

Exhibit No.____(WRG-1T)
Docket UE-130043
Witness: William R. Griffith

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a
Pacific Power & Light Company

Respondent.

Docket UE-130043

PACIFICORP

REBUTTAL TESTIMONY OF WILLIAM R. GRIFFITH

August 2, 2013

TABLE OF CONTENTS

QUALIFICATIONS 1
PURPOSE OF TESTIMONY..... 1
WASHINGTON REGULATORY ENVIRONMENT 2
DESCRIPTION OF THE COLLABORATIVE PROCESS..... 5
COMPANY’S PROPOSALS AND PARTIES’ RESPONSES 7
RECENT COMMISSION DECISIONS IN PSE AND AVISTA RATE PROCEEDINGS .. 15
CONCLUSION AND RECOMMENDATION..... 17

ATTACHED EXHIBIT

Exhibit No.__(WRG-2)—PacifiCorp Alternative Rate Adjustment Mechanisms

1 **Q. Please state your name, business address, and present position with PacifiCorp**
2 **d/b/a Pacific Power & Light Company (PacifiCorp or Company).**

3 A. My name is William R. Griffith and my business address is 825 NE Multnomah
4 Street, Suite 2000, Portland, Oregon, 97232. I am currently employed as Vice
5 President, Regulation.

6 **QUALIFICATIONS**

7 **Q. Briefly describe your educational background and professional experience.**

8 A. I hold a Bachelor of Arts degree with high honors and distinction in Political Science
9 and Economics and a Master of Arts degree in Political Science from San Diego State
10 University; I was subsequently employed on the faculty for one year. I also attended
11 the University of Oregon and completed all course work towards a Ph.D. in Political
12 Science. I joined the Company in the Pricing & Regulatory Affairs Department in
13 December 1983. In June 1989, I became Manager, Pricing in the Regulation
14 Department. In February 2001, I assumed the role of Director, Pricing, Cost of
15 Service & Regulatory Operations in the Regulation Department. In February 2012,
16 I assumed my current responsibilities.

17 **PURPOSE OF TESTIMONY**

18 **Q. What is the purpose of your rebuttal testimony in this case?**

19 A. My rebuttal testimony responds to fundamental policy issues raised in the response
20 testimony of the Washington Utilities and Transportation Commission (Commission)
21 Staff, the Public Counsel Division of the Attorney General's Office (Public Counsel),
22 and Boise White Paper, LLC (Boise).

1 The Company is disappointed in the parties' positions in this case. The parties
2 appear to ignore the Commission's recent commitment to actively seek solutions to
3 issues such as earnings attrition and the timely recovery of infrastructure investments
4 (regulatory lag) and to improve the efficiency, predictability, and consistency of
5 ratemaking decisions in Washington. The parties reject virtually all of the
6 Company's proposals to improve the regulatory environment for PacifiCorp in
7 Washington. This is despite recent decisions involving Puget Sound Energy, Inc.
8 (PSE) and Avista Corporation d/b/a Avista Utilities (Avista) that employ creative rate
9 recovery solutions, as well as the Governor's 2012 rate discussion group that
10 proposed a series of recommendations to improve the regulatory climate in
11 Washington.

12 **WASHINGTON REGULATORY ENVIRONMENT**

13 **Q. Please describe the regulatory environment in Washington for PacifiCorp.**

14 A. Compared to the Company's five other state jurisdictions, the Washington regulatory
15 environment presents a unique set of challenges affecting the Company's opportunity
16 to recover its costs and earn its authorized rate of return. These challenges include:

- 17 • Washington's reliance on a historical test period for setting rates, while the
18 majority of the Company's other states use some form of a future test
19 period.
- 20 • General use of the historical average of monthly averages method for
21 determining rate base balances in Washington as opposed to the use of end
22 of period or forecast balances for the rate effective period in other
23 jurisdictions.

- The Company’s authorized return on equity, equity component, and return on rate base in Washington are currently the lowest of the Company’s six jurisdictions.
- The Company’s other five jurisdictions use a common inter-jurisdictional cost allocation methodology, the 2010 Protocol. Washington is the only state that uses the West Control Area inter-jurisdictional allocation methodology (WCA). This increases the Company’s risk of under-recovery.
- Washington is the only state in which the Company does not have a power cost adjustment mechanism (PCAM), and the Company is the only regulated electric utility in Washington without a PCAM.

Collectively, these challenges create an environment in Washington for PacifiCorp that has contributed to its chronic under-earning, demonstrated by the frequency of general rate case filings. Accordingly, policy decisions play a key role in this proceeding.

Q. Has PacifiCorp’s inability to earn its authorized rate of return in Washington persisted for many years?

A. Yes. As demonstrated in Table 1 below, PacifiCorp has not earned its authorized return on equity (ROE) in Washington since the adoption of the WCA in 2006.

TABLE 1

Return on Equity from Washington Annual Commission Basis Reports							
	2006	2007	2008	2009	2010	2011	2012
Per Books ROE	2.08%	2.72%	0.02%	6.13%	4.59%	5.64%	7.14%
Authorized ROE	10.20%	10.20%	10.20%	10.20%	10.20%	9.80%	9.80%
Under-Earning	-8.12%	-7.48%	-10.18%	-4.07%	-5.61%	-4.16%	-2.66%

1 **Q. Has the Commission referred to persistent under-earning as “attrition”?**

2 A. Yes. The Commission recently defined the term attrition “broadly to mean any
3 situation in which a rate-regulated business fails to achieve its allowed earnings.”¹

4 **Q. Has the Company tried to reduce its earnings attrition in Washington by
5 carefully managing its costs and capturing efficiency savings?**

6 A. Yes. As noted by Mr. Richard P. Reiten in his direct testimony, the Company has a
7 strong track record of cost management and efficiency savings on items within its
8 control, such as O&M expenditures.² In this case, as in past cases, PacifiCorp’s
9 customers are experiencing the benefits of these efforts through reduced or moderated
10 costs. These efforts have mitigated but not resolved the Company’s persistent
11 earnings shortfalls in Washington.

12 **Q. Has the Company tried to address these challenges in Washington?**

13 A. Yes. Most recently, as part of a settlement in the Company’s last general rate case,
14 Docket UE-111190 (2011 Rate Case), the Company agreed not to file another general
15 rate case before January 1, 2013.³ In exchange for that agreement, the other parties
16 agreed to engage in collaborative discussions to review possible changes to the
17 regulatory process in Washington. The Company was willing to agree to the stay-out
18 period because the Company anticipated that the parties could make progress toward
19 improving the regulatory climate in Washington through open and robust discussions
20 outside of a litigated proceeding.

¹ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-121697 and UG-121705, Order 07, and Dockets UE-130137 and UG-130138, Order 07 at, ¶ 22, n.23 (June 25, 2013).

² Exhibit No.____(RPR-1T).

³ *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-111190, Order 07 (March 30, 2012).

1 **DESCRIPTION OF THE COLLABORATIVE PROCESS**

2 **Q. Please describe the collaborative process undertaken by parties during 2012.**

3 A. The 2012 collaborative process involved 10 meetings with the Company, Staff,
4 Public Counsel, and the Industrial Customers of Northwest Utilities. The parties
5 discussed a variety of topics including alternatives to the WCA and alternative rate
6 mechanisms.

7 **Q. Did the Company provide parties with background regarding its ratemaking**
8 **approaches in its other five states?**

9 A. Yes. Several of the collaborative meetings focused on the regulatory environment
10 and approaches in the Company’s other five states. These discussions included the
11 regulatory mechanisms shown in my Exhibit No.__(WRG-2).

12 **Q. Has the Company been able to provide periods of rate stability and certainty in**
13 **its other five states?**

14 A. Yes. The Company has entered into multi-year rate plans in all of the other states in
15 which it operates. Table 2 below shows the number of months between general rate
16 case filings that the Company has agreed to in stipulations in the other five states.
17 Although there are other mechanisms and key provisions that were considered as part
18 of the viability of the overall settlement packages, these provide multiple examples of
19 the Company’s potential for creative approaches when the regulatory environment is
20 conducive to it. It is also important to note that without a well-designed power cost
21 adjustment mechanism or the ability to reset net power costs (NPC) outside of a
22 general rate case, the Company would not have been able to consider these multi-year
23 rate certainty plans.

TABLE 2

State	Last General Rate Case Filing	Earliest Filing for Next General Rate Case	Months between Rate Case Filings
California	November 2009	November 2014	60
Idaho	May 2011	May 2015	48
Oregon	March 2013	March 2015	24
Utah	February 2012	January 2014	23
Wyoming	December 2011	March 2014	28

1 **Q. Did the parties agree to any significant changes to the regulatory process during**
2 **the collaborative process?**

3 A. No.⁴ Unfortunately, the parties made limited progress towards improving the current
4 regulatory environment or reaching consensus on appropriate changes to the inter-
5 jurisdictional allocation methodology.

6 **Q. Since consensus was not reached on the majority of issues in the collaborative,**
7 **did the Company make any proposals in this case to address its concerns?**

8 A. Yes. Because progress was not made during the collaborative process, the Company
9 made proposals in this case to more accurately reflect the Company's costs to serve
10 Washington customers, address chronic under-recovery of NPC, better align the test
11 period with the rate effective period, and more appropriately match cost of service
12 and revenue requirement modeling. Given the lack of consensus during the
13 collaborative discussions, however, the Company's proposals are relatively limited
14 compared to the scope of the options the parties discussed (such as use of an attrition
15 mechanism, use of the 2010 Protocol inter-jurisdictional allocation methodology, use
16 of a forecast test period, and alternative multi-year rate plans).

⁴ The parties did agree to the following: (1) discontinuation of the Company's investigation into use of AURORA for power cost modeling; (2) appropriate use of the production factor adjustment; and (3) consideration of triggers that could result in a change to the inter-jurisdictional allocation methodology.

1 **Q. How have the parties responded to the Company's proposals?**

2 A. The Company is disappointed that, with limited exceptions, parties reacted negatively
3 to the Company's proposals. In fact, the parties not only reject the Company's
4 proposals, but also make additional changes that would exacerbate the problems that
5 the collaborative process and the Company's proposals in this case were intended to
6 address.

7 If the Commission adopts Staff's and the other parties' recommendations in
8 this case, it would be a significant step backwards in the Commission's continuing
9 efforts to create a more stable, predictable, and consistent regulatory environment in
10 Washington.⁵

11 **COMPANY'S PROPOSALS AND PARTIES' RESPONSES**

12 **Q. Please describe more specifically the Company's proposals in this case and how**
13 **those proposals address the concerns discussed above.**

14 A. The Company's proposals are intended to provide gradual improvement to the
15 regulatory framework for PacifiCorp. Given the parties' resistance to comprehensive
16 changes to this framework during the collaborative process, the Company proposes
17 specific, incremental adjustments in this case to begin narrowing the gap between its
18 cost to serve Washington customers and its recovery of those costs in rates. As more
19 thoroughly addressed in the direct and rebuttal testimonies of other Company
20 witnesses in this case, the Company's proposals include:

- 21 • Modifications to the development of net power costs under the WCA to
22 reflect:
 - 23 ○ Inclusion of all power purchase agreements (PPAs) with qualified
24 facilities (QFs) in the west control area. (Gregory N. Duvall)

⁵ See Exhibit___(DJR-2) at pages 4-6 (Letter from Chairman Goltz to Governor Gregoire).

- 1 ○ Removal of the imputed sale from the Company’s west balancing
2 authority area to its east balancing authority area. (Gregory N. Duvall)
- 3 ○ Inclusion of the full capacity of the Company’s point-to-point
4 transmission contract with Idaho Power Company. (Gregory N.
5 Duvall)
- 6 • Modifications to WCA allocation factors to better align the inter-jurisdictional
7 allocation factors with the cost of service study by:
 - 8 ○ Changing the demand/energy weightings for the Control Area
9 Generation West (CAGW) and Jim Bridger Generation (JBG) factors.
10 (R. Bryce Dalley, Steven R. McDougal, Joelle R. Steward)
 - 11 ○ Using 200 coincident peaks in developing the west control area
12 demand component of the CAGW factor. (R. Bryce Dalley, Steven R.
13 McDougal, Joelle R. Steward)
- 14 • Development of the cost of capital using the Company’s actual capital
15 structure. (Bruce N. Williams)
- 16 • Determining electric plant in service balances using end-of-period balances
17 instead of average of monthly averages. (Steven R. McDougal)
- 18 • A PCAM to recover the difference between NPC included in rates and actual
19 NPC. (Gregory N. Duvall)
- 20 • Pro forma adjustment to the historical test period to include five major capital
21 projects placed in service after June 30, 2012. (Steven R. McDougal)
- 22 • Discrete modifications to the investor supplied working capital (ISWC)
23 methodology. (Douglas K. Stuver).

24 **Q. What are the parties’ positions on the Company’s proposals?**

25 A. As shown in Table 3 below, the parties reject the vast majority of the Company’s
26 proposals.

TABLE 3

Company Proposal	Staff	Public Counsel	Boise
Net Power Costs:			
Inclusion of all PPAs with QFs in the west control area in NPC	Reject	Reject	Reject
Removal of the Imputed Sale from the Company's West Balancing Authority Area to its East Balancing Authority Area	Reject	Reject	Reject
Inclusion of the Full Capacity of the Company's Point-to-Point Contract with Idaho Power	Accept	Accept	Accept
WCA Allocation Factors:			
Changing the Demand/Energy Weightings for the CAGW and JBG Allocation Factors	Reject	Reject	Reject
Using 200 Coincident Peaks in Developing the West Control Area Demand Component of the CAGW Factor	Reject	Reject	Reject
Other:			
Development of the Cost of Capital Using the Company's Actual Capital Structure	Reject	No Position	Reject
Determining Electric Plant in Service Balances using End-of-Period Balances instead of Average of Monthly Averages	Reject	Accept	No Position
A PCAM to Recover the Difference between NPC included in Rates and Actual NPC	Reject	Reject	Reject
Pro Forma Adjustment to the Historical Test Period to Include Five Major Capital Projects Placed in Service after June 30, 2012	Accept in Part	Accept in Part	No Position
Discrete Modifications to the ISWC Methodology	Accept	Reject	No Position

1 **Q. Did the parties make any alternative proposals to address the Company's**
2 **concerns?**

3 A. Yes, but only one. Staff proposes an expedited rate filing mechanism (ERF) to
4 reduce regulatory lag.⁶ While the Company appreciates Staff's proposal, the specifics
5 are unclear. For example, it appears that Staff proposes allowing the Company to file

⁶ Exhibit No.__(DJR-1T) at pages 10-13; Exhibit No.__(DJR-3).

1 an ERF that would include a rate increase of three percent or more.⁷ Staff does not,
2 however, specify how the requirements of WAC 480-07-505 would be waived or
3 otherwise modified. Under this rule, proposed rate increases of three percent or more
4 require a general rate case filing.

5 Staff's proposal may be workable if the ERF allows rate increases of three
6 percent or greater. But if the ERF allows rate increases of only 2.99 percent or less,
7 then the mechanism would be of limited value unless a proper rate baseline is
8 established in this case. For example, assuming the Commission accepts Staff's
9 proposal for a 4.8 percent increase in this case and the Company files (and receives
10 approval of) ERFs in 2014 and 2015 for the maximum increase permitted
11 (2.99 percent), then the Company would receive an increase of approximately 10.9
12 percent over the next three years. This is considerably less than the 12.1 percent
13 increase that the Company needs from this case alone.

14 In addition, Staff's ERF proposal does not address some of the other issues
15 currently facing PacifiCorp in Washington. As outlined above, and as recommended
16 by the former Governor's rate discussion group,⁸ ratemaking principles that reduce
17 repetitive litigation and increase predictability and consistency are needed in
18 Washington. The Company's proposals address these concerns and make progress
19 towards establishing the necessary ratemaking principles.

20 **Q. Are Staff's proposals in this case generally consistent with its stated support of**
21 **"progressive ideas in ratemaking"?**⁹

22 A. No. Other than the ERF, Staff's collective position in this case does not support

⁷ Exhibit No.__(DJR-1T) at page 12 lines 14-17.

⁸ See Exhibit No.__(DJR-2).

⁹ Exhibit No.__(DJR-1T) at page 13.

1 creative or progressive ratemaking ideas, but instead effectively rejects any
2 modifications to the status quo for PacifiCorp. For example, Staff rejects the
3 Company’s proposal to change to the use of end-of-period electric plant in service
4 balances rather than an average of monthly averages for the calculation of rate base in
5 the test period,¹⁰ although Staff supported this proposal in PSE’s recent ERF filing as
6 “necessary and useful” to address PSE’s persistent under-earnings and regulatory
7 lag.¹¹ In addition, in Avista’s most recent rate case, Staff calculated its attrition
8 adjustment including rate base additions through the rate year; according to Staff, this
9 was the equivalent of Avista’s use of end-of-period rate base, rendering that
10 adjustment duplicative.¹²

11 Another example is Staff’s proposed “cut-off date” for pro forma capital
12 additions.¹³ Despite the limited number of pro forma capital additions included in the
13 Company’s case, and despite acknowledgment of the Commission’s flexibility in
14 determining an appropriate cut-off date, Staff arbitrarily proposes the filing date of
15 the Company’s rate case as the cut-off.¹⁴ This proposal would disallow the timely
16 recovery of two of the five pro forma capital additions. One of these disallowed
17 investments is a turbine upgrade at unit 2 of the Company’s Jim Bridger generating
18 plant, which was placed in service a month before the filing date of Staff’s testimony.
19 Notably, Staff makes no adjustment to remove the benefit of the efficiency

¹⁰ See Exhibit No.__(BAE-1T) at pages 6-8.

¹¹ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Testimony of Thomas E. Schooley, Exhibit No.__(TES-4T) at page 6, Dockets UE-121697 and UG-121705, and Dockets UE-130137 and UG-130138.

¹² *Wash. Utils. & Transp. Comm’n v. Avista Corp. d/b/a/ Avista Utilities*, Testimony of Kathryn H. Breda, Exhibit No.__(KHB-1CT) at page 8, Dockets UE-120436 and UG-120437, Dockets UE-110876 and UG-110877.

¹³ Exhibit No.__(CRM-1T) at page 3.

¹⁴ *Id.* at 3, 7. Public Counsel proposes a February 2013 cut-off date, which would also result in disallowance of the Jim Bridger turbine upgrade and the Merwin fish collector. Exhibit No.__(SC-1T) at pages 22-25.

1 improvements gained by this upgrade from the Company's NPC. The other
2 investment is a fish collecting and sorting facility at the Company's Merwin
3 hydroelectric facility to improve fish passage as required by the Company's Federal
4 Energy Regulatory Commission license (the Merwin Fish Collector). The
5 Company's response to Staff's proposal is further discussed in the rebuttal testimony
6 of Mr. Steven R. McDougal.¹⁵

7 **Q. If the Commission does not allow the Merwin Fish Collector in rate base in this**
8 **proceeding, does the Company have an alternative proposal?**

9 A. Yes. The Company proposes that the Commission approve a separate tariff rider to
10 include the revenue requirement of the Merwin Fish Collector in rates once the
11 project is placed in service and is used and useful for customers. This proposal is
12 consistent with alternative rate mechanisms used by the Company in California,
13 Oregon, and Utah. Most recently, the Company added a significant transmission
14 project to rates in Oregon through a separate tariff rider after a prudence review of the
15 project was conducted as part of a general rate case.¹⁶

16 In this proceeding, no party disputes the prudence of the Merwin Fish
17 Collector. Approval of a separate tariff rider would allow the project to be added to
18 rates while alleviating the concerns raised by the parties about the timing of the in-
19 service date. The parties would be given the opportunity to review the costs of the
20 project at the time the separate tariff rider is filed. Although the Company's
21 preference is to add the project to rate base as part of this case, this alternative would

¹⁵ Exhibit No.____(SRM-6T).

¹⁶ *In the Matter of PacifiCorp d/b/a Pacific Power Request for a General Rate Revision*, Docket No. UE 246, Order No. 12-493 at 5-9 (December 20, 2012), Order No. 13-195 at 1 (May 23, 2012) (Public Utility Commission of Oregon).

1 also provide timely recovery of the investment. This proposal is discussed in more
2 detail in the rebuttal testimony of Mr. McDougal.¹⁷

3 **Q. Why is the Company not making an alternative proposal for recovery of the Jim**
4 **Bridger turbine upgrade?**

5 A. The Company is not making an alternative proposal for recovery of the Jim Bridger
6 turbine upgrade because the project was placed into service in May 2013 and is
7 presently used and useful. The Company's position is further discussed in the
8 rebuttal testimony of Mr. McDougal.

9 **Q. Please comment on Public Counsel's position on the Company's proposals.**

10 A. While Public Counsel opposes most of the Company's proposals, it does support the
11 Company's use of end-of-period rate base in this case.¹⁸ This support, however, is
12 tied to annualization of revenues, a proposal that is problematic for the reasons
13 discussed in the testimonies of Ms. Steward and Mr. McDougal.¹⁹

14 **Q. Is the Company concerned by any of Staff's or the other parties' positions?**

15 A. Yes. The Company is particularly troubled by Staff's and the other parties' positions
16 regarding the Company's NPC and PCAM. Although the other two regulated electric
17 utilities in Washington have PCAMs, and the Company has PCAMs in all of its other
18 state jurisdictions, all parties reject the Company's PCAM proposal in this filing.
19 Staff goes so far as to state that it is "premature to consider even a properly designed
20 PCAM" because the Company's inter-jurisdictional allocation methodology in its five
21 other states will expire in 2017 and is currently under discussion in those states

¹⁷ Exhibit No.__(SRM-6T).

¹⁸ Exhibit No.__(JRD-1T) at pages 9-10.

¹⁹ Exhibit No.__(JRS-7T); Exhibit No.__(SRM-6T).

1 through the Company's multi-state process (MSP).²⁰ This is a surprising position,
2 however, because Staff has not supported use of a six-state inter-jurisdictional
3 allocation methodology, Washington does not use the same allocation methodology
4 as the Company's other five states, and Staff has not participated in the MSP in nearly
5 a decade. Adoption of a PCAM for the Company, therefore, should not be contingent
6 on the outcome of the MSP.

7 In addition, all parties object to the inclusion of the Company's PPAs with
8 QFs in Oregon and California in NPC. The parties take this position despite the fact
9 that these QFs are located in the west control area, the Company is required to
10 purchase the output of these facilities under the Public Utility Regulatory Policies Act
11 of 1978 (PURPA) and most of the facilities are renewable resources. Moreover, all
12 non-QF PPAs with entities in the west control area are included in the calculation of
13 NPC in Washington.

14 The Company more specifically addresses the parties' PCAM and NPC
15 positions in the rebuttal testimony of Mr. Gregory N. Duvall.²¹

16 **Q. Do some of the parties' proposals further exacerbate the challenges facing the**
17 **Company in Washington?**

18 A. Yes. One example is Staff's proposed 9.0 percent ROE, which is 80 to 160 basis
19 points below the Company's authorized ROEs in its five other jurisdictions. Another
20 example is the Company's proposal to use its actual capital structure in determining
21 cost of capital. The Company's updated actual capital structure includes a common
22 equity component of 52.22 percent and no short-term debt. Staff takes a particularly

²⁰ Exhibit No.__(DCG-1CT) at page 25.

²¹ Exhibit No.__(GND-7T).

1 aggressive position on this issue, proposing a hypothetical capital structure that
2 includes a common equity component of 46.0 percent, which is more than 600 basis
3 points below the actual level.²² Staff also proposes including four percent short-term
4 debt in the Company's capital structure.²³ Boise similarly proposes a hypothetical
5 capital structure, using the reduced common equity component adopted in the
6 Company's last litigated general rate case, Docket UE-100749.²⁴ The Company's
7 responses to the parties' cost of equity and capital structure positions are addressed
8 further in the rebuttal testimonies of Mr. Samuel C. Hadaway and Mr. Bruce N.
9 Williams.²⁵

10 A final example is Staff and Public Counsel's rejection of the Company's
11 changes to allocation factors under the WCA or, in the alternative, proposal of other
12 modifications. Adopting Staff's or Public Counsel's allocation proposals would
13 widen the disparity between the Company's costs to serve Washington customers and
14 the costs reflected in rates. This is discussed in greater detail in the rebuttal testimony
15 of Mr. Dalley.

16 **RECENT COMMISSION DECISIONS IN**
17 **PSE AND AVISTA RATE PROCEEDINGS**

18 **Q. Has the Commission recently responded to similar concerns from PSE by**
19 **implementing alternative ratemaking mechanisms and moderating policies that**
20 **contribute to attrition and regulatory lag?**

21 A. Yes. In June 2013, the Commission approved an ERF rate increase, a decoupling

²² Exhibit No.____(KLE-1T) at page 2.

²³ *Id.* at 15.

²⁴ Exhibit No.____(MPG-1T) at page 14.

²⁵ Exhibit No.____(SCH-10T); Exhibit No.____(BNW-14T).

1 mechanism, and a multi-year rate plan for PSE.²⁶ The Commission noted that the
2 reduction in risk associated with these mechanisms, coupled with no downward
3 adjustments to PSE’s capital structure or ROE, would provide “an improved
4 opportunity for PSE to recover its authorized rate of return.”²⁷

5 **Q. Did the Commission allow PSE to calculate its ERF using end-of-period rate**
6 **base to address PSE’s earnings attrition?**

7 A. Yes. Even though PSE had not submitted a comprehensive attrition study, the
8 Commission found ample evidence of attrition in the fact that PSE had not earned its
9 allowed rate of return for electric operations since 2006 and for natural gas operations
10 since at least 2004.²⁸

11 **Q. Has the Commission responded similarly to Avista’s concerns about earnings**
12 **attrition and regulatory lag?**

13 A. Yes. In late 2012, the Commission approved a settlement agreement with a two-year
14 rate plan for Avista. In approving the settlement agreement over objections from
15 Public Counsel, the Commission acknowledged that “the proposed 2013 rate increase
16 is based significantly on attrition.”²⁹

17 **Q. Are the overall rates of return (ROR) the Commission approved for PSE and**
18 **Avista in their most recent rate cases similar to the ROR PacifiCorp proposes in**
19 **this case?**

20 A. Yes. As outlined in Mr. Williams’s rebuttal testimony, the Commission’s most

²⁶ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-121697 and UG-121705, Order 07, and Dockets UE-130137 and UG-130138, Order 07, ¶ 25 (June 25, 2013).

²⁷ *Id.*

²⁸ *Id.* ¶ 47.

²⁹ *See Wash. Utils. & Transp. Comm’n v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-120436 and UG-120437, Order 09, Dockets UE-110876 and UG-110877, Order 14, ¶ 70 (December 26, 2012).

1 recently approved RORs for PSE and Avista are 7.77 percent and 7.64 percent,
2 respectively.³⁰ PacifiCorp's requested ROR in this case is 7.75 percent. By
3 comparison, Staff's and Boise's recommended RORs in this case are 7.03 percent and
4 7.25 percent, respectively.³¹

5 **Q. Please explain your perspective on how the Commission's recent orders in PSE**
6 **and Avista rate cases relate to this filing.**

7 A. Each of the regulated utilities in Washington faces unique challenges in earning their
8 allowed rates of return while continuing to provide safe and reliable service. With the
9 goal of mitigating earnings attrition and regulatory lag, the Commission recently
10 approved alternative ratemaking approaches for both PSE and Avista designed to
11 respond to their particular circumstances. PacifiCorp's proposals in this case for new
12 or different regulatory approaches are designed to accomplish the goal of mitigating
13 earnings attrition and regulatory lag for PacifiCorp. Given PacifiCorp's unique
14 circumstances, PacifiCorp's proposals focus heavily on inter-jurisdictional allocation
15 issues and the need for a PCAM. For PacifiCorp, these issues are fundamental to its
16 ability to earn its authorized rate of return. In addition, in determining fair and
17 reasonable rates for PacifiCorp, the Commission should set PacifiCorp's ROR at a
18 level that is comparable to other Washington utilities.

19 **CONCLUSION AND RECOMMENDATION**

20 **Q. What is your recommendation to the Commission in this case?**

21 A. The Company respectfully requests that the Commission consider the policy
22 implications of its decisions in this case, including how its decisions may further the

³⁰ Exhibit No.____(BNW-14T).

³¹ See Exhibit No.____(KLE-1T) at page 2; see also Exhibit No.____(MPG-1T) at page 1.

1 Commission's continuing efforts to seek creative solutions to issues such as earnings
2 attrition and the timely recovery of infrastructure investments. To improve the
3 efficiency, predictability, and consistency of ratemaking decisions in Washington,
4 and address PacifiCorp's chronic earnings shortfalls, the Commission should
5 carefully evaluate the individual proposals, as well as consider the overall impact of
6 these proposals.

7 **Q. Does this conclude your rebuttal testimony?**

8 A. Yes.