Exhibit No.___(RRS-9T)
Docket Nos. UE-140762 *et al.*
Witness: Robert R. Stephens

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY, Respondent.	)	DOCKET NOS. UE-140762 and UE-140617 *(consolidated)*
In the Matter of the Petition of PACIFIC POWER & LIGHT COMPANY, For an Order Approving Deferral of Costs Related to Colstrip Outage	)	DOCKET NO. UE-131384 *(consolidated)*
In the Matter of the Petition of PACIFIC POWER & LIGHT COMPANY, For an Order Approving Deferral of Costs Related to Declining Hydro Generation	)	DOCKET NO. UE-140094 *(consolidated)*

CROSS-ANSWERING TESTIMONY OF ROBERT R. STEPHENS

ON BEHALF OF

BOISE WHITE PAPER, L.L.C.

November 14, 2014

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Robert R. Stephens. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q. ARE YOU THE SAME ROBERT R. STEPHENS WHO PREVIOUSLY FILED RESPONSIVE TESTIMONY IN THIS PROCEEDING ON BEHALF OF BOISE WHITE PAPER, L.L.C ("BOISE")?

A. Yes.

Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH THIS TESTIMONY?

A. Yes. I am sponsoring Exhibit No.___(RRS-10).

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. I will respond to the Testimony of Jeremy B. Twitchell of the Staff of the Washington Utilities and Transportation Commission ("Staff") and the Direct Testimony of Glenn A. Watkins, on behalf of Public Counsel on the issues of cost of service and revenue allocations.

The fact that I do not address any particular issue should not be interpreted as tacit approval of any position taken by any party in this case.

Q. DOES THE TESTIMONY OF EITHER OF THESE WITNESSES OR ANY OTHER WITNESSES IN THIS CASE CAUSE YOU TO CHANGE ANY OF YOUR RECOMMENDATIONS SET FORTH IN YOUR RESPONSIVE TESTIMONY?

A. No.

Response to Staff Witness Twitchell

Q. HAVE YOU REVIEWED THE TESTIMONY OF STAFF WITNESS TWITCHELL AS IT RELATES TO THE ISSUES THAT YOU ADDRESSED IN YOUR RESPONSIVE TESTIMONY?

A. Yes, I have. Mr. Twitchell addresses cost of service and revenue allocation at pages 14-22 of his testimony.

Q. AT PAGES 14 AND 15, MR. TWITCHELL EXPRESSES HIS SUPPORT FOR USING THE SYSTEM DIVERSIFIED LOAD FACTOR ("SDLF") METHODOLOGY TO CLASSIFY COSTS AS DEMAND-RELATED OR ENERGY-RELATED INSTEAD OF A METHODOLOGY PREVIOUSLY SUPPORTED BY STAFF THAT WOULD CLASSIFY COSTS BY THE TOP 100 WINTER HOURS AND TOP 100 SUMMER HOURS OF SYSTEM DEMAND (200 CP METHOD). HOW DO YOU RESPOND?

A. As I explained at pages 16-18 of my responsive testimony, I do not agree with the Peak Credit or load factor method used to classify a production cost between demand and energy components. I will not repeat that discussion here. To its credit, Staff no longer supports its recommendation in the previous general rate case to develop the classification percentages using the 200 CP method.

In addition, I find noteworthy Mr. Twitchell's comment in this section that "the consumption patterns of low-load factor customers is a major driver of the system peak demand that the Company must meet."[1/] He goes on to acknowledge that capturing the demands that these customers impose on the system yields more appropriate cost classification. In effect, Staff acknowledges that demand is the primary cost driver for production investment, which is consistent with my testimony, and is in opposition to the minority demand classification approach (only 43%) used by PacifiCorp and supported by Staff.

1/ Exhibit No.___(JBT-1T) at 15.

Q. AT PAGES 15-19, MR. TWITCHELL RECOMMENDS THAT PACIFICORP APPLY A NEW ALLOCATION FACTOR TO ITS RENEWABLE, NON-DISPATCHABLE GENERATION ("NDG") SOURCES. HOW DO YOU RESPOND?

A. As Mr. Twitchell correctly notes, PacifiCorp did not apply the Staff proposed NDG factor in its cost of service study because the allocation factor that it uses for generation facilities "recognizes the combined nature of (generation) resources that are designed to meet peak load and supply the energy needs of its customers."[2/] Yet, Mr. Twitchell claims that the NDG allocation factor more accurately reflects how wind-related expenses are imposed on the Company's system and claims that a new NDG allocation factor will produce more accurate rates now and in the future.[3/]

I agree with PacifiCorp's rationale for not singling out wind resources for a different allocation factor from other generating resources. As Mr. Twitchell acknowledges, PacifiCorp claims that this would alter the dynamic of the current allocation and would require PacifiCorp to reassess the way it classifies all of its generation resources in the western control area.[4/] I agree.

There is no solid rationale for singling out a particular generation resource for different allocation while lumping together all remaining generation resources, and Mr. Twitchell does not even attempt to provide a rationale. Indeed, were PacifiCorp to establish allocation factors in the same manner that Mr. Twitchell proposes for non-NDG resources, this would likely modify the allocation of generating plant significantly.

2/ Exhibit No.___(JBT-1T) at 17 (citing PacifiCorp witness Joelle R. Steward testimony, Exhibit No.___(JRS-1T) at 12).
3/ Id. at 17.
4/ Id.

Q. PLEASE EXPLAIN.

A. According to Mr. Twitchell's testimony, Staff's recommended allocation factor, 18.1%, would allocate wind generation costs on a demand factor equal to the expectation of the wind resources' contribution at the system peak.[5/] If this standard, i.e., demand allocation based on the percentage availability at the time of system peak, were to be applied to other generation resources, one would expect the percentages for other, more reliable units to be over 90%, since these resources are expected to be fully, or nearly fully, available at the time of system peak. That is, utilities plan their generation to be available at the time of system peak and, although it is never guaranteed that 100% of the capacity will be available, the forced outage rates of base load and intermediate generating units tends to be below 10%.[6/] Thus, for these units, the demand classification would be over 90%. Yet, Staff apparently supports the PacifiCorp Peak Credit, or load factor classification method, which essentially would allocate only 43% of generation costs on the basis of demand. Staff does not explain its rationale for its inconsistent treatment between NDG resources and the remaining resources, or its support for allocating 43% of costs on the basis of demand.

5/ Id. at 15-16. Staff's previous demand factor of 4.2% has been updated to 18.1% based on information from the 2015 Integrated Resource Plan.

6/ For example, the North American Electric Reliability Corporation ("NERC") shows that for the period 2009-2013, the Equivalent Forced Outage Rate-Demand ("EFORd") was less than 8.5% for fossil units, all fuel types. This information can be found in NERC's 2013 Generating Unit Statistical Brochure at the following website: http://www.nerc.com/pa/RAPA/gads/Pages/Reports.aspx.

Q. AT PAGE 16 OF HIS TESTIMONY, MR. TWITCHELL INDICATES THAT STAFF'S PROPOSED NDG ALLOCATION FACTOR WOULD ADDRESS A MISMATCH BETWEEN HOW THE COMPANY RECOVERS ITS WIND RESOURCES COSTS AND HOW IT PASSES BACK FEDERAL TAX CREDITS GENERATED BY THOSE RESOURCES TO CUSTOMERS. HOW DO YOU RESPOND?

A. If Staff has a problem with this perceived mismatch, then it should propose a method for addressing the mismatch through the returning of tax credits, rather than disturbing the balance of allocating generation costs through Staff's proposed allocation method.

Q. HAS STAFF CONSIDERED SUCH A CHANGE?

A. Boise asked Staff this question in a data request. Staff indicated in its response that it has not done so.[7/]

Q. AT PAGES 19-20, MR. TWITCHELL DESCRIBES STAFF'S RECOMMENDATION TO ASSIGN THE COSTS OF THE COMPANY'S CORPORATE ACCOUNT MANAGERS TO THE INDUSTRIAL CUSTOMER CLASSES THAT THOSE ACCOUNT MANAGERS SERVE. HOW DO YOU RESPOND?

A. I strongly recommend against this change. While I do not disagree with Mr. Twitchell's statement that large customers are the only ones who benefit from these particular account managers, it appears that he is being one sided in his application here. Specifically, he does not appear to have taken into account utility support personnel that may benefit customers other than industrial customers and allocate those costs in a symmetrical manner. In addition, I agree with PacifiCorp's observation that isolating individual cost drivers to specific types of customers within the uniform system of accounts can be complex and burdensome and, essentially, is not justified in this case because of the minimal impact.

7/ Exhibit No.___(RRS-10) (Staff's Response to Boise Data Request ("DR") 3).

Also, though Mr. Twitchell has not acknowledged it, there may be off-setting assignments, if this type of analysis was performed for other cost accounts, which could more than nullify Staff's proposed adjustment. Nowhere in his testimony does Mr. Twitchell address cost causation issues associated with the Company's call center or other account representatives, which are funded by industrial customers without commensurate benefits. Unless Staff is willing to look at each and every individual cost account and accurately perform a direct assignment like it is proposing for this particular cost item (if that is even possible), then Mr. Twitchell's proposal should be rejected. Further, to single out one customer class for this approach may be discriminatory.

Q. HAVE YOU REVIEWED STAFF'S TESTIMONY AS IT RELATES TO REVENUE ALLOCATION?

A. Yes, I have. Mr. Twitchell addresses this at pages 21-22 of his testimony. Staff provides a proposed revenue allocation, based on Staff's proposed 2.41% increase overall for PacifiCorp. According to Mr. Twitchell, Staff's proposal would impose 1.5 times the system average increase on the Residential and Schedule 48T-Dedicated Facilities classes.

Q. DO YOU HAVE A CONCERN WITH STAFF'S APPROACH?

A. Yes, I do. Staff's approach is not well-defined for application to increases at levels other than Staff's proposal. For example, the 1.5 times system average increase cap could be onerous and disruptive for some classes, if PacifiCorp is granted a larger increase than Staff's recommended 2.41%. Hence, Staff's proposed mitigation factor (which will mitigate the impacts on class increases while still making movement toward cost of service) may not be appropriate if a higher system average increase is approved. As I indicated in my direct testimony, PacifiCorp's proposal is a much more moderate mitigation factor of 1.12 times system average increase. PacifiCorp's proposal definitely will better promote gradualism and avoidance of rate shock at its proposed 8.5% system average increase. If PacifiCorp were to receive something near the full 8.5% increase that it requested, then Staff's proposed 1.5 times mitigation factor could result in high returns for some classes that Staff has identified receiving a 12.75% increase, which is large and may constitute rate shock.

Q. WHY DO YOU SAY THAT STAFF'S 1.5 TIMES SYSTEM AVERAGE INCREASE MITIGATION FACTOR PROPOSAL IS NOT WELL-DEFINED FOR PERCENTAGE INCREASES OTHER THAN THE 2.41%?

A. Apparently Staff would modify its criteria somewhat, depending on the increase level. However, Staff's allocation scheme is not predictable. Boise asked Staff for its revenue allocation proposal at different overall increases, in Boise DR 5. Staff's response to that data request is attached in Exhibit No. ___(RRS-10).

As Staff's response in Exhibit No. ___(RRS-10) shows, Staff was asked for its proposed revenue allocation under PacifiCorp system average increase scenarios of a 0% increase, 5% increase and 8.5% (PacifiCorp's requested increase). Using the Schedule 48T-Dedicated Facilities as an example, Table 1 below shows Staff's recommendation for the class percentage increase and multiple of the system average increase for the three scenarios in Staff's response, along with Staff's recommended increase at 2.41% system average increase.

TABLE 1

Staff's Proposed Increases to Schedule 48T-Dedicated Facilities Class Under Various Overall Increase Scenarios

Overall Percentage Increase	Staff's Proposed Increase for Schedule 48T-Dedicated Facilities	Multiple of Overall Percent Increase
0%	1.76%	Infinite
2.41%	3.62%	1.50x
5.00%	7.50%	1.50x
8.50%	10.63%	1.25x

Thus, as Table 1 indicates, Staff's proposal is subjective, and somewhat unpredictable, in terms of the relationship to overall percentage increase. Apparently, for some level of increase between 5% and 8.5%, Staff would modify its cap from 1.5% to 1.25%, but it is impossible to know how, and at what level, that change might occur.

In addition to providing a greater level of protection against rate shock and promoting gradualism, the revenue allocation that I recommended in my responsive testimony at pages 31-32 is also more predictable, for various levels of system average increase. I recommend that it be adopted and Staff's proposal be rejected.

Response to Public Counsel Witness Watkins

Q. HAVE YOU REVIEWED THE TESTIMONY OF PUBLIC COUNSEL WITNESS WATKINS AS IT RELATES TO THE ISSUES THAT YOU ADDRESSED IN YOUR RESPONSIVE TESTIMONY?

A. Yes, I have. Mr. Watkins addresses class cost of service and revenue allocation on pages 2-15 of his direct testimony.

Q. IN BACKGROUND DISCUSSION REGARDING THE MULTIPLE GENERATION ALLOCATION METHODS THAT EXIST FOR THE ELECTRIC INDUSTRY, MR. WATKINS POSES THE FOLLOWING HYPOTHETICAL:

> **IF ALL CUSTOMER CLASSES USED ELECTRICITY AT A CONSTANT RATE THROUGHOUT THE YEAR, THERE WOULD BE NO DISAGREEMENT AS TO THE PROPER ASSIGNMENT OF GENERATION-RELATED COSTS. ALL ANALYSTS WOULD AGREE THAT ENERGY USAGE IN TERMS OF KWH WOULD BE THE PROPER APPROACH TO REFLECT COST CAUSATION AND COST INCIDENCE.[8/]**

HOW DO YOU RESPOND?

A. Mr. Watkins' hypothetical is misleading and his conclusion is wrong. Under his hypothetical, if all customer classes used electricity at a constant rate throughout the year, then their demands would be equivalent each hour as well as their energy. Thus, analysts could equally agree that demand usage in terms of kW would be the proper approach to reflect cost causation and cost incidence. His hypothetical is of no determinative value.

Q. MR. WATKINS GOES ON TO DISCUSS A "DISTINCT ENERGY/CAPACITY TRADE-OFF" RELATING TO GENERATION COSTS.[9/] HOW DO YOU RESPOND?

A. In this passage, Mr. Watkins makes note of the fact that PacifiCorp experiences periods of much higher demand during certain times of the year and across various hours of the day. That is to say, there is both peak and off-peak usage on the system. However, despite Mr. Watkins' ultimate claim, this does not disqualify the use of system peak demand responsibility for allocating production costs. Indeed, one of the

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8/ Exhibit No.___(GAW-1T) at 7.

9/ Id.

major writings on establishing utility rates[10/] expresses "qualified support for the system-peak responsibility principle," rather than Peak and Average or another hybrid approach for allocating the types of joint costs to which Mr. Watkins refers. As Bonbright, *et al.*, explain:

> The continued presence of peaks and valleys in public utility utilization gives qualified support to the system peak responsibility principle of capacity-cost allocation. Regardless of the reason for the persistence of peaks and valleys in the load curves of utility systems, as long as they persist they raise the problem of cost imputation as between on-peak and off-peak service. This problem is soluble under familiar principles of joint-cost imputation subject to a number of simplifying assumptions. The reason why it is soluble, despite the general principle that joint costs are unallocable costs from the standpoint of cost analysis, is that we now have that limiting case of joint production in which one of two products, the off-peak service, is a byproduct in the strictest sense of that term, whereas the other product, the peak-time service, is the main product. Under this condition, no longer does the increase in capacity costs incurred in order to increase the output of the main product have to its credit any useful accomplishment in enhancing the further output of the byproduct. For the plant is already redundant with respect to the byproduct. Hence, at the margin, the byproduct is costless save for its separable costs (energy costs and possible customer costs), and the main product is chargeable with the entire incremental capacity costs. Whether or not the byproduct should nevertheless be sold at a profit over incremental cost, in order to help cover the company's total revenue requirements, is a problem of ratemaking, not a problem of cost analysis.[11/]

[10/] And one cited by Mr. Watkins (id. at 6).

[11/] James C. Bondbright, *et. al.*, Principles of Public Utility Rates 504 (2d ed. 1988) (emphasis added).

Q. AT PAGES 8-9 OF HIS TESTIMONY, MR. WATKINS SEEKS TO DISTINGUISH BETWEEN THE PEAK AND AVERAGE AND PEAK CREDIT METHODS, WHICH HE ATTRIBUTES TO PACIFICORP IN THE CURRENT AND IN PRIOR CASES, RESPECTIVELY. PLEASE COMMENT ON THIS DISCUSSION.

A. Mr. Watkins indicates that the Peak Credit method is known as the Equivalent Peaker method in other jurisdictions. He then goes on to discuss the foundation of the Peak Credit methodology as lying within the short run marginal cost theory, and points out that the Peak and Average method is dedicated to embedded or historical costs.

Despite this discussion, Mr. Watkins ultimately supports the Peak and Average method as a reasonable approach to allocating PacifiCorp's costs across its retail classes, with a caveat.[12/] Mr. Watkins' characterizations are without merit for the reasons I offered in my responsive testimony.[13/]

Q. WHAT IS THE CAVEAT MENTIONED BY MR. WATKINS?

A. Mr. Watkins complains of the use of a single coincident peak for determining the load factor which is used in calculating the classification percentages under the Peak and Average method. He believes that use of this measure is too unstable and is not "forward-looking."[14/] Ultimately, he advocates, and performs calculations, using a demand classification ratio of 30%, rather than 43% used by PacifiCorp.[15/]

In my opinion, this use of an even lower demand classification makes PacifiCorp's already suspect approach quite egregious. As indicated in my responsive

[12/] Exhibit No.___ (GAW-1T) at 10.
[13/] Exhibit No. ___(RRS-1T) at 16-18. However, I refer to it as "Peak Credit," conforming to PacifiCorp's nomenclature.
[14/] Exhibit No.___ (GAW-1T) at 9.
[15/] Id. at 13.

testimony, the production plant costs should be classified as demand related and allocated using 4 coincident peaks.

Q. DOES MR. WATKINS ADDRESS THE THREE STAFF RECOMMENDED COST OF SERVICE CHANGES FROM THE 2013 RATE CASE?

A. Yes, he does.[16] With respect to classifying generation and transmission costs based on 200 hours of peak load, he agrees with PacifiCorp and ultimately with Staff and me that the 200 hours should not be used. Thus, to my knowledge, no party has advocated such use in this case.

With respect to developing separate classification percentages for NDG (solar and wind resources) he concurs with PacifiCorp, and ultimately with me, that it is inappropriate to single out this one type of generating resource. This leaves Staff as the sole advocate of such an approach, which I have addressed hereinabove.

With respect to the third recommendation regarding the direct assignment of large account manager expenses to Schedule 48T-Dedicated Facilities customers, Mr. Watkins recommends that for future cost of service studies, the Company adopt such recommendation. I addressed my opposition to this approach in my response to Staff hereinabove.

Q. HOW DOES MR. WATKINS ADDRESS REVENUE ALLOCATION?

A. As indicated at pages 16-17 of his direct testimony, Mr. Watkins essentially agrees with PacifiCorp's proposed rate spread approach, whereby classes that are providing a return index of less than 100% essentially receive an increase of as much as 1.12 times the system average increase. He goes on to indicate that should the Commission authorize an overall increase less than PacifiCorp's requested increase, the mitigation

[16] Id. at 14-15.

factor should be scaled back in a proportional manner. Thus, I believe that he, PacifiCorp and I are in an agreement in that regard. Staff's proposal is the outlier and is addressed hereinabove.

Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?

A. Yes, it does.