Exhibit No.___(DKS-3T)
Docket UE-130043
Witness: Douglas K. Stuver

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 DOUGLAS K. STUVER

August 2, 2013

Q. Are you the same Douglas K. Stuver that previously submitted direct testimony on behalf of PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) in this case?

A. Yes.

PURPOSE AND SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the testimony of Public Counsel Division of the Washington Attorney General's Office (Public Counsel) witness Mr. Sebastian Coppola. Public Counsel recommends that the Washington Utilities and Transportation Commission (Commission) reject the Company's proposed refinements to the investor-supplied working capital (ISWC) model. Staff supports the Company's refinements to the ISWC model; other parties did not address this issue.

Q. Please summarize your testimony.

A. My testimony supports the Company's proposal to make two refinements to the Commission-approved ISWC model, which is a model developed by Commission Staff to determine the amount of working capital supplied by investors. The Company's proposed refinements result in a proper determination of ISWC and are consistent with the purpose of the Commission-approved model. The Company's position is further supported by Staff's acceptance of the Company's proposal.[1]

[1] *See* Exhibit No.___(TWZ-1T) at pages 3-4.

THE COMPANY'S REFINEMENTS TO THE ISWC MODEL

Q. Please summarize the ISWC model.

A. The ISWC model determines the amount of working capital supplied by investors by placing the Company's FERC Form No. 1 balance sheet accounts into four categories: current assets, current liabilities, investments, and invested capital. To the extent invested capital exceeds investments, the utility is financing working capital activities with the use of investor funds. The working capital supplied by investors is included in rate base "to provide a return on this investment for the Company's ongoing sustainability."[2]

Q. Please briefly summarize the Company's proposed refinements to the ISWC model related to derivative assets and liabilities.

A. The Company proposes that derivative assets and liabilities (including any frozen derivative values) be included in the "investments" column rather than the "current assets" or "current liabilities" columns. As noted by Staff, these types of investments should not be permitted to affect customer rates, and including these assets or liabilities in the ISWC model as investments instead of current assets or current liabilities "properly protects ratepayers."[3]

Additionally, the derivative assets and liabilities (other than those related to cash collateral) are currently entirely offset by regulatory assets, have no net impact on the Company's balance sheet, and have not used any customer or investor funds. The associated regulatory asset balances for these derivative values are already appropriately included in the investments column. Also, by including the derivative

[2] *See id.* at 4-5.
[3] *Id.* at 4, 8-9.

account balances in the investments column, the portion of the balances related to any cash collateral outstanding with counterparties as deposits are properly excluded from ISWC since they are interest-bearing deposits and should not also earn a return by being included in rate base.

Q. Please briefly summarize the Company's proposed refinements to the ISWC model related to pension and other post-retirement benefits.

A. The Company proposes that pension and other post-retirement benefits liabilities, associated regulatory asset balances, and associated accumulated deferred income tax balances be included in the current assets and current liabilities columns rather than in the investments column because investors have supplied the necessary capital through contributions to the plans in excess of its accounting expense. Contributions are determined under funding rules and policies, while expense is determined under generally accepted accounting principles. Since recovery is based on expense, investors have borne the cost of financing any incremental contributions.

Although the accumulated provision for pensions and benefits and the associated regulatory asset are presented as non-current balances in the FERC Form No. 1, the combination of these balances represents the cumulative excess of contributions over expense. Although the FERC Uniform System of Accounts requires classification of these balances as non-current, contributions are made to the plans and amounts are amortized to expense each year. Thus, there are current activities associated with these balances despite their non-current balance sheet classification.

Staff agrees with the Company's proposed refinements, stating "Mr. Stuver's treatment of post-retirement benefits achieves a proper balance of ratepayer interests and allows investors to earn a return on the net unamortized funds they have contributed to Company employees' post-retirement benefits."[4]

RESPONSE TO PUBLIC COUNSEL

Q. Please summarize Public Counsel's reasons for rejecting the Company's proposed refinements to the ISWC model.

A. Public Counsel argues that the ISWC model "uses the conventional classification of current assets and current liabilities to determine working capital with very few adjustments to that base precept."[5] Because the Company's refinements would (according to Public Counsel) require "45 account reclassifications," Public Counsel deems the refinements to be "not well founded."[6]

Q. Do you agree with Public Counsel's arguments?

A. No. Public Counsel does not understand the basics of the ISWC model. According to Public Counsel, "[t]he 45 account reclassifications proposed by the Company upend the basic definition of working capital as the difference between current assets and current liabilities."[7] But the ISWC model is designed to do more than just measure the difference between current assets and current liabilities. As Staff states, the ISWC model determines the "excess of invested capital over total investment,"

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[4] *Id.* at 3.
[5] Exhibit No.___(SC-1T) at page 28, lines 12-16.
[6] *Id*. at lines 10-11.
[7] *Id.* at lines 17-19.

which is "[e]ssentially . . . the inverse of the typical accounting formula for working capital which is current assets minus current liabilities."[8]

Contrary to Public Counsel's arguments, the ISWC model does not use "conventional" accounting classifications with "very few adjustments." Instead, the primary *accounting* categories of assets, liabilities, and owner's equity "require analysis to properly determine what amounts constitute invested capital and what amounts constitute investments [in the ISWC model]."[9] Public Counsel seems to indicate that deviating from accounting classifications in categorizing current assets, current liabilities, investments, or invested capital in the ISWC model is inappropriate. But this position is inconsistent with the ISWC model:

> The text book definition of working capital is current assets less current liabilities. However, this simple determination does not identify the portion of working capital, if any, supplied by investors. Investor supplied working capital looks at the source of capital supplied by investors and where such capital is invested. If there is an excess of investor supplied capital over investments, than that excess amount is the investor-supplied working capital.[10]

Accordingly, changing categories in the ISWC model does not require changing the accounting classifications used in ratemaking, nor does the ISWC model require rigid adherence to accounting classifications in determining the appropriate categorization of an asset or liability within the model.

Classifying accounts in the model as current assets, current liabilities, investments, or invested capital based on whether investors have funded working capital is also consistent with WAC 480-100-999(1)(b), which states: "The

[8] Exhibit No.___(TWZ-1T) at 5, lines 9-12.
[9] Testimony of Thomas E. Schooley, Exhibit No.___(TES-1T) at page 13, Docket UE-100749 (October 5, 2010; revised October 8, 2010).
[10] *Id.* at 10.

accounting and reporting … *should not be construed as indicative of their treatment by this commission for ratemaking purposes*." (Emphasis added)

Q. Please address Public Counsel's position that many of the regulatory asset accounts being reclassified appear to be of a long-term nature and that a number of the accounts reclassified appear to be non-cash accounts.

A. As discussed above, cash contributions in excess of pension and other post-retirement plan expense require the use of investor funds. This use of investor funds is presented on the Company's balance sheet as the net of the regulatory assets and accumulated provision for pensions and benefits, which the accounting rules require to be presented as non-current assets and non-current liabilities despite the current activity flowing through those accounts. These accounts, though recorded as long term and appearing as non-cash for accounting purposes, impact the Company's working capital as described above and should be classified as current assets and current liabilities in the ISWC model.

Q. Please address Public Counsel's assertion that many of the regulatory assets pertain exclusively to jurisdictions other than Washington.

A. The regulatory asset accounts involved in the Company's adjustments appropriately include the balances for all of PacifiCorp's jurisdictions, consistent with the two-step approach for determining Washington's share of ISWC.[11] The first step of the ISWC model is to segregate the balance sheet into current assets, current liabilities, investments, and invested capital. The second step is to then allocate the total-company ISWC amount determined in the first step to Washington, non-Washington,

[11] *See id*. at 16-19.

and non-utility jurisdictions. The Company's allocation methodology is consistent with the Commission-approved methodology.[12]

RECOMMENDATION AND CONCLUSION

Q. What is your recommendation for the Commission?

A. The Commission should approve the Company's proposed refinements to the Commission-approved ISWC model. Staff supports these refinements, which are appropriate and well founded for the reasons discussed above and in my direct testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes.

[12] *See Wash. Utils. & Transp. Comm'n. v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-100749, Order 06 (March 25, 2011).