehalis and Hermiston, and that the Mid-C trading hub is not a WEIM node and cannot be used for that analysis. Therefore, the Company recommends Staff’s analysis be ignored.⁷⁰
- 58 Company witness John Fritz disagrees with three of the four suggestions made by Staff witness Yeomans, who recommends that the Company strengthen its formal risk review

⁶⁴ Mitchell, Exh. RJM-3CT at 5:4-9.

⁶⁵ Mitchell, Exh. RJM-3CT at 5:10-12.

⁶⁶ Mitchell, Exh. RJM-3CT at 2:12-4:14.

⁶⁷ Mitchell, Exh. RJM-3CT at 5:13-6:2.

⁶⁸ Mitchell, Exh. RJM-3CT at 6:3-7:5.

⁶⁹ Mitchell, Exh. RJM-3CT at 7:6-9:7.

⁷⁰ Mitchell, Exh. RJM-3CT at 9:8-10:4.

process with frequent brainstorming. Fritz states that PacifiCorp power and gas traders meet monthly to discuss energy market issues, with meeting minutes. Yeomans recommends that the Company review and mitigate the causes of production errors in quarterly physical position workbooks. Fritz disagrees with the recommendation, arguing it is not feasible, but notes that the Company will continue to work to reduce the occurrence of errors. Yeomans suggests that the Company review the performance of physical hedges as hedging strategy evolves to utilize higher proportions of physical hedges over financial hedges. Fritz disagrees with this recommendation, stating it does not accurately reflect the Company's hedging strategy.

- 59 Company witness Fritz does agree with Yeomans that the Company can provide semi-annual hedging reports to Washington Staff, so long as there are appropriate confidentiality protections.

Rebuttal to Public Counsel

- 60 PacifiCorp opposes Public Counsel's recommendations to disallow the entire PCAM request, to hedge for Washington separately or hire a third party to do so, and to reform its IRP process to optimize for Washington ratepayers.⁷¹
- 61 Regarding Washington's market exposure, Company witness Wilding cites added renewable generation and points out that Public Counsel has not provided evidence that additional resources would have reduced prices for Washington.⁷² Wilding admits that the WIJAM does not prevent the acquisition of new resources,⁷³ but argues that the Company has explained how it hedges for market exposure and modifies cost allocation methodologies to meet the needs of Washington customers.⁷⁴
- 62 Responding to Public Counsel's claims that PacifiCorp has not engaged in prudent long-term planning, Wilding testifies that the Company has acquired significant renewable resources and transmission that can serve Washington customers and reduce market reliance.⁷⁵ Wilding proclaims the WIJAM inherently provides benefit to Washington ratepayers.⁷⁶ PacifiCorp witness Mitchell reiterates the economically favorable results of

⁷¹ Wilding, Exh. MGW-1T at 17:17-19:6.

⁷² Wilding, Exh. MGW-1T at 13:5-14.

⁷³ Wilding, Exh. MGW-1T at 15:14-16:5.

⁷⁴ Wilding, Exh. MGW-1T at 16:6-15.

⁷⁵ Wilding, Exh. MGW-1T at 13:21-14:1.

⁷⁶ Wilding, Exh. MGW-1T at 14:18-15:13.

the WIJAM for Washington ratepayers, claiming that Public Counsel has egregiously misunderstood how the WIJAM functions. These misunderstandings, he says, include the calculation methodology for the WIJAM and how purchases are made in forward markets.⁷⁷

- 63 In supplemental rebuttal testimony filed after Public Counsel presented a new analysis in cross testimony, the Company rejects the analysis that Public Counsel presents for power hedging. Staples notes that Public Counsel's counterfactual analysis would have required the Company to hedge according to its current policy before it was in place.⁷⁸ Further, Staples argues that Public Counsel's testimony contains many other fundamental errors related to the Company's hedging policy and lists other factors that could not have been known by PacifiCorp without perfect foresight.⁷⁹

Rebuttal to AWEC

- 64 Company witness Ramon Mitchell claims that the WIJAM BA has a built-in hedging mechanism by virtue of using partially hedged power purchases to close Washington's open position.⁸⁰ Mitchell also claims that the WIJAM BA minimizes Washington's market exposure through that same mechanism.⁸¹ Mitchell also defends the estimate of the WIJAM's benefits to Washington, asserting that the \$7.1 million in estimated benefits is a direct representation of the hedging benefits of the WIJAM.⁸²
- 65 In rebuttal to AWEC's recommendations regarding gas hedging, the Company maintains that its hedging policies are sound but concedes that the WIJAM does not allow Washington customers to experience the full allocation of gas hedging activities in calculating the NPC. Company witness Staples proposes an alternative reallocation of hedging benefits to the west side of PacifiCorp's system. To address this issue, the Company proposes that in any month where the hedge ratio of the west side of the system is below 50 percent, it will reallocate swap volumes from the east to the west. This

⁷⁷ Mitchell, Exh. RJM-3CT at 11:14-13:11.

⁷⁸ Staples, Exh. DRS-4CT at 1:12-2:13.

⁷⁹ Staples, Exh. DRS-4CT at 2:14-4:14. Factors that Staples claims could not have been known by the Company include unplanned outages, unanticipated fuel constraints, load above forecast, unexpected increases in temperature, poor hydro conditions, reliability operations, market price changes, extreme weather conditions, and unplanned transmission outages.

⁸⁰ Mitchell, Exh. RJM-3CT at 2:7-4:14, 13:15-14:11.

⁸¹ Mitchell, Exh. RJM-3CT at 14:12-15:2.

⁸² Mitchell, Exh. RJM-3CT at 15:9-16:13.

approach reduces Washington NPC by \$1.9 million.⁸³ Staples rejects Mullins's counterfactual analyses.

- 66 According to Staples, AWEC argues incorrectly that the Company was not required to hedge the system holistically, that the Company should have hedged for the east and west sides of the system separately, and that this should lead to disallowance or a reallocation of hedges from the east side to the west side.⁸⁴ Staples disagrees with this assessment, citing the decreased liquidity of the Sumas market compared to the Rockies market that would make hedging in such a way infeasible. Staples further defends PacifiCorp's system-wide hedging approach since the benefits are spread to all customers through the allocation of costs and benefits.⁸⁵
- 67 Staples also claims to have identified errors in AWEC's analysis. Staples argues that Mullins relies on hindsight to second-guess the Company's hedging practices, particularly when assessing potential hedging transactions at gas market hubs.⁸⁶ Staples also notes that in practice, AWEC's counterfactual analysis would require a net removal of hedges from what PacifiCorp executed.⁸⁷ Regarding AWEC's comparison of gas consumption to PacifiCorp's gas requirement forecast, Staples points out that gas consumed is not the same as gas required, since PacifiCorp will sometimes purchase gas that is not needed by the Company to generate power for the WEIM.⁸⁸
- 68 The Company opposes AWEC's recommendation for a reduction in the PCAM balance based on PacifiCorp's power hedging practices.
- 69 PacifiCorp witness Staples claims that there are multiple shortcomings in AWEC's analysis, including: the failure of considering whether transactions are index-priced or fixed price, the incorrect categorization of deals as day-ahead when they cover a month, structural issues that distort the hedge position and ratio, the use of information that was unknowable to PacifiCorp at the time, and mathematical errors.⁸⁹ Staples states that there is no time over the Deferral Period where the Company was outside of the limits of its

⁸³ Staples, Exh. DRS-1CT at 35:14-40:9.

⁸⁴ Staples, Exh. DRS-1CT at 24:15-21.

⁸⁵ Staples, Exh. DRS-1CT at 25:13-27:6.

⁸⁶ Staples, Exh. DRS-1CT at 30:7-31:7, 25:13-27:6.

⁸⁷ Staples, Exh. DRS-1CT at 31:8-32:3.

⁸⁸ Staples, Exh. DRS-1CT at 32:4-35:13.

⁸⁹ Staples, Exh. DRS-1CT at 40:10-45:16.

hedging policy for more than 10 days, and that the Company therefore acted consistently with its current hedging policy.⁹⁰

- 70 Company witness Wilding takes issue with two statements in AWEC's response testimony. First, he rejects the idea that the suspension of PacifiCorp's 2023 All Source RFP is relevant to this case since any resources that would have been acquired would not have been in service until 2026 at the earliest. Second, he claims that AWEC's citing of a statement by Warren Buffet in a shareholder letter is inappropriate in this proceeding, since Buffet was speaking broadly about investment risks with respect to wildfires.⁹¹

VI. Uncontested Issues

- 71 PacifiCorp requests recovery of the true-up for Actual Production Tax Credits (PTCs) and Base PTCs over the Deferral Period. The amount of this request is \$1.6 million⁹² and the calculation of this amount is confirmed by Staff witness John Wilson.⁹³ AWEC and Public Counsel do not contest this issue.
- 72 The Company requests that Tariff Schedule 97 is revised to use a 24-month amortization period beginning January 1, 2024, with \$77.3 million recovered over that time.⁹⁴ Staff supports the amortization period request, since a one-year recovery of the PCAM adjustment would have a substantial impact on rates.⁹⁵ AWEC and Public Counsel do not contest the amortization period.

⁹⁰ Staples, Exh. DRS-1CT at 45:17-22.

⁹¹ Wilding, Exh. MGW-1T at 19:7-20:11. AWEC witness Mullins said, in Exh. BGM-1CTr at 5:3-9: "In his recent letter to shareholders, Warren Buffet announced '[i]t will be many years until we know the final tally from BHE's forest-fire losses and can intelligently make decisions about the desirability of future investments in vulnerable western states.' This statement, viewed in conjunction with the cancellation of the 2022 All-Source RFP, is deeply concerning, and reason to disallow the entire PCAM balance on the basis that PacifiCorp has not found it *desirable* to invest in Washington's portfolio" (emphasis in original).

⁹² Painter, Exh. JP-1T at 17:3-11.

⁹³ Wilson, Exh. JDW-1CT at 10:1-18.

⁹⁴ The Commission notes that this was submitted before this proceeding became adjudicated. The specific recovery amount includes interest. The timing of this recovery will need to be updated.

⁹⁵ Wilson, Exh. JDW-1CT at 9:1-17.

VII. Parties' Initial Briefs

PacifiCorp

- 73 In its initial brief, PacifiCorp argues that hedging policies should be flexible, defining minimum acceptable limits and identifying points at which front office personnel must make decisions.⁹⁶ PacifiCorp argues its hedging policy meets these requirements and that the Company complied with its risk management policy in making every hedging decision, which was reasonable based on information known to the Company.⁹⁷ It further asserts that its hedging practices during 2022 followed the Company's hedging program and were prudent for both gas and power.⁹⁸
- 74 For its gas hedging program, PacifiCorp argues AWEC's criticisms of the Company's gas hedging program lack merit because the Company's hedging program does not require separate hedging strategies based on geography, and if the Company hedged in the manner suggested by AWEC, it would result in higher premiums and prices for customers.⁹⁹ PacifiCorp also asserts that the counterfactuals proposed by AWEC and supported by Public Counsel should be disregarded because, had the Company done what AWEC suggested, it would have raised total system costs, ignored market place realities, and lowered overall hedges – which AWEC suggests elsewhere should have been increased.¹⁰⁰
- 75 In response to AWEC's assertions that PacifiCorp imprudently allocated hedging costs among states, and Staff's proposed reallocation of gas hedging benefits, PacifiCorp proposes an adjustment of \$1.9 million and asks that the Commission disregard both AWEC and Staff's adjustments for being unreasonable.¹⁰¹ Finally, on gas hedging, the Company asks the Commission not to adopt Staff's recommendation that the Company incorporate minimum hedging limits for its west-side gas plants at this time.¹⁰²

⁹⁶ PacifiCorp Initial Brief at 4 ¶ 12.

⁹⁷ *Id.* at 5 ¶ 13.

⁹⁸ *Id.* at 5-7 ¶¶ 15-19; 13-15 ¶¶ 34-37.

⁹⁹ *Id.* at 7-8, ¶¶ 20-22.

¹⁰⁰ *Id.* at 8-10 ¶¶ 23-28.

¹⁰¹ *Id.* at 10-13 ¶¶ 29-32.

¹⁰² *Id.* at 13 ¶ 33.

- 76 For its power hedging, PacifiCorp argues against the recommendation from AWEC and Public Counsel that the Company hedge separately for Washington, because doing so would increase Washington allocated NPC and result in higher prices for customers.¹⁰³
- 77 PacifiCorp argues that the disallowance recommended by AWEC, and adjustment recommended by Public Counsel fail to provide evidence that the Company acted imprudently. Specifically, PacifiCorp alleges that AWEC's and Public Counsel's adjustment incorrectly calculates the hedging limits because both parties rely on actual transactional data to measure the minimum limit percentage. However, that actual data was not available to the Company when it was executing hedges. Further, the Company asserts Public Counsel and AWEC's analyses would unreasonably require the Company to have perfect foresight and to the extent they rely on hedging separately for Washington, that doing so goes against the Company's hedging policy and program.¹⁰⁴
- 78 PacifiCorp also asks the Commission not to adopt Staff's recommendations that the Company (1) review and mitigate causes of production errors quarterly and (2) review performance of physical hedges to utilize higher proportions of physical over financial hedges.¹⁰⁵
- 79 However, PacifiCorp agrees to adopt Staff's two remaining recommendations to (1) provide minutes of monthly meetings and (2) provide copies of the Company's semi-annual hedging reports to Staff.¹⁰⁶
- 80 PacifiCorp argues in its initial brief that the allocation under WIJAM is reasonable as previously approved by the Commission, and that consistency requires use of the existing WIJAM methodology for purposes of this docket, because the WIJAM methodology was used to calculate NPC baseline, on which the PCAM calculations are based.¹⁰⁷
- 81 PacifiCorp rejects the recommendations made by Staff which include (1) modification of the balancing adjustment to rely on Mid-C spot market pricing, (2) valuing a portion of the WIJAM's open position with increased or decreased dispatch at Chehalis, and (3) using hourly data to value the system power supplied to Washington through the WIJAM.

¹⁰³ *Id.* at 15-16 ¶¶ 38-39.

¹⁰⁴ *Id.* at 18-20 ¶¶ 44-49.

¹⁰⁵ *Id.* at 21 ¶¶ 50-52.

¹⁰⁶ *Id.* at 21 ¶¶ 50-52.

¹⁰⁷ *Id.* at ¶¶ 54-55.

PacifiCorp asserts each of these modifications would increase costs and market exposure for customers.¹⁰⁸

- 82 Finally, PacifiCorp asserts that an audit of dispatch from Chehalis and Hermiston is not needed because Staff has not shown an audit is necessary, the plants are not dispatched to serve Washington alone, the dispatch is not based on Mid-C pricing, and implementing Staff's proposal would increase Washington allocated NPC. Further, PacifiCorp asks that if an audit is ordered, that PacifiCorp be allowed to recover audit costs through rates.¹⁰⁹

Staff

- 83 In its initial brief, Staff argues that the Commission should find PacifiCorp's hedging program, for both gas and power, is prudent and reflects a proper risk-responsive hedging program but requests the Commission order PacifiCorp to make changes to their hedging program moving forward.¹¹⁰
- 84 Staff specifically recommends the Commission order PacifiCorp to (1) to procure more gas hedges for its west-side power plants, (2) ensure benefits and costs of its hedging program are allocated on a system basis, (3) use hourly Mid-Columbia (Mid-C) hub pricing to value power delivered, and (4) procure a third-party to audit PacifiCorp's 2022 dispatch decisions for the Chehalis and Hermiston gas plants.¹¹¹
- 85 Staff argues that there are two flaws in the WIJAM. Specifically, it says, (1) "the current 'method calculates costs based on Washington's monthly net position rather than an hourly net positions' and (2) the current method 'values the WIJAM BA using system power prices.'"¹¹² Staff advocates that because most power costs are incurred hourly, it is reasonable that the WIJAM should be valued accordingly.¹¹³ Further Staff argues that valuing WIJAM on system prices essentially double counts some costs, potentially leading to inflated prices, and that those costs should be valued using Mid-C pricing.¹¹⁴

¹⁰⁸ *Id.* at ¶¶ 57-64.

¹⁰⁹ *Id.* at ¶¶ 65-66.

¹¹⁰ Staff's Initial Brief, ¶¶ 6-20.

¹¹¹ *Id.* at ¶ 5.

¹¹² *Id.* at ¶ 21 (*citing* Wilson, Exh. JDW-1CT at 3:8-14).

¹¹³ *Id.* at ¶ 22.

¹¹⁴ *Id.* at ¶ 24-27.

86 Finally, Staff reiterates its request that the Commission order an audit of dispatch of the Hermiston and Chehalis plants as there is evidence the plants were not responsive to market prices and were both over- and under- dispatched. Staff contends that this would have been the case if the company had relied upon and utilized Mid-C power purchases.¹¹⁵

Public Counsel

87 Public Counsel argues in its initial brief that the Commission should disallow the entire PCAM amount. While Public Counsel's argument on this point relates to both hedging prudence and the issue of the WIJAM, Public Counsel argues that PacifiCorp's long-term resource planning is and has been imprudent, and has placed Washington in a perpetual position of being overexposed to the market, which directly correlates to high NPC and PCAM filings.¹¹⁶ Because of PacifiCorp's longstanding failures to address Washington's position and power needs, Public Counsel argues that the Commission should disallow the entire amount of the PCAM.¹¹⁷

88 In the alternative, Public Counsel requests the Commission find PacifiCorp's hedging during 2022 was imprudent¹¹⁸ because PacifiCorp under-hedged the west-side gas system, and because PacifiCorp knew Washington's power position was not going to be properly hedged but failed to act accordingly.¹¹⁹

89 Public Counsel requests the Commission adopt the gas hedging adjustments proposed by AWEC's witness Mullins and adopt either electric hedging adjustments proposed separately by Mullins or Public Counsel witness Dr. Earle.¹²⁰

90 Public Counsel argues in its initial brief that the Commission should disallow \$83.5 million from the balancing adjustment because under the WIJAM, PacifiCorp uses

¹¹⁵ *Id.* at ¶¶ 28-30 (*citing*, Wilson, Exh. JDW-1CT at 45, Table 7 (showing instances of alleged over- and under- dispatch)). Staff argues that the plants may have generated \$342,000 in additional revenue, and NPC would have been reduced by \$111,000.

¹¹⁶ *Id.* at ¶ 25-28.

¹¹⁷ *Id.* at ¶¶ 32-33.

¹¹⁸ Public Counsel's Initial Brief, ¶¶ 45-49.

¹¹⁹ *Id.* at ¶¶ 35-44.

¹²⁰ *Id.* at ¶ 34.

“pseudo-market rates” in valuing the adjustment, which is imprudent and improper under Commission precedent.¹²¹

91 Public Counsel asserts that PacifiCorp has failed to show power costs through the WIJAM are offset by other benefits and that in fact PacifiCorp is simply re-selling coal and gas generation, which is disallowed under the WIJAM, back to Washington at a market price rather than the cost of generation¹²²

92 Further, Public Counsel points to the fact that PacifiCorp failed to provide data necessary to calculate its actual costs for providing Washington power, and that because PacifiCorp does not actually purchase the power provided through the WIJAM from outside its East Balancing Authority, PacifiCorp has to estimate what market prices would be, resulting in an inequitable allocation of costs.¹²³

AWEC

93 AWEC argues that PacifiCorp knew Washington is placed in a short position under the WIJAM, and that the Commission has expressed concerns about Washington’s market exposure in the past. Despite this, it says, PacifiCorp failed to act prudently to protect Washington customers and failed to adhere to the requirements of its hedging program.¹²⁴

94 AWEC also pushes back against PacifiCorp’s rebuttals to witness Mullins’ counterfactuals for the Company’s gas and power hedging. AWEC argues that while the past cannot be redone, Mullins’ counterfactuals show that had the Company made better decisions, Washington customers would have been better off.¹²⁵ AWEC asks the Commission to reduce PacifiCorp’s 2022 PCAM recovery utilizing one of the several alternative counterfactuals put forward by witness Mullins.

95 AWEC contends that while the Commission has previously found that the WIJAM does not order the allocation of hedges, it has found PacifiCorp is able to perform additional risk assessments and prudently manage risks for Washington. It says that PacifiCorp

¹²¹ *Id.* at ¶¶ 8, 21-24 (citing, *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Dockets UE-061546 & UE-060817 (consolidated), Order 8, ¶ 76 (June 21, 2007)).

¹²² *Id.* at ¶¶ 7, 10-12.

¹²³ *Id.* at 11-14, 18-20.

¹²⁴ AWEC’s Initial Brief, ¶¶ 9-14.

¹²⁵ *Id.* at ¶¶ 19-20, 23-26, 30-31.

admits it failed to do so and continued its system-wide approach despite Washington's known short position.¹²⁶ AWEC asserts this is not reasonable or prudent.

VIII. Parties' Reply Briefs

PacifiCorp

96 In PacifiCorp's Reply Brief, the Company reasserts that its 2022 gas hedging was prudent, and that hedging in the manner suggested by Public Counsel and AWEC would have resulted in higher costs.¹²⁷ PacifiCorp asserts that AWEC's counterfactuals provide no basis for adjustment, because they rely on improper hindsight analysis and assume facts which do not match market realities or the Company's hedging program.¹²⁸ PacifiCorp asserts that hedging on a systematic basis is prudent and a widely accepted risk management strategy.¹²⁹ Finally, PacifiCorp recommends the Commission adopt its reallocation of benefits of \$1.9 million as reasonable.¹³⁰

97 In response to Public Counsel's arguments regarding the WIJAM, PacifiCorp argues that the WIJAM was approved by the Commission and that cost causation principles mandate Washington should not pay for power produced at plants not in rates at the cost of generation because Washington does not share in the operational and maintenance costs of those plants.¹³¹ Further, the Company asserts the prices under WIJAM are not "pseudo" prices, but are valued on actual monthly averages of short-term firm sales and purchases.¹³² PacifiCorp also argues that adding Washington situs resources, as recommended by Public Counsel, would raise rates. It pushes back against Staff's recommendation to use Mid-C pricing for the same reason.¹³³

¹²⁶ *Id.* at ¶¶ 12, 20-21, 29 (citing, *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 06 ¶ 150 (Mar. 29, 2022)).

¹²⁷ PacifiCorp's Reply Brief, at ¶ 3.

¹²⁸ *Id.* at ¶¶ 5-8.

¹²⁹ *Id.* at ¶ 9.

¹³⁰ *Id.* at ¶ 10.

¹³¹ *Id.* at ¶¶ 17-20.

¹³² *Id.* at ¶¶ 21-22.

¹³³ *Id.* at ¶¶ 25-26.

Staff

- 98 Staff's Reply Brief focuses on the WIJAM and asserts that instead of adopting Public Counsel's recommendation that the WIJAM be valued at cost, that the WIJAM be valued using Mid-C pricing as the fairest benchmark, as the prices are not determined by PacifiCorp.¹³⁴ Staff rejects PacifiCorp's arguments regarding the Mid-C, arguing that a higher average price over a one-year period is not indicative of a trend moving forward, and asserts that prices at Mid-C have reverted to average. Staff adds that in 2022 Mid-C prices were the lowest among five pricing hubs reviewed by PacifiCorp.¹³⁵
- 99 Staff argues against PacifiCorp's rationale that hedging benefits be allocated based on factors other than a system wide basis. Staff believes that this is inequitable and inconsistent with how the Company actually hedges and requests the Commission order that benefits be allocated holistically.¹³⁶ Finally Staff again requests an audit of dispatch at Chehalis and Hermiston and argues doing so would provide far more data than PacifiCorp provided in this docket.¹³⁷

Public Counsel

- 100 Public Counsel reasserts its position that PacifiCorp has failed to show its PCAM adjustment is prudent because the Company failed to show Washington receives proportionate benefits and that the Company sufficiently acted to protect Washington customers from market volatility.¹³⁸
- 101 Public Counsel reasserts its position that the WIJAM, and PacifiCorp's response to Washington's short position under the WIJAM, is imprudent. Public Counsel points to PacifiCorp's seeming disregard for prior Commission warnings and precedent regarding the short position, and that it instead has chosen not to take actions to mitigate costs borne by Washington customers.¹³⁹

¹³⁴ Staff's Reply Brief, at ¶¶ 2-3.

¹³⁵ *Id.* at ¶¶ 4-5.

¹³⁶ *Id.* at ¶¶ 6-8.

¹³⁷ *Id.* at ¶¶ 9-11

¹³⁸ *Id.* at ¶¶ 7, 10, 14.

¹³⁹ *Id.* at ¶¶ 15-18.

102 Public Counsel also pushes back against Staff’s proposal to allocate benefits system-wide. Public Counsel argues Staff’s proposal fails to address Washington consumers and asks the Commission to adopt Public Counsel’s or AWEC’s reallocation of hedges.¹⁴⁰

AWEC

103 In its Reply Brief, AWEC rejects PacifiCorp’s criticisms of Mullins’ alternative gas hedging scenarios and argues that, ultimately, those alternatives are based on information that was known to the Company in 2021, as well as the understanding that Washington would be short under the WIJAM.¹⁴¹ AWEC also points out that of critical importance, all parties agree some form of reallocation of gas hedges is potentially appropriate.¹⁴² AWEC also argues that Staff’s proposal regarding gas hedging is confusing and incomplete.¹⁴³

104 Regarding power hedges, AWEC clarifies its recommendation and requests the Commission order that the system as a whole be hedged, but also that PacifiCorp take actions to ensure that Washington, as a uniquely situated state within PacifiCorp’s system, be hedged up to the requirements of the hedging policy.

IX. Commission Decision

105 The Commission in 2015 approved the implementation of the PCAM for PacifiCorp. The function of the PCAM is to protect the Company from extra-normal power cost variability while giving PacifiCorp adequate incentive to carefully manage its full power portfolio.¹⁴⁴ Further, the Commission intended that the PacifiCorp PCAM be “designed to take into account the cost performance of the Company’s entire resource portfolio and market purchase activities, that appropriately balances risks between the Company and its customers, and that provides Pacific Power with a continuing incentive to focus on managing its power resources rather than arguing repeatedly that it is beyond its ability to do so.”¹⁴⁵

106 At issue in this proceeding is whether PacifiCorp should recover, through its PCAM, the deferred actual NPCs incurred over the Deferral Period in the amount of approximately

¹⁴⁰ *Id.* at ¶ 20.

¹⁴¹ AWEC’s Reply Brief, at ¶¶ 3-10.

¹⁴² *Id.* at ¶ 14.

¹⁴³ *Id.* at ¶¶ 15-18.

¹⁴⁴ *WUTC v. PacifiCorp*, Docket No. UE-140762, p. ii.

¹⁴⁵ *WUTC v. PacifiCorp*, Docket No. UE-140762, p. 57, ¶ 135.

\$71.5 million.¹⁴⁶ In the 2022 Power Cost Only Rate Case (PCORC), the Commission issued the following directive to the Company stating the requirements for its current PCAM filing:

In its next PCAM filing, 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.¹⁴⁷

107 The Commission further stated:

The Commission has warned the Company over a 10-year period of the need to fully evaluate the risks of its reliance on the market, the need for an active risk management program, and the need to demonstrate the prudence of relying on market transactions to recover power costs. Despite these clear indications from the Commission, the Company continues to rely heavily on market purchases to meet Washington customers' load. The Company also hedges for its system as a whole and does not separately hedge for its Washington-allocated resources and Washington load. The cumulative effect of all of these choices—surrounding both the Company's long-term portfolio strategy and the application of its risk management program to Washington customers' loads and resources—raise significant concerns regarding the prudence of its power costs for Washington customers.¹⁴⁸

108 Based on the framework set forth in Order 06 of UE-210402, the Commission evaluated PacifiCorp's PCAM filing, the evidence supporting the filing, and the evidence presented by the Parties in response to the filing. To that end, the key elements the Commission reviewed included: 1) the WIJAM and the Company's hedging practices; 2) the WIJAM Balancing Adjustment; 3) the dispatch of the Chehalis and Hermiston facilities; and 4) the allocation of gas hedging benefits for Washington ratepayers. We will address each of these elements in turn.

¹⁴⁶ Painter, Exh. JP-1T at 6:3-7:15.

¹⁴⁷ WUTC v. PacifiCorp d/b/a Pacific Power & Light Co., Docket No. UE-210402, Order 06 at ¶154 (Mar. 29, 2022).

¹⁴⁸ WUTC v. PacifiCorp d/b/a Pacific Power & Light Co., Docket No. UE-210402, Order 06 at ¶147 (Mar. 29, 2022).

A. PacifiCorp's WIJAM and Hedging Practices

1. The WIJAM and WIJAM BA

- 109 Upon review of the record in this proceeding we agree with PacifiCorp that its use of the WIJAM is in accordance with the Commission's prior decisions approving its use.¹⁴⁹ We disagree with Staff that the WIJAM should be calculated on an hourly basis. We are more persuaded by the Company's methodology through the WIJAM BA, which calculates the WIJAM on a monthly basis, and uses the lower priced short term firm sales to close the Company's open position. We do believe that this approach under the WIJAM better insulates Washington ratepayers from the volatility of the spot market.
- 110 With regard to Staff's argument that the Company should use the Mid-C spot market pricing or purchases as the value to close PacifiCorp's open position, we do not agree. PacifiCorp's argument that the Mid-C spot market price, in 2023, was, on average, the highest among the region gives us pause. Additionally, Staff's reference to the Maximum Import Bid Price (MIBP) is not helpful as it seems that the MIBP is based on the *higher* of either the Mid-C price or the Palo Verde price. This also does not support Staff's position that the Mid-C is the best pricing benchmark for Washington customers.
- 111 Therefore, we conclude that both the WIJAM and its balancing adjustment, the WIJAM BA, were prudently applied in this case. We also conclude that the Mid-C spot market pricing should not be used to calculate the value of the WIJAM BA, and consequently, reject the Mid-C as a tool to close the Company's open position. However, the concerns raised by Staff and other parties about the WIJAM are not completely without merit. This Commission recognizes that conditions have changed since we originally approved the WIJAM in 2022. In addition to experiencing a sharp rise in electric and gas prices, PacifiCorp has not acquired or purchased resources specifically to close Washington's open position. These circumstances have so altered the landscape that we are left with little choice but to revisit the concept of the WIJAM and its reasonableness and usefulness going forward. Therefore, in the next rate case proceeding, and going forward, we require PacifiCorp to provide justification for its continued reliance on the WIJAM, and propose alternatives to ensure Washington customers experience fair, just and reasonable rates.

¹⁴⁹ PacifiCorp Initial Brief at ¶¶ 54-55.

2. *PacifiCorp's Hedging Program*

112 Before diving headlong into the Company's hedging operation, it may be helpful to define hedging. AWEC witness Mullins is insightful in that regard, stating:

Hedging is a risk management strategy employed by utilities to protect themselves and their ratepayers from adverse price movements and unforeseen events. Notably, hedging is not about beating the market, nor is it focused on trying to outperform the market or making speculative profits. In essence, hedging involves pre-purchasing an energy commodity at a predetermined price before its actual consumption. By securing a fixed price for the commodity in advance, a hedged utility reduces its exposure to market prices and market price changes during the consumption period. In doing so, the utility does not eliminate its exposure to the market. Instead, the consequences of both rising and falling market prices are distributed more evenly across time.¹⁵⁰

113 After reviewing the testimony and briefs, we are persuaded that PacifiCorp's approach to hedging, overall, was prudent. We believe that the holistic hedging program has protected Washington ratepayers from the impact of volatile prices.

114 Turning first to the Company's gas hedging program, we recognize the challenges the Company faced in 2022. But contrary to Public Counsel and AWEC's arguments, we find, for the most part, PacifiCorp's holistic approach through system-wide hedging has been reasonable and proved cost effective for Washington ratepayers.¹⁵¹ Public Counsel's and AWEC's proposals for hedging for Washington would have been cost prohibitive.¹⁵² Moreover, Staff agreed with the cost effectiveness of the Company's gas hedging on a system-wide level, and argued that doing so was reasonable.¹⁵³ We are persuaded by PacifiCorp's and Staff's arguments and conclude that the Company's gas hedging was prudent, and reject Public Counsel's and AWEC's recommended adjustments.¹⁵⁴

¹⁵⁰ Mullins, Exh. BGM-1CT at 13:14-14:2.

¹⁵¹ PacifiCorp's Reply Brief, at ¶ 3-¶ 9.

¹⁵² PacifiCorp's Reply Brief, at ¶ 3-¶ 9.

¹⁵³ Yeomans, Exh. WY-8T at 5:1-2.

¹⁵⁴ Initial Brief of Public Counsel at 26; Post Hearing Brief of AWEC at 18-19; Mullins, Exh. BGM-1CTr at 3:14-20.

- 115 However, PacifiCorp acknowledges that AWEC demonstrates disparities in how the Company allocated gas hedging benefits to Washington. While noting that it “agrees that additional gas hedging benefits should be allocated to Washington,” it does not agree that AWEC or “the other parties’ proposed adjustments [are] representative of how the Company manages its positions when it is actually trading.”¹⁵⁵ Given the record in this proceeding, we find the Company’s proposed adjustment of \$1.9 million to be just and reasonable, and in the public interest. Therefore, we accept PacifiCorp’s proposed adjustment for gas hedging but request the Company address in future filings the disparity in how gas hedging benefits are allocated to Washington.
- 116 Relating to gas hedging, Staff requests that the Commission order an audit of dispatch of the Hermiston and Chehalis plants, asserting the plants were both over- and under-dispatched based on Mid-C pricing.¹⁵⁶ While Staff admits they are unable to perform an adequate analysis to fully justify and quantify that conclusion,¹⁵⁷ AWEC also raises concerns about the Hermiston and Chehalis plants and believes that Washington ratepayers may be disadvantaged by how the Company dispatches the plants.¹⁵⁸
- 117 In turn, PacifiCorp rejects Staff’s assertion that there is excess capacity at the Hermiston and Chehalis plants and contends that the plants are economically dispatched currently in the WEIM and prospectively in CAISO’s EDAM.¹⁵⁹
- 118 The parties’ arguments give rise to our own concerns about how Hermiston and Chehalis are dispatched. We concur with Staff and AWEC that an audit of how the plants are dispatched is warranted and direct the Company to conduct a third-party audit for the dispatch of Hermiston and Chehalis.
- 119 Specifically, we direct PacifiCorp and Staff to develop a request for proposal (RFP) for a consultant to review Chehalis and Hermiston dispatch, with results and inputs made available to PacifiCorp and Staff, within ninety (90) days of the date of this order. Additionally, we direct PacifiCorp and Staff to provide the Commission with updates, every 30 days, regarding the progress of the audit so we can ensure its completion. In the

¹⁵⁵ PacifiCorp’s Reply Brief, at ¶ 10; See also PacifiCorp’s Initial Brief at 10-13 ¶¶ 29-32.

¹⁵⁶ Staff’s Initial Brief at ¶¶ 28-30 (*citing*, Wilson, Exh. JDW-1CT at 45, Table 7 (showing instances of alleged over- and under- dispatch)).

¹⁵⁷ Wilson, Exh. JDW-1CT at 42:5-53:11.

¹⁵⁸ Mullins, Exh. BGM-1CTr at 42:17-44:9.

¹⁵⁹ Mitchell, Exh. RJM-3CT at 7:6-9:7.

event that the audit discovers that imprudence has occurred, the Company may not recover the costs of the audit from the Company's ratepayers.

- 120 We now turn to the question of whether PacifiCorp's power hedging was prudent. As with gas hedging, AWEC and Public Counsel recommend that PacifiCorp should hedge separately for Washington because doing so would decrease Washington allocated NPC and result in lower prices for customers.¹⁶⁰ PacifiCorp witness Mitchell claims there is no need for the Company to hedge separately for Washington as the WIJAM already confers a benefit of lowering NPC for Washington by \$7.1 million.¹⁶¹ In short, the Company's argues that if Washington were hedged separately, then NPC allocated to Washington customers would be higher.
- 121 We are persuaded by the Company's arguments and evidence on this issue. Specifically, the Company makes a compelling point when it states that "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."¹⁶²
- 122 Further, 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."¹⁶³
- 123 Based on the evidence presented, we find that PacifiCorp's system-wide power hedging practices provide more economic benefit and more advantageous costs and power prices for Washington ratepayers. Consequently, we conclude that the Company's power hedging for Washington is prudent, and reject AWEC's proposed adjustment to power hedging.¹⁶⁴

¹⁶⁰ AWEC's Reply Brief at ¶¶ 20-24; Earle, Exh. RLE-1T at 3:11-15; *see also id.* at 5:5-6:11.

¹⁶¹ Mitchell, Exh. RJM-3CT at 15:9-16:13.

¹⁶² PacifiCorp's Reply Brief, at ¶ 13; Mitchell, Exh. RJM-1T at 5:14-6:11.

¹⁶³ PacifiCorp's Reply Brief, at ¶ 13 citing Yeomans, Exh. WY-8T at 7:10-12, 8:6-10.

¹⁶⁴ Post Hearing Brief of AWEC at 18-19; Mullins, Exh. BGM-1CTr at 3:14-4:16.

B. PacifiCorp's Long-Term Resource Planning

- 124 In addition to its arguments for rejecting PacifiCorp's 2022 PCAM filing in its entirety, Public Counsel also proposes the Commission deny the filing asserting that PacifiCorp failed to perform long-term resource procurement.¹⁶⁵
- 125 While we do not concur with Public Counsel's request to reject the filing, the Commission remains concerned with PacifiCorp's approach to resource procurement and apparent failure to consider Washington law and prior orders in its effort to focus on operating its system as a whole. In addressing this issue, we again take official notice of past Commission orders and Integrated Resource Planning (IRP) acknowledgement letters.
- 126 PacifiCorp's 2011, 2013, 2015, 2017, and 2021 IRPs¹⁶⁶ all demonstrated that PacifiCorp would face a capacity shortfall within three to four years.¹⁶⁷ In Docket UE-210779, the Company sought approval of an all-source Request for Proposals (RFP), specifically to address an anticipated capacity shortfall of 1,345 MW of supply-side generation, 600 MW of co-located energy storage, and 274 MW of new demand-side resources, pursuant to WAC 480-107-009(2).¹⁶⁸
- 127 The Commission granted the Company's request, yet PacifiCorp suspended its 2022 all-source RFP on September 29, 2023.¹⁶⁹

¹⁶⁵ Earle, Exh. RLE-1T at 3:18-4:6.

¹⁶⁶ Prior to December 28, 2020, electric utilities were required to issue a Request for Proposals (RFP) when its IRP projected a capacity need within three years pursuant to WAC 480-107-015. On December 28, 2020, the Commission issued General Order R-602, which amended Commission rules, which now require electric utilities to issue an RFP if its IRP projects a capacity need within four years pursuant to WAC 480-107-009(2). *See In the Matter of Amending, Adopting, and Repealing Sections of WAC 480-107*, Docket UE-190837 General Order R-602 Appendix B at (December 28, 2020).

¹⁶⁷ *See In the Matter of Pacific Power and Light Company*, Docket UE-111418, Order 01 (October 14, 2011); *In the Matter of Pacific Power and Light Company*, Docket UE-131670, Order 01 (October 10, 2013); *In the Matter of Pacific Power and Light Company*, Docket UE-151694, Order 01 (October 29, 2015); *In the Matter of Pacific Power and Light Company*, Docket UE-170885, Order 01 (October 12, 2017); *In the Matter of PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210779, Order 01 (November 12, 2021).

¹⁶⁸ *In the Matter of PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210779, Order 01 at ¶ 1 (November 12, 2021).

¹⁶⁹ *See generally In the Matter of PacifiCorp d/b/a Pacific Power & Light Company*, Docket UE-210829, Order 09 at ¶¶ 13, 22 (March 22, 2024).

- 128 The suspension of the 2022 RFP, along with the history of PacifiCorp’s actions, show the Company has not addressed the warnings of the Commission. It is worth emphasizing that the Commission has repeatedly raised its concerns about the lack of resources in Washington and the Western balancing area that result in significant exposure to market volatility and increased cost for Washington customers. In its acknowledgment of PacifiCorp’s 2011 IRP, the Commission stressed “we caution the Company to have an active risk management program that is vigilant to changes in the actual market” and “[i]t is the inherent obligation and responsibility of [PacifiCorp] to match active risk management with the long-term portfolio strategy.”¹⁷⁰
- 129 In 2015, the Commission required PacifiCorp to implement a market reliance risk assessment as part of its 2017 IRP.¹⁷¹ Yet the 2017 IRP increased, rather than decreased, its market exposure for the first 10 years of the planning horizon, increasing the capacity shortfall from 843 MW to 1,128 MW.¹⁷² In response, the Commission again warned the Company that it would be “imperative that the Company understand the risks it faces as many regional plant retirements draw near.”¹⁷³
- 130 In granting the Company’s request for a waiver from requiring an RFP in the 2017 IRP, the Commission stated, “determining recovery for power costs includes determining whether decisions to accept risk – such as the risk of relying on the market – were prudently made.”¹⁷⁴
- 131 More recently, and during the recovery period in question, the Commission did acknowledge in Docket UE-210402 that PacifiCorp had made progress and was making significant investments.¹⁷⁵ But the Commission also stated:
- After considering all of [the] evidence, our past orders, and our past IRP acknowledgement letters, we are concerned that PacifiCorp has not prudently managed its power costs and that this has exposed Washington

¹⁷⁰ PacifiCorp 2011 Electric IRP Commission Acknowledgement Letter, Docket UE-100514, Attachment at 1 (November 15, 2011).

¹⁷¹ *In the Matter of Pacific Power and Light Co.*, Docket UE-151694, Order 01 ¶ 11 (October 29, 2015).

¹⁷² Pacific Power and Light Co. IRP Acknowledgement Letter, Docket UE-160353, Attachment, page 3 (May 7, 2018).

¹⁷³ *Id.* at 9.

¹⁷⁴ *In the Matter of Pacific Power and Light Co.*, Docket UE-170885, Order 01 ¶ 10 (October 12, 2017).

¹⁷⁵ *WUTC v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-210402, Order 06 ¶ 146 (March 29, 2022).

customers to significant price increases. PacifiCorp has repeatedly sought waivers from the Commission rules that would require the Company to issue an RFP for long-term resources. The Commission has warned the Company over a 10-year period of the need to fully evaluate the risks of its reliance on the market, the need for an active risk management program, and the need to demonstrate the prudence of relying on market transactions to recover power costs. Despite these clear indications from the Commission, the Company continues to rely heavily on market purchases to meet Washington customers' load. The Company also hedges for its system as a whole and does not separately hedge for its Washington-allocated resources and Washington load. The cumulative effect of all of these choices – surrounding both the Company's long-term portfolio strategy and the application of its risk management program to Washington customers' loads and resources – raise significant concerns regarding the prudence of its power costs for Washington customers.¹⁷⁶

132 Ultimately, in Docket UE-210402, the Commission found that the “prudence of the Company's power costs and the extent to which the Company prudently hedged against price increases” would be considered in the Company's 2022 PCAM filing.¹⁷⁷

133 This brings us to this proceeding, and the question of whether PacifiCorp has met its burden as required in showing the prudence of its power costs and whether it prudently hedged against price increases as required by Order 06 in Docket UE-210402. While we find in this Order that PacifiCorp prudently incurred the power costs for which it requests recovery, there remains a concern of whether the Company has adequately managed its resource procurement to meet the unique needs of Washington under the WIJAM, which as PacifiCorp admits, leaves Washington customers in an inherently short position given PacifiCorp's current resource portfolio.

134 PacifiCorp has shown that – at least for the 2022 PCAM – the Company has adequately managed resources to provide reasonable and just rates to its Washington customers.¹⁷⁸ As stated by witness Mitchell, the 2023 IRP continues to show “the least cost portfolio [is] one which incorporate[s] some measure of market purchases.”¹⁷⁹ Just prior to the

¹⁷⁶ *Id.* at ¶ 147.

¹⁷⁷ *Id.* at ¶¶ 153-54.

¹⁷⁸ *See*, Exh. RJM-1T at 13:13-22.

¹⁷⁹ Exh. RJM-1T at 12:15-16.

PCAM period in question, the Company, Staff, Public Counsel, and AWEC collaboratively developed the WIJAM cost allocation methodology, reallocating a number of resources not previously allocated to Washington to assist in meeting the Company's obligations under the Clean Energy Transformation Act (CETA).¹⁸⁰ Further, since 2020, the Company has invested in renewable resources, including, but not limited to: Glenrock I, High Plains, Rolling Hills, Foote Creek I, and Seven Mile Hill I and Seven Mile Hill II. These projects have increased transmission and added 329,418 MWh of additional wind generation for Washington.¹⁸¹

135 While PacifiCorp is making some small progress towards addressing this Commission's longstanding concerns, PacifiCorp should have built and should in the future build Washington situs resources or resources in the western balancing area, allocated solely to serving Washington to address both the exposure to wholesale market volatility, and to meet its CETA obligations. Wilding testifies that "a situs resource for Washington would be more expensive than what the IRP is planning for the entire system" and that a least cost plan for the system does not mean the plan is higher cost for Washington, yet the Company has not yet demonstrated that the cost of situs resources would be greater than the cost of continued exposure to market volatility, or the impact of disallowance of costs deemed unreasonable for failing to follow the Commission's directions.¹⁸²

136 We understand the frustrations of Public Counsel, and we remain frustrated with the Company as well. This concern is heightened by PacifiCorp's pause of the 2022 RFP process, but that is not at issue in this Docket. Despite our finding that PacifiCorp met its burden for 2022, we will continue to remain vigilant in our review of PacifiCorp's PCAM, rate, IRP, and CEIP filings in the future. In the future, PacifiCorp shall continue to demonstrate that it is properly managing its resource planning as it relates to Washington.

137 We recognize that there are benefits and cost efficiencies to planning for and operating the system as a whole, or at least that has been the case in the past. But our job is not to regulate the rates of the system, but for PacifiCorp's customers in Washington. Accordingly, PacifiCorp needs to continue to show it is improving the short position of

¹⁸⁰ Wilding, TR. at 194:24–195:23. The Clean Energy Transformation Act, RCW 19.405, requires utilities to remove electricity produced by coal from its Washington resource mix by December 31, 2025; serve customers with a carbon neutral resource mix by 2030, and be 100 percent carbon free by 2045.

¹⁸¹ See, Exh. MGW-1T at 7:21–11:1; See also 2022 Actual Wind Generation of Exh. MGW-1T at 11.

¹⁸² Wilding, TR. at 212:20–213:12.

Washington on a least-cost basis, in accordance with Washington law, which includes CETA. In the future, PacifiCorp must show analysis of the alternative, showing what rates for Washington customers would have been in the preceding 10 years if PacifiCorp had closed Washington's position with generation resources on its system rather than market positions, and a cost benefit analysis showing what rates will be 10 years into the future using Washington-based generation resources versus market position. We expect that given market conditions today, the benefits of using market positions is diminishing.

138 We find credence in the points raised by Public Counsel regarding the benefits Washington-based resources would provide to Washington ratepayers. Going forward, if it becomes clear that the usage of market positions no longer provides economic benefit to Washington ratepayers, then the Commission shall disallow recovery of certain costs of the PCAM in order to protect ratepayers.

C. Conclusion

139 With our finding that PacifiCorp's use of the WIJAM and hedging practices for gas and power are prudent in this Deferral Period, this Commission approves the Company's request for recovery under the PCAM. We also grant the Company's request to recover its power costs in Schedule 97, amortized over a 2-year period.¹⁸³ Specifically, we revise Schedule 97 to allow for recovery of the \$77.3 million adjustment over a 24-month amortization period.

140 Further, Schedule 97, the PCAM, shall be approved subject to the conditions set forth in paragraphs 112, 119 and 120 of this order. We conclude that approval of the PCAM subject to the conditions we have enumerated is fair, just, and reasonable, and in the public interest. Also, we take seriously the expectations in paragraphs 138 and 139 of this order, regarding Washington-based resources and PacifiCorp's IRP. We will continue to monitor the Company's progress in this regard, and PacifiCorp's progress or lack thereof, may affect how we evaluate future PCAM and rate case proceedings, going forward.

FINDINGS OF FACT

141 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the

¹⁸³ *WUTC v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket Nos. UE-230482, Petition to Extend the Amortization of the PCAM Surcharge at ¶ 8 (June 15, 2023).

following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

- 142 (1) The Commission is an agency of the state of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including electrical companies.
- 143 (2) PacifiCorp is a “public service company” and an “electrical company” as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. PacifiCorp is engaged in Washington state in the business of supplying utility services and commodities to the public for compensation.
- 144 (3) On June 15, 2023, PacifiCorp filed testimony, exhibits, and supporting documentation for the Company’s PCAM for the period January 1, 2022, through December 31, 2022. The Company also filed a petition to extend the amortization period for the PCAM surcharge from 12 months to 24 months. In its filing, PacifiCorp explained that actual power costs were significantly higher than the baseline, creating an under-recovery of \$72.7 million. With the PCAM’s sharing mechanism, PacifiCorp seeks \$77.3 million from customers.
- 145 (4) Following AWEC’s Petition for Adjudication, filed on October 10, 2023, the Commission issued Order 01 suspending the PCAM filing on November 27, 2023.
- 146 (5) On June 4, 2024, the Commission held an evidentiary hearing in this matter.
- 147 (6) The record evidence supports that PacifiCorp should not use the Mid-C spot market pricing or purchases as the value to close PacifiCorp’s open position.
- 148 (7) The record evidence supports that PacifiCorp should justify its continued reliance on the WIJAM as the tool to ensure appropriate allocation of NPC and provide alternative proposals for allocation.
- 149 (8) The record evidence supports that PacifiCorp’s gas hedging was prudent.
- 150 (9) The record evidence supports PacifiCorp’s \$1.9 million adjustment

to allocate additional gas benefits for Washington ratepayers, and that the Company should ensure appropriate allocation of gas hedges to Washington in future filings.

- 151 (10) The record supports rejecting Public Counsel's and AWEC's recommended adjustments for PacifiCorp's gas hedging.
- 152 (11) The record supports the need for a third-party audit of the dispatch of the Hermiston and Chehalis plants and for PacifiCorp and Staff to develop a request for proposal (RFP) for a consultant for this audit within ninety (90) days of the date of this order, and for PacifiCorp and Staff to provide updates to Commission every thirty (30) days regarding the progress of the audit.
- 153 (12) The record evidence supports that PacifiCorp's power hedging was prudent.
- 154 (13) The record supports rejecting Public Counsel's and AWEC's recommended adjustments for PacifiCorp's power hedging.
- 155 (14) The record supports that PacifiCorp's PCAM fair, just and reasonable, and therefore, is in the public interest and should be approved, subject to the conditions set forth in paragraphs 112, 119 and 120 of this order.

CONCLUSIONS OF LAW

156 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

- 157 (1) The Commission has jurisdiction over the subject matter of, and parties to, these proceedings.
- 158 (2) PacifiCorp's proposed tariff revisions filed on June 15, 2023, along with the Company's proposed adjustment for gas hedging of \$1.9 million, result in rates that are fair, just, and reasonable.
- 159 (3) PacifiCorp's Power Cost Adjustment Mechanism, Schedule 97, is within

the Commission's authority and should be approved.

160 (4) The inputs to PacifiCorp's power cost model are sufficiently documented in the record and should be approved.

161 (5) The Commission should deem that the Company's use of WIJAM and its WIJAM balancing adjustment in this Deferral Period is prudent.

162 (6) The Commission should deem that the Company's approach to hedging is prudent.

163 (7) The Commission should approve the Company's proposed \$1.9 million gas hedging allocation for Washington ratepayers.

164 (8) The Commission should approve a third-party audit of the Hermiston and Chehalis dispatches and should direct PacifiCorp and Staff to develop a request for proposal (RFP) for an outside auditor to perform the audit.

165 (9) The approval of the PCAM with the conditions in paragraphs 112, 119, and 120 would result in rates for PacifiCorp that are fair, just, reasonable, and sufficient.

166 (10) Rates determined in this proceeding would be neither unduly preferential nor discriminatory and should become effective on November 1, 2024.

167 (11) This Order fully and fairly resolves the issues in these dockets and is in the public interest.

168 (12) The Commission Secretary should be authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.

169 (13) The Commission should retain jurisdiction to effectuate the terms of this Order.

ORDER

170 (1) The proposed tariff revisions PacifiCorp d/b/a Pacific Power and Light

Company filed on June 15, 2023, and suspended by prior Commission order, are deemed approved, subject to the conditions set forth in paragraphs 112, 119, and 120 of this order.

- 171 (2) PacifiCorp d/b/a Pacific Power and Light Company is authorized and required to make a compliance filing on or before November 1, 2024, including such new and revised tariff sheets as are necessary to implement the requirements of this Order, providing that the new tariffs become effective on November 1, 2024.
- 172 (3) PacifiCorp's use of the WIJAM and its WIJAM balancing adjustment in this deferral period are deemed to be prudent.
- 173 (4) PacifiCorp's hedging practices are deemed to be prudent.
- 174 (5) The Commission approves PacifiCorp's proposed \$1.9 million gas hedging allocation and the Company shall implement the allocation for Washington ratepayers.
- 175 (6) The Commission approves a third-party audit of the Hermiston and Chehalis dispatches and directs PacifiCorp and Staff to develop a request for proposal (RFP) for an outside auditor to perform the audit within ninety (90) days of the date of this order, and for PacifiCorp and Staff to provide updates to the Commission every thirty (30) days regarding the progress of the audit.
- 176 (7) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 177 (8) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective October 30, 2024.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILTON H. DOUMIT, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.