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February 7, 2023

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Salem, OR 97301-3398

Re: UE 407—PacifiCorp's Reply Testimony

PacifiCorp d/b/a Pacific Power encloses for filing in this docket the Reply Testimony of Matthew McVee in Support of the Stipulation.

If you have questions about this filing, please contact Cathie Allen at (503) 813-5934.

Sincerely,

Matthew McVee
Vice President, Regulatory Policy and Operations

Enclosure

Docket No. UE 407
Exhibit PAC/400
Witness: Matthew McVee

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

PACIFICORP

Reply Testimony of Matthew McVee

February 2023

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1 **Q. Are you the same Matthew McVee who previously filed Direct, Joint, and Joint**
2 **Reply testimony on behalf of PacifiCorp d/b/a Pacific Power (PacifiCorp or the**
3 **Company) in this proceeding?**

4 A. Yes.

5 **I. INTRODUCTION AND SUMMARY**

6 **Q. What is the purpose of this testimony?**

7 A. The purpose of this testimony is to respond to the testimony filed by the Oregon
8 Citizens' Utility Board (CUB) on January 20, 2023, which objects to the stipulation
9 supported by Staff of the Oregon Public Service Commission (Staff), the Alliance of
10 Western Energy Consumers (AWEC), and PacifiCorp.

11 **Q. Why are you filing testimony separately in response to the objections raised by**
12 **CUB?**

13 A. PacifiCorp is filing this testimony to provide additional arguments in support of the
14 Stipulation and separately address some of the arguments that have been raised by
15 CUB.

16 **Q. So, this testimony is supplemental to the Joint Reply Testimony that you have**
17 **also joined?**

18 A. Yes, this testimony explains PacifiCorp's position on these issues and presents
19 additional arguments that are consistent with those presented in the Joint Reply
20 Testimony.

21 **Q. Please summarize your testimony.**

22 A. In addition to correcting some misconceptions created by CUB's testimony, I explain
23 that CUB's recommendation could prevent full recovery of the costs for

1 implementing a wildfire protection plan (WPP) and this is inconsistent with Oregon
2 law in ORS §757.963. The structure that was developed through settlement with
3 Staff and AWEC contains customer protections and I recommend that this Stipulation
4 is adopted by the Commission.

5 II. BACKGROUND ON THE WPP ADJUSTMENT

6 **Q. Are public utilities that provide electric service in Oregon required to have and**
7 **operate in compliance with a WPP?¹**

8 A. Yes. ORS 757.963(1) provides that “A public utility that provides electricity must
9 have and operate in compliance with a risk-based wildfire protection plan that is filed
10 with the Public Utility Commission and has been evaluated by the commission.”

11 **Q. Did the Commission approve PacifiCorp’s WPP?**

12 A. Yes. The Commission approved PacifiCorp’s 2022 WPP on April 28, 2022.² An
13 updated WPP will be filed annually by December 31. A copy of the 2022 WPP is
14 provided in the application filed to this docket on July 12, 2022.

15 **Q. Are public utilities allowed to recover costs associated with a WPP?**

16 A. Yes. ORS 757.963(8) allows for public utilities to recover through rates “[a]ll
17 reasonable operating costs incurred by, and prudent investments made by, a public
18 utility to develop, implement or operate a wildfire protection plan under this
19 section[.]”

20 **Q. Please explain the WPP Adjustment.**

21 A. The Oregon legislature explicitly required that the Commission “establish an

¹ The Wildfire Protection Plan may also be referred to as a Wildfire Mitigation Plan or WMP as provided in OAR 860-300-0010(11).

² *In the Matter of PacifiCorp d/b/a Pacific Power 2022 Wildfire Mitigation Plan*, Docket No. UM 2207, Order No. 22-131 (April 28, 2022).

1 automatic adjustment clause, as defined in ORS 757.210, or another method to allow
2 timely recovery of the costs.”³ The Stipulation provides for an automatic adjustment
3 clause (WPP Adjustment) to recover the costs associated with implementing a WPP
4 consistent with the statutory obligation placed on the Commission.

5 III. PACIFICORP’S RESPONSE TO CUB

6 **Q. Please describe your understanding of CUB’s objections to the Stipulation.**

7 A. CUB contends that the Stipulation cannot be guaranteed to result in rates that will be
8 just and reasonable.⁴

9 **Q. What is CUB’s recommendation?**

10 A. CUB recommends that the Commission modify the Stipulation to include an earnings
11 test in the WPP Adjustment that would be set at PacifiCorp’s authorized return on
12 equity (ROE).⁵

13 **Q. CUB claims that PacifiCorp’s customers recently experienced a large rate
14 increase and that the “the majority of this rate increase came through various
15 trackers.”⁶ Is CUB’s statement regarding the rate increase correct?**

16 A. No, the vast majority of the increase was due to the general rate case and the
17 transition adjustment mechanism (TAM) which forecasted rates for the upcoming
18 year. PacifiCorp is required by the Commission to annually forecast and reset net
19 power costs in order to comply with the Direct Access program in the TAM.⁷

³ ORS 757.963(8).

⁴ CUB/100, Jenks/3:8-9.

⁵ CUB/100, Jenks/3:14-17.

⁶ CUB/100, Jenks/7-8:20-1.

⁷ *In the Matter of Pacific Power & Light Co. (d/b/a PacifiCorp), Request for a General Rate Increase in the Company’s Oregon Annual Revenues*, Docket No. UE 170, Order No. 05-1050 at 21 (Sept. 28, 2005).

1 **Q. Were the rates established in the TAM and general rate case just and**
2 **reasonable?**

3 A. Yes, the Commission adopted a stipulation that included CUB, Staff, AWEC and
4 other parties to resolve the ratemaking issues in those proceedings. As PacifiCorp has
5 repeatedly noted, the increase in the TAM was being driven by significant increases
6 in forward power and natural gas prices.⁸

7 **Q. CUB also claims that trackers do not account for costs that decline.⁹ Does the**
8 **WPP Adjustment contain elements that allow customers to benefit from**
9 **downward pressure in rates?**

10 A. Yes, costs under this mechanism are completely segregated from PacifiCorp's general
11 revenue requirement, and contrary to CUB's statements, the WPP does contain
12 components that put downward pressure on the wildfire mitigation costs that are
13 included in the mechanism. Under this settlement, the capital incurred to comply
14 with Senate Bill (SB) 762 would be confined to this mechanism and remain separated
15 from general revenue requirement.¹⁰ Additionally, any over or under expenditure of
16 operations and maintenance (O&M) in this mechanism will be carried forward and
17 recovered or refunded in the next period.¹¹ Therefore the depreciation and decreases
18 in O&M will flow through this mechanism for the benefit of customers.

⁸ See *In the Matter of PacifiCorp d/b/a Pacific Power, 2023 Transition Adjustment Mechanism*, Docket No. UE 399, PAC/600, Mitchell/8:1-10 (June 22, 2022).

⁹ CUB/100, Jenks/8:11-16.

¹⁰ Stipulation at ¶15.

¹¹ Stipulation at ¶16(b).

1 **Q. Could this WPP Adjustment cause a utility to earn an ROE that is higher than**
2 **its authorized ROE?**

3 A. No. This mechanism is self-contained, with both depreciation and O&M being
4 updated every year, and it enables the recovery of only the costs that are authorized
5 by the Commission as necessary for implementing the WPP. Therefore, any earnings
6 above the Company's ROE would be because other elements outside these costs have
7 changed.

8 **Q. Has CUB agreed to an automatic adjustment clause without an earning test in**
9 **the past?**

10 A. Yes, CUB supported the stipulation for the creation of the Renewable Adjustment
11 Clause (RAC) from SB 838, an automatic adjustment clause, which specifically
12 prevented an earnings test from being applied.¹²

13 **Q. Did the Commission adopt the settlement that provided for the creation of the**
14 **RAC mechanism without an earnings test?**

15 A. Yes.¹³

16 **Q. CUB contends that “[a]bsent an earnings test, the Commission cannot ensure**
17 **that rates are just and reasonable overall.”¹⁴ Do you agree?**

18 A. No. The intent of the WPP Adjustment is to allow for timely recovery of only
19 prudent costs spent through the implementation of the WPP, as per the policy

¹² See *In the Matter of Public Utility Commission of Oregon, Investigation of Automatic Adjustment Clause Pursuant SB 838*, UM 1330, Order No. 07-572 at 4 (Dec. 19, 2007). In the joint testimony supporting the RAC stipulation, CUB provided that the “result of the Stipulation are fair, just and sufficient in the context of this case and should be adopted.” *In the Matter of Public Utility Commission of Oregon, Investigation of Automatic Adjustment Clause Pursuant SB 838*, UM 1330, Joint Testimony Supporting Stipulation at 13:19-20 (Nov. 29, 2007).

¹³ Order No. 07-572 at 10 (adopting the stipulation with the modification provided in ordering paragraph 3).

¹⁴ CUB/100, Jenks/10:4-5.

1 established in the legislation. The Commission has approved other trackers that
2 support state policy goals without an earnings test, like the RAC, and CUB has, in
3 fact, supported a stipulation for that tracker without an earnings test.¹⁵

4 **Q. Could CUB’s recommendation prevent full recovery of costs associated with**
5 **implementing a WPP?**

6 A. Yes. As noted in the Joint Reply Testimony, the mechanism is structured so that the
7 capital incurred to comply with SB 762 would be confined to this mechanism and
8 remain separated from general revenue requirement.¹⁶ Additionally, any over or
9 under expenditure of O&M expense in this mechanism will be carried forward and
10 recovered or credited in the next period.¹⁷ This means that the incremental costs for
11 implementing a WPP are entirely confined to this mechanism. Additionally, the costs
12 that are included in this mechanism are incremental costs required for compliance
13 with an approved WPP beyond what has been set in the last general rate case. Any
14 earnings test that is imposed by CUB would prevent recovery beyond PacifiCorp’s
15 authorized ROE that was set in PacifiCorp’s last general rate case. The revenue
16 requirement from that last general rate case would not take into account the
17 incremental increases in rate base and O&M that would be occurring as a result of the
18 implementation of a WPP. To the extent that an earnings test prevents recovery of
19 these incremental costs, PacifiCorp is not receiving full recovery of “[a]ll reasonable
20 operating costs”¹⁸ required for the implementation of a WPP.

¹⁵ *In the Matter of Public Utility Commission of Oregon, Investigation of Automatic Adjustment Clause Pursuant SB 838, UM 1330, Joint Parties/100, Dahlgren, et. al./10:3-8 (Nov. 29, 2007).*

¹⁶ Stipulation at ¶15.

¹⁷ Stipulation at ¶16(b).

¹⁸ ORS 757.963(8).

1 **Q. Can you provide an example of how CUB’s proposed earnings test on the WPP**
2 **Adjustment could prevent full recovery of PacifiCorp’s WPP costs?**

3 A. Yes. Assume in Year 1 the rate is set to recover \$20 million in O&M expenses, but
4 the Company actually spends \$22 million. The incremental \$2 million remains in the
5 balancing account to be included in Year 2 rates. In setting Year 2 rates PacifiCorp
6 would include the projected Year 2 O&M, the \$2 million true-up from Year 1 and the
7 revenue requirement on capital placed in service during Year 1. If PacifiCorp earns
8 even slightly over the authorized ROE in Year 1, then the Company would be limited
9 in its recovery of prudently incurred costs to implement the WPP under CUB’s
10 proposal, potentially limiting recovery on capital investments for which PacifiCorp
11 has already taken regulatory lag.

12 **Q. Why is it important that PacifiCorp receive full recovery for the costs of**
13 **implementing a WPP?**

14 A. It is my understanding that the plain language of ORS 757.963(8) requires that
15 outcome. This language requiring timely recovery of all costs is a clear expression
16 from the state legislature to support utilities’ swift action under the WPP.

17 **Q. CUB claims that SB 762 (codified at ORS 757.963(8)) does not preclude the**
18 **inclusion of an earnings test.¹⁹ How do you respond?**

19 A. These arguments will be primarily addressed through legal briefing. However, CUB
20 relies on the Commission’s decision interpreting SB 98, which allows for the
21 recovery of costs associated with renewable natural gas related costs.²⁰ Nevertheless,
22 there is an important distinction between that statute and SB 762. SB 98 is

¹⁹ CUB/100, Jenks/13:10-12.

²⁰ CUB/100, Jenks/13:12-19.

1 permissive; it does not require a large natural gas utility to make investments in
2 renewable natural gas.²¹ SB 762 is not permissive; it requires a utility to file and
3 implement a WPP, and requires the Commission to provide full recovery of those
4 costs.²² The more appropriate comparison is to the RAC mechanism, which also
5 requires the procurement of resources to meet renewable portfolio standards,²³ and
6 allows for full cost recovery without an earnings test as noted above. Of course, these
7 issues of statutory interpretation will be discussed more thoroughly in legal briefing.

8 **Q. What is your recommendation?**

9 A. I recommend that the Commission approve the Stipulation as filed.

10 **Q. Does this conclude your testimony?**

11 A. Yes.

²¹ ORS 757.396 (“A large natural gas utility that participates in the large renewable natural gas program adopted by rule by the Public Utility Commission under ORS 757.394 (1) *may* make qualified investments and procure renewable natural gas from third parties to meet the following portfolio targets for the percentage of gas purchased by the large natural gas utility for distribution to retail natural gas customers in Oregon that is renewable natural gas[.]”)(Emphasis added).

²² ORS 757.963(8).

²³ Compare ORS 469A.120 (“[A]ll prudently incurred costs associated with compliance with a renewable\ portfolio standard are recoverable in rates of an electric company.”) with ORS 757.963(8) “[A]ll reasonable operating costs incurred by, and prudent investments made by, a public utility to develop, implement or operate a wildfire protection plan under this section are recoverable in rates.”