Exhibit No. ___ (TES-1T)
Docket UE-100749
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY,** **Respondent.**	**DOCKET UE-100749**

TESTIMONY OF

Thomas E. Schooley

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Working Capital, Cost-of-Service, Revenue Allocation and Rate Design, and Low Income Bill Assistance Program

October 5, 2010

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Q. Please summarize your findings and recommendation for working capital.

A. Staff finds that PacifiCorp's investors do not supply working capital. Consequently, Staff recommends the Commission eliminate all of the Company's working capital related rate base items and adjustments, including working capital accounts for fuel stock, materials and supplies, and cash working capital.

Q. Please summarize your testimony on revenue allocation.

A. Based on the results of the cost of service study, Staff proposes higher than average increases in revenue for Residential Schedule 16, and for industrial schedules 48T, Large General Service > 1,000 kW, and Dedicated Facilities. Staff also proposes lower than average increases for the commercial schedules: Schedule 24, Small General Service and Schedule 36, Large General Service < 1,000 kW, as well as Agricultural Pumping Schedule 40. Staff proposes a minimal increase for the Street Lighting Service Schedules 15, 52, 54, and 57.

Q. Please summarize your testimony on rate design.

A. Staff recommends the basic charge for Schedule 16, Residential, be increased from $6.00 to $7.50. Staff also recommends the Commission accept the Company's rate design proposals for the other rate schedules as filed, regardless of the Commission's approved overall revenue increase.

Q. Please summarize your testimony on low income bill assistance issues.

A. Staff recommends the Commission accept the Company's proposal regarding the Bill Assistance Surcharge in Schedule 91 as filed, regardless of the level of revenue increase the Commission approves.

III. INVESTOR-SUPPLIED WORKING CAPITAL

A. Working Capital Adjustments: Adjustment 8.1, Cash Working Capital; Adjustment 8.2, Jim Bridger Mine Rate Base; Adjustment 8.12, Remove Current Asset Accounts; Adjustment 9.1.1, Production Factor.

1. Summary

Q. What is working capital?

A. Working capital refers to the funds necessary to sustain a company in its day to day operations. The text book definition of working capital is current assets less current liabilities.

Q. Who may provide working capital besides the investor?

A. Trade creditors typically provide working capital through the payment terms. For example, most trade creditors allow a company to pay for goods or services 30 days from the date the trade creditor delivers the goods or services. The company has use of those funds during that period. Working capital may also be provided by ratepayers or other non-investors, via various regulatory treatments, such as deferred income taxes, unamortized investment tax credits, or customer deposits.

Q. What is the utility regulatory perspective on working capital?

A. In rate setting, working capital is a rate base item. Because rate base represents the assets provided by investors, and forms the base upon which investors earn a return, the focus of utility regulation is to measure the extent to which investors actually supply working capital. If and when investors supply working capital, the Commission should include the amount they supply in rate base so investors have an opportunity to earn a return on the capital they supply. On the other hand, if the investors did not supply working capital, then the Commission should not include working capital in rate base. Otherwise, the Commission would allow investors to earn a return on capital they did not provide.

Q. What is Staff's recommendation for working capital in this case?

A. Staff recommends the Commission include no working capital in PacifiCorp's rate base.

Q. What is the basis for your recommendation?

A. I analyzed PacifiCorp's working capital needs using the investor-supplied working capital method. That analysis shows investors are not supplying working capital to the Company. Consequently, the Commission should not include any working capital allowance in rate base for investors to earn a return. My Exhibit No. ___ (TES-2) summarizes my investor-supplied working capital analysis.

Q. Please list the adjustments you made to PacifiCorp's test year results to implement the results of your investor-supplied working capital analysis.

A. I made the following four adjustments to PacifiCorp's test-year results of operations:

- **Adjustment 8.1, Cash Working Capital**: This adjustment removes PacifiCorp's one-eighth method working capital calculation of $11,145,151 (Washington) from rate base, plus the residual cash working capital from the Company's data, leaving a zero balance for working capital.
- **Adjustment 8.2, Jim Bridger Mine Rate Base**: This adjustment removes from rate base $4,039,570 (Washington) of materials & supplies, and pit inventory (fuel stock) related to the Jim Bridger Mine. *See Exhibit No. RBD-3, Tab 8, page 8.2.1.*
- **Adjustment 8.12, Remove Current Assets**: This adjustment removes from rate base $3,524,551 (Washington) from FERC Account 151 (Fuel Stock), and $7,775,703 (Washington) from FERC Account 154 (plant materials and operating supplies).
- **Adjustment 9.1.1, Production Factor Adjustment:** The reduction to rate base in Adjustment 8.2 (my second adjustment above) is carried forward to Adjustment 9.1.1. The effect is a small increase to rate base of $7,143 (Washington).

The net effect of these adjustments is to remove each PacifiCorp working capital adjustment in this case, because Staff's analysis shows investors have not supplied working capital to PacifiCorp, and therefore the Commission should not include any working capital amounts in rate base to earn a return for investors.

2. Staff's Response to Recent PacifiCorp Rate Case Orders on Working Capital

Q. Has Staff followed the guidance and directives provided by the Commission in recent PacifiCorp rate orders?

A. Yes.

Q. In what recent PacifiCorp rate cases did the Commission address working capital issues in its order?

A. The Commission addressed working capital issues in its orders in the last two litigated rate cases: Docket UE-050684, PacifiCorp's 2005 Rate Case; and Docket UE-061546, PacifiCorp's 2006 Rate Case.

Q. What guidance and directives did the Commission provide in PacifiCorp's 2005 Rate Case?

A. The Commission said: "the objective is to quantify the amount of working capital and current assets supported by capital on which investors are entitled to a return," and: "We [the Commission] also expect Staff and other parties to provide full evidentiary support of any proposals and methods they may submit to substantiate adjustments to a company's figures." *Docket UE-050684, WUTC v. PacifiCorp, Order 04 (April 17, 2006), at page 68, ¶¶ 188-189.*

Q. In this case, has Staff responded by providing the Commission full evidentiary support for Staff's proposed working capital adjustment?

A. Yes. My testimony provides a full explain of Staff's analysis and adjustments, and my Exhibit No. ___ (TES-2) contains a complete working capital calculation, with all accounts listed.

Q. What guidance did the Commission provide in PacifiCorp's 2006 Rate Case?

A. The Commission focused on the need for the working capital analysis to properly allocate working capital to Washington. Specifically, the Commission said: "In this proceeding [i.e., Docket UE-061546] we do find an acceptable inter-jurisdictional cost allocation methodology: the WCA method previously discussed. The problem here is that neither the Company nor Staff calculated Working Capital in a manner consistent with the WCA [West Control Area] allocation methodology." *Docket UE-061546, WUTC v. PacifiCorp, Order 08 (June 21, 2007) at page 42, ¶ 162.*

Q. In this case, has Staff developed an allocation method that will allocate working capital to Washington in a manner consistent with the Commission-approved West Control Area (WCA) allocation methodology?

A. Yes.

Q. Please explain.

A. Staff's working capital analysis is based on the PacifiCorp's balance sheet. PacifiCorp does not maintain a balance sheet for the West Control Area alone, or

Washington alone. Therefore, I developed an allocation process based on the Commission–approved WCA allocation method to determine Washington's share of PacifiCorp's total working capital. If PacifiCorp had investor-supplied working capital, Staff's allocation process would allocate an appropriate share to Washington. However, because PacifiCorp has no investor-supplied working capital in this case, it was not necessary for me to use this allocation process.

3. The Investor-Supplied Working Capital Method

Q. What method does Staff use to measure working capital in this case?

A. Staff uses the "investor-supplied working capital" method.

Q. Please provide a brief description of the investor-supplied working capital method.

A. In broad form, the investor-supplied working capital method calculates the amount of invested capital, and subtracts the amount of investments. If the result is positive, that is the amount of working capital investors have supplied. If the result is negative, then investors are not supplying working capital.

Q. What is the basic concept underlying the investor-supplied working capital method?

A. 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, then that excess amount is the investor-supplied working capital.

In summary, the investor-supplied working capital method directly measures the amount of working capital that investors provide. If there is any such an amount, it is included in rate base and earns a return.

Q. What premises underlie the investor-supplied working capital method?

A. There are four basic premises: 1) a company uses invested capital for both operating and non-operating investments; 2) invested capital is fungible; 3) the Company's operating investments and non-operating investments share pro-ratably any excess investor-supplied funds; and 4) the use of the average of monthly average balance sheet amounts captures the variations inherent in working capital needs.

Q. Are these premises reasonable?

A. Yes.

Q. Please explain the importance of the balance sheet, and how investor-supplied capital is reflected on the balance sheet.

A. The balance sheet is important because this is the financial statement or document that portrays company debt and equity capital from investors and the company investments which are the key elements in investor-supplied working capital

calculation. Broadly speaking, the balance sheet begins when investors supply capital (money) to a company. The capital is used by the company to purchase assets such as the machinery that produces the company's products, or to purchase inventory or buildings.

Investors supply money to the company in two primary forms. One is equity, the direct ownership in stock of the corporation. The other is debt; the investor supplies money in return for the corporate promise to pay the money back on a date certain with interest payments along the way. Collectively, these are known as "investor-supplied capital."

Accounting rules determine the basic structure of the balance sheet, and for regulated energy utilities, such as PacifiCorp the Federal Energy Regulatory Commission (FERC) promulgates specific account titles and defines the accounts. Staff uses the balance sheet accounts as defined by the FERC and reported in the annual FERC Form 1.

Q. What are the major components of the balance sheet?

A. The three components of the balance sheet are assets, liabilities and owner's equity.

Q. **Please explain assets.**

A. Assets are what a company owns. For a regulated utility the primary asset categories on the balance sheet are utility plant, other property and investments, current and accrued assets, and deferred debits.

Q. Please explain liabilities.

A. Liabilities are what a company owes. The balance sheet reflects liabilities in the form of debt, such as bonds sold to investors. The company incurs additional liabilities in many ways, such as: 1) through vendors agreeing to supply goods, and the company agreeing to pay for those goods with payments that follow on agreed terms; 2) through accounting measurements of potential liability; and 3) through deferred credits.

Q. Please explain owner's equity.

A. Owner's equity is the ownership interest represented by common stock and the earnings retained by the owners. Total assets must equal the sum of the liabilities plus the owner's equity, thus the "balance" in the balance sheet.

Q. Please explain the subcategories of assets and liabilities.

A. On the balance sheet, a company classifies its assets and liabilities as either "current" or "long-term". Current assets are assets that can be turned into cash promptly, at most within one year. Similarly, current liabilities are debts that must be paid within one year. Current assets include such items as customer cash, temporary cash investments, accounts receivable, prepayments, fuel stock, and material and supplies. Current liabilities include accounts payable, customer deposits, taxes payable, and derivative instrument liabilities, among others.

Q. How do current assets and current liabilities relate to working capital generally?

A. As I stated earlier, accounting text books define working capital as current assets less current liabilities. Current liabilities represent debts that are payable in the near future. Lenders to the company, including those who are selling goods to the company, want to be assured of getting paid. A company with current assets, that is, cash or something that can be turned into cash quite soon, that exceed the immediate cash needs, the current liabilities, is more likely to pay its bills on time. Ideally, a daily balance sheet would show the daily fluctuations in the ratio of current assets to current liabilities. However, even with today's immense computing resources, this is impractical. The monthly balances present adequate support of the company's ability to cover its working capital needs. Hence, the textbook definition that current assets less current liabilities equals working capital.

Q. How does this relate to investor-supplied working capital specifically?

A. In gross terms, current assets plus investments equals current liabilities plus invested capital. Arithmetically it follows that if current assets exceed current liabilities, then invested capital must exceed investments. In that situation, the investors are supplying working capital. However, the primary categories of accounts: assets, liabilities and owner's equity, require analysis to properly determine what amounts constitute invested capital and what amounts constitute investments. This analysis is reflected in my Exhibit No. ___ (TES-2).

4. Application of the Investor-Supplied Working Capital Method.

Q. Please explain the format of your working capital analysis exhibit.

A. My Exhibit No. ___ (TES-2) is based on PacifiCorp's total company balance sheet for the year ending December 31, 2009, on an average of monthly averages basis, as provided by the Company in its work papers.

Each FERC account is listed in column A by name and account number. Column O is the account balance on an average of monthly averages basis.[1]

Each account is assigned to one of the four columns Current Asset (P); Current Liability (Q); Investments (R); Invested Capital (S).

Columns T through V show each investment and its allocation to Washington, Other States, or Non-utility operations.

Q. What does the exhibit show?

A. The exhibit shows total investments are $12,772,589,992, per line 169, column R, and total invested capital is $12,654,912,199, per line 169, column S. Total investments exceed invested capital by $117,677,793, as shown on line 170, column S, which means that the investors do not provide working capital.

Q. You earlier explained that analysis is required to determine how to properly categorize each account. Please explain your analysis.

A. I made several adjustments based on my analysis of individual accounts. I classify Account 123.1, Investment in Subsidiary Companies, primarily as a utility

[1] Columns B through N contain the monthly account balances for January through December 2009.

investment in order to bring the Jim Bridger Mine into utility rate base to follow the adjustment in Exhibit No. ____ (RBD-3), Tab 8, page 8.2. However, Staff reclassifies the materials & supplies and fuel stock of the Jim Bridger Mine as current assets, which treats these items the same way that Staff treats the materials & supplies and fuel stock in the Company's general accounts. (Exhibit No. ___ (TES-2), page 1, line 22).

Temporary Cash Investments (Account 136) are treated as an investment, not a current asset. This account earns a return of its own (however meager) and should not get additional return from ratepayers. Special Deposits (Accounts 132-134), Notes Receivable (Account 141), and Notes Receivable from Associated Companies (Account 145) are also investments with a return of their own. Therefore, I classified these accounts as investments as well. (Exhibit No. ___ (TES-2), page 1, lines 36, 38, 39, and 43).

I also made adjustments for derivative assets and liabilities. These accounts arise from changes in the prices of contracts. These cannot be considered either investments or invested capital. Therefore, I placed all derivative instruments in either current assets or current liabilities. (Exhibit No. ___ (TES-2), page 1, line 30 and page 3, line 126).

Unamortized Debt Expense (Account 181) and Unamortized Loss on Reacquired Debt (Account 189) are related to bonds and therefore both should be classified as invested capital. (Exhibit No. ___ (TES-2), page 2, lines 70 and 82).

I classified customer deposits as a reduction in investments, giving it parallel treatment to that in the uncontested Adjustment 8.9 in Company Exhibit No. RBD-3, Tab 8, page 8.9. (Exhibit No. ___ (TES-2), page 3, line 136).

I considered all deferred debits, except accounts 181 and 189, as investments. (Exhibit No. ___ (TES-2), page 2, lines 71-81, and 83-84). The main components of deferred debits are regulatory assets and deferred income taxes. These, and the other minor items, are regulatory in nature and are additions to rate base. As such the deferred debits are allocated between the states and to non-utility operations.

I include Obligations under capital leases-noncurrent (Account 227) and Obligations under capital leases-current (Account 243) in invested capital as these obligations are in essence debt. The corollary accounts to the lease obligations are the capital lease assets which are included in the plant-in-service accounts.

Finally, I classified all deferred credits as reductions to investments. (Exhibit No. ___ (TES-2), page 3, line 152 to page 4, line 160). The main component of deferred credits is deferred taxes. This and the minor items are regulatory in nature and are deductions to rate base and to non-utility operations.

Q. Please assume the scenario in which the difference between invested capital and investments were positive; what would that indicate?

A. If invested capital exceeded investments, that would indicate investors were supplying working capital, and it would be appropriate for the Commission to include Washington's portion of that positive amount in rate base for ratemaking purposes.

Q. Under that scenario, can the Commission determine Washington's portion of investor-supplied working capital, consistent with the WCA allocation methodology?

A. Yes.

Q. Please explain.

A. As I discussed earlier in my testimony, one of the premises underlying the investor supplied working capital method is that the Company's operating investments and non-operating investments share pro-ratably any excess investor-supplied funds. Therefore, I would apply the total investor supplied working capital percentage relative to the total investments or the working capital ratio to the Washington portion of the total investments to derive the working capital allocable to Washington. Because this Washington portion of the total investment was determined in accordance with the WCA allocation methodology, the resulting Washington portion of working capital is consistent with the WCA allocation methodology.

As I described earlier, this analysis is illustrated under columns T, U, and V of Exhibit No. ___ (TES-2). As shown there, non-operating investments would receive about 19% of the total investor-supplied working capital, PacifiCorp's operations in other states would receive about 75 percent, and Washington customers would be responsible for the remaining six percent.

Q. Are the allocations illustrated in your Exhibit No. ___ (TES-2)?

A. Yes. Page 5 of my exhibit shows each FERC account and its allocation.

Q. How does this allocation method differ from the method Staff proposed in the 2006 Rate Case, Docket UE-061546?

A. The allocation method Staff used in Docket UE-061546 was to first allocate about 12.5 percent of the investor-supplied working capital to non-operating company operations. Washington then received about 7.4 percent of the remaining 88.5 percent, based on PacifiCorp's system overhead factor (SO factor). The SO factor is based on the gross plant in each state. The use of this factor alone assumes that all investments are allocated the same way. In that docket, I believe the Commission was concerned this assumption did not result in a reasonable allocation.

By contrast, the allocation method I developed in this case is refined and specific to PacifiCorp's Washington operations. That allocation method is based on an allocation of each individual investment account to Washington, other states, and non-utility operations. This is shown in my Exhibit No. Exhibit No. ___ (TES-2), columns T, U, and V, respectively. The allocation factor varies by account and this refinement captures such variation.

The sources for each allocation I used are found in Company Exhibit No. ___ (RBD-3), Tab 2, Results of Operations, and in the "B Tabs" on an account by account basis. If the account balance identified in Exhibit No. ___ (RBD-3) did not equal the amount on the FERC Form 1 balance sheet, I attributed the difference to the non-utility category.

To arrive at an overall allocation of the investor-supplied working capital, I summed each category and calculated a pro rata portion. As I described, the result shows Washington receives about six percent of the total investor-supplied working capital, other states share 76 percent and non-utility operations receive 18 percent. (Exhibit No. ___ (TES-2), page 4, line 171.)

This process would accurately derive Washington's portion of investor-supplied working capital, consistent with the WCA allocation methodology. However, as I have testified, it is not necessary for the Commission to use this allocation process. However, for illustrative purposes, I applied the allocation process to the working capital that is not supplied by investors or negative working capital. If the negative working capital were to be used, Washington would receive a rate base reduction of $7,023,737.

Q. Are there any significant changes in the categorizing of accounts from the 2006 Rate Case?

A. No. There are a couple minor differences from the 2006 working capital analysis.

I considered Account 234, Accounts Payable to Associated Companies, as a reduction to investments. In the current analysis, I leave this account in current liabilities. I find this account is properly a current liability and should not be considered an investment. The effect of the different treatment is minimal.

Another change is in capital lease obligations. In the 2006 analysis, I included

Account 227, Obligations under capital lease-noncurrent, and Account 243, Obligations under capital lease-current as reductions to investments. In the present

analysis, I include these two accounts as invested capital. In essence, these are debts of the utility and should be included with other debt instruments. The ISWC remains the same whether the accounts are a reduction to investments or as invested capital.

Q. Please compare the results of Staff's working capital analyses in PacifiCorp's 2006 Rate Case and this case.

A. In the 2006 Rate Case, Staff's calculation showed investor supplied working capital of positive $129 million, compared to a negative $142 million in this case. This is a difference of $253 million.

Q. Is this difference understandable, considering the five years that have elapsed since the 2006 Rate Case?

A. Yes. This $253 million difference represents only about a three percent change, based on PacifiCorp's March 2006 investments of about $7.7 billion. Other increases in PacifiCorp's balance sheet from March 2006 to December 2009 show the following:

- An increase in total assets and other debits of over 43%
- An increase in net utility plant of 53%, and
- An increase in total capitalization (debt plus equity) of 61 percent.

This three percent change in working capital is understandable in view of the growth in total Company operations.

5. Response to PacifiCorp on Working Capital

Q. What does PacifiCorp propose for a working capital in this case?

A. The Company proposes to include in rate base a total of $22,405,357 related to working capital. This amount comes from three different sources:

- PacifiCorp uses the "one-eighth" method to derive $11,145,151 in cash working capital. The Company's calculation is in Exhibit No. ___ (RBD-3), Tab 1, page 1.0, line 41.
- PacifiCorp directly includes in rate base $3,524,551 worth of fuel stock (Exhibit No. ___ (RBD-3), Tab 1, page 1.0, line 39.).
- PacifiCorp directly includes in rate base $7,775,703 worth of plant materials and operating supplies (materials & supplies) (Exhibit No. ___ (RBD-3), Tab 1, page 1.0, line 40.).

The figures for each of these three items are shown in Company witness Mr. Dalley's Exhibit No. ___ (RBD-3), Tab 2, page 2.2, lines 42-44.[2]

Q. Should the Commission include any of these amounts in rate base?

A. No.

Q. Please explain why the Commission should reject the Company's proposal to include $11,105,103 in rate base, based on the Company's use of the one-eighth method.

[2] There is an unexplained $40,048 discrepancy between Exhibit No. ___ (RBD-3), Tab 1, page 1.0, line 41 and Exhibit No. ___ (RBD-3), Tab 2, page 2.2, line 44. This same discrepancy exists in Miscellaneous Rate Base.

A. The Company's one-eighth method is a simple calculation, but it suffers by its simplicity because it fails to demonstrate that the working capital it derives is provided by investors. Because investors are only allowed a return on the capital they have provided the company, the Company needs to demonstrate that investors supplied this capital. The Company's one-eighth method fails to demonstrate that.

The one-eighth method simply takes total operations and maintenance expenses and divides it by eight. As a result, the one-eighth method will always result in a positive working capital allowance, regardless whether investors supply working capital to the firm. In other words, the one-eighth method assumes investors supply working capital, without proving that assumption. That is not appropriate.

Q. Please explain why the Commission should reject the Company's proposal to include in rate base $3,524,551 worth of fuel stock and $7,775,703 worth of materials and supplies.

A. These accounts are current assets, as shown in the Company's FERC Form 1. As such, these items should only be included in working capital to the extent investor's supply that capital. These items should not be automatically included as line item rate base accounts, as PacifiCorp presents them.

Q. Should the Commission ever consider fuel stocks and material & supplies to be part of working capital?

A. Yes. Although the Commission should not include fuel stock and materials & supplies as specific rate base items, it is appropriate for the Commission to consider these items as part of working capital if, and to the extent, invested capital exceeds investments, because that would indicate that investors do, in fact, supply working capital. However, in this case, as Staff's analysis shows, PacifiCorp investors do not contribute funds to create working capital. Therefore, these accounts should not be included in rate base as working capital.

6. Response to Prior PacifiCorp Criticisms of the Investor-Supplied Working Capital Method.

Q. Has PacifiCorp previously criticized Staff's investor supplied working capital method?

A. Yes. The Company made three criticisms in the 2005 Rate Case, Docket UE-050684.

Q. What were the Company's criticisms?

A. First, the Company relied on a textbook named *Accounting for Public Utilities* by Mr. Robert Hahne, which criticized some type of balance sheet method for calculating working capital. Next, the Company compared Staff's calculation in that case to a prior Staff calculation, and identified certain differences. Finally, the

Company charged that Washington is the only state that uses a balance sheet method to calculate working capital.

Q. Are these Company criticisms valid?

A. No.

Q. Please explain why the Company's criticism based on Mr. Hahne's textbook is not valid.

A. The primary problem is that PacifiCorp cannot show that the method Mr. Hahne was addressing in his textbook is the same as the method Staff used in this case, and has used for the past several decades.[3]

For example, Mr. Hahne states that the balance sheet method wrongly assumes that all non-utility or non-jurisdictional assets are investor-supplied.[4] However, Staff's method does not make that assumption. Staff appropriately allocates working capital between utility and non-utility operations.

The Company also relied on Mr. Hahne's statement that the balance sheet method is problematic if the utility does not record unbilled revenues.[5] However, PacifiCorp records unbilled revenues, so this criticism has no application to PacifiCorp, assuming it is a valid criticism.

Finally, the Company relied on Mr. Hahne's criticism that the balance sheet is a "snap shot of completed series of events," and his complaint that even an average of 13 months misses the payment of expenditures made on the first day of

[3] Staff traced the ISWC approach as far back as the early 1960s.
[4] Exhibit No. 195-T (PMW-5) in Docket UE-050684 at 6.2.7.
[5] Exhibit No. 195-T (PMW-5) in Docket UE-050684 at 6.2.8.

the month.[6] However, Staff's investor-supplied working capital analysis reflects an average of the monthly average data, thereby picking up balances that may be missed by only one "snapshot" per month.

Q. Please explain why the Company's second criticism, using comparisons to a prior Staff working capital calculation, is not valid.

A. Many of the Company's criticisms are in form only because most of the differences between the two Staff calculations did not change the bottom line result. For certain other differences, the Staff's prior calculation did indeed contain some errors, which Staff corrected in its calculation in the 2005 Rate Case. It is also pertinent to note that the earlier docket which the Company used for its comparison was settled before a hearing on the merits. Consequently, it is possible Staff would have corrected its exhibit in that case, had that case gone to hearing.

Q. Is it remarkable that Staff's ISWC presentation might be different in different cases?

A. No. Staff works to present a complete analysis in each case. Staff discovers improvements and refinements along the way. At the same time, evolving requirements of Generally Accepted Accounting Principles have increased considerably the complexity of corporate balance sheets over time. However, the overriding principle stays the same: only the working capital provided by investors may be included in rate base. Staff's method applies that principle; the Company's method ignores that principle.

[6] Exhibit No. 195-T (PMW-5) in Docket UE-050684 at 6.2.9.

Q. Is the Company correct that Washington is the only state that uses a balance sheet approach to calculate investor-supplied working capital?

A. No. At least three other states currently use a balance sheet method: Idaho, Michigan, and Florida.[7] In any event, regardless of how many commissions use a method, the Commission's goal should be to use consistently a method that is theoretically defensible, is not overly complex, and calculates the amount of working capital supplied by investors. The Company should include in rate base only the amount of working capital supplied by investors. Staff's method satisfies this goal. The Company's methods do not.

Q. Why does the Company's method fail to satisfy the goal that rate base should include only the amount of working capital supplied by investors?

A. As I explained earlier, the one-eighth method does not determine if investors supply that working capital or not.

7. Conclusion on Working Capital

Q. What are your conclusions regarding the working capital issue?

A. For the reasons I have stated, the Commission should accept Staff's investor-supplied working capital calculation, which shows the investors did not supply working capital for PacifiCorp's utility business operations in 2009. The

[7] *Re The Detroit Edison Company,* 270 PUR4th (December 23, 2008); Florida PSC: *In re Progress Energy Florida*, Docket 050078-EI, Document 04220-05 at 19 (Sch. B-1), 22 (Sch. B-2) and 160 (Sch. B-17). My statement regarding Idaho is based on information provided by the Idaho PUC Staff.

Commission should reject the one-eighth method offered by PacifiCorp, and also remove the current asset accounts fuel stock, and materials & supplies from the results of operations, including the current asset accounts from Adjustment 8.2, Jim Bridger Mine. This results in a reduction to rate base of $26,484,975 (Washington). The production factor adjustment is also revised to reflect the change in Adjustment 8.2, for an increase to rate base of $7,143 (Washington).

IV. REVENUE ALLOCATION

Q. What is revenue allocation?

A. Revenue allocation, also known as rate spread, is the process of determining the portion of total revenues to be collected from each rate schedule.

Q. Please contrast revenue allocation with rate design.

A. Rate design takes the total revenue allocated to each rate schedule (the revenue allocation) and determines the specific charges within the schedule, such as the basic charge per month, the demand charge per kilowatt, and the exact cents per kilowatt-hour.

Q. What is the basic principle behind allocating revenues to the rate schedules?

A. The basic principle is cost causation: customers should be charged for service based on the costs they impose on the total system. The premise of cost causation is present in many aspects of determining rates in a price-regulated industry.

Q. Is cost causation the only applicable principle or factor the Commission should consider in determining each rate schedule's share of total revenue?

A. No. While a precise calculation of the costs to be recovered by the customers on each rate schedule is possible, given any one set of allocation assumptions, the Commission has often stated that factors in addition to cost weigh in the rate spread decision, including the appearance of fairness, perceptions of equity, economic conditions in the service territory, and stability, or gradualism.

Q. What data are necessary to determine a fair allocation of revenues to the customer classes, and how is that data used?

A. The utility must collect data on the use of electricity across a broad spectrum of all customers. This is known as a load study. While it is not feasible to precisely measure each customer's load, statistical sampling provides sufficient data for the intended purposes. For each customer sampled, the data collected should include, at a minimum, the electricity consumed during short time intervals around the clock and over an entire year. The purpose is to group customers into like patterns of use, to determine the time periods at which those customers demand the greatest amount of kilowatts, to compare the peak periods of a group to the lowest use periods within the same group, and to compare each group of customers to the other groups. The utility must also collect data on how it produces and buys electricity to meet customer needs.

In the cost of service study, the company sorts its costs and plant balances, or rate base, into the basic functions of doing business such as generation, transmission,

Exhibit No. ___ (TES-2)
Docket UE-100749
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY,** **Respondent.**	**DOCKET UE-100749**

EXHIBIT TO TESTIMONY OF

Thomas E. Schooley

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Investor-Supplied Working Capital

October 5, 2010

Line	A Title of Account	O AMA	P Current Asset	Q Current Liability	R Investments	S Invested Capital	T Investments Allocated Washington	U Investments Allocated Other States	V Non-utility
1	UTILITY PLANT								
2	Utility Plant (101-106, 114)	19,197,832,855			19,197,832,855		1,398,781,151	17,653,526,041	145,525,663
3	Construction Work in Progress (107)	1,454,106,100			1,454,106,100				1,454,106,100
4	TOTAL Utility Plant	20,651,938,955							
5	(Less) Accum. Prov. For Depr. Amort. Depl. (108, 111, 115)	7,036,989,475			(7,036,989,475)		(537,798,929)	(6,465,837,397)	(33,353,149)
6	Net Utility Plant	13,614,949,479							
7	Nuclear Fuel in Process of Ref, Conv, Enrich, & Fab. (120.1)	-							
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)	-							
9	Nuclear Fuel Assemblies in Reactor (120.3)	-							
10	Spent Nuclear Fuel (120.4)	-							
11	Nuclear Fuel Under Capital Leases (120.6)	-							
12	(Less) Accum. Prov For Amort of Nucl Fuel Assemblies (120.5)	-							
13	Net Nuclear Fuel	-							
14		-							
15	Net Utility Plant	13,614,949,479			13,614,949,479	-	860,982,222	11,187,688,644	1,566,278,613
16	Gas Stored Underground - Noncurrent (117) [Acct 116 =0]	-							
17									
18	OTHER PROPERTY AND INVESTMENTS								
19	Nonutility Property (121)	9,765,098			9,765,098				9,765,098
20	(Less) Accum. Prov. For Depr. And Amort. (122)	(1,417,481)			(1,417,481)				(1,417,481)
21	Investments in Associated Companies (123)	10,494,552			10,494,552				10,494,552
22	Investments in Subsidiary Companies (123.1)	177,755,403	18,914,097		158,841,306		30,678,372	112,964,068	15,198,866
23	Noncurrent Portion of Allowances	-			-				-
24	Other Investments (124)	81,685,320			81,685,320				81,685,320
25	Sinking Funds (125)	-			-				-
26	Depreciation Funds (126)	-			-				-
27	Amortization Fund - Federal (127)	-			-				-
28	Other Special Funds (128)	8,290,581			8,290,581				8,290,581
29	Special Funds Non-major (129)	-			-				-
30	Long-Term Portion of Derivative Assets (175)	62,721,037	62,721,037						
31	Long-Term Portion of Derivative Assets - Hedges (176)	-			-				-
32	TOTAL Other Property and Investments	349,294,509	81,635,134		267,659,376	-	30,678,372	112,964,068	124,016,936
33									
34	CURRENT AND ACCRUED ASSETS								
35	Cash (131)	11,248,096	11,248,096						
36	Special Deposits (132-134)	1,412,006			1,412,006				1,412,006
37	Working Fund (135)	1,924	1,924						
38	Temporary Cash Investments (136)	393,896,187			393,896,187				393,896,187
39	Notes Receivable (141)	543,167			543,167				543,167
40	Customer Accounts Receivable (142)	307,263,503	307,263,503						
41	Other Accounts Receivable (143)	34,471,000	34,471,000						
42	(Less) Accum. Prov. For Uncollectible Accts. Cr (144)	(8,366,606)	(8,366,606)						
43	Notes Receivable from Associated Companies (145)	9,718,691			9,718,691				9,718,691
44	Accounts Receivable from Assoc. Companies (146)	19,967,092	19,967,092						

Line	A Title of Account	O AMA	P Current Asset	Q Current Liability	R Investments	S Invested Capital	T Investments Allocated Washington	U Investments Allocated Other States	V Investments Allocated Non-utility
45	Fuel Stock (151)	148,878,862	148,878,862						
46	Fuel Stock Expenses Undistributed (152)	-	-						
47	Residuals (Elec) and Extracted Products (153)	-	-						
48	Plant Materials and Operating Supplies (154)	177,338,816	177,338,816						
49	Merchandise (155)	-	-						
50	Other Material and Supplies (156)	-	-						
51	Nuclear Materials Held for Sale (157)	-	-						
52	Allowances (158.1 & 158.2)	-	-						
53	(Less) Noncurrent Portion of Allowances	-	-						
54	Stores Expenses Undistributed (163)	-	-						
55	Gas Stored Underground - Current (164.1)	-	-						
56	LNG Stored and Held for Processing (164.2-164.3)	-	-						
57	Prepayments (165)	88,869,046	88,869,046						
58	Advances for Gas (166-167)	-	-						
59	Interest and Dividends Receivable (171)	13,968	13,968						
60	Rents Receivable (172)	2,858,528	2,858,528						
61	Accrued Utility Revenues (173)	195,760,458	195,760,458						
62	Miscellaneous Current and Accrued Assets (174)	26,425,406	26,425,406						
63	Derivative Instrument Assets (175)	195,957,963	195,957,963						
64	(Less) Long-Term Portion of Deriv Instrument Assets (175)	(62,721,037)	(62,721,037)						
65	Derivative Instrument Assets - Hedges (176)	(528,757)	(528,757)						
66	(Less) Long-Term Portion of Deriv Instrmt Assets Hedge (176)	-	-						
67	TOTAL Current and Accrued Assets	1,543,008,314	1,137,438,262		405,570,051		-	-	405,570,051
68									
69	DEFERRED DEBITS								
70	Unamortized Debt Expenses (181)	36,875,026				(36,875,026)			
71	Extraordinary Property Losses (182.1)	-			-				
72	Unrecovered Plant and Regulatory Study Costs (182.2)	7,864,117			7,864,117				7,864,117
73	Other Regulatory Assets (182.3)	1,506,320,134			1,506,320,134		5,636,094	119,762,090	1,380,921,950
74	Preliminary Survey and Investigation Charges (183)	1,835,805			1,835,805		-	-	1,835,805
75	Preliminary Natrl Gas Survey & Investigation Charges (183.1)	-			-				
76	Other Preliminary Survey and Investigation Charges (183.2)	-			-				
77	Clearing Accounts (184)	-			-				
78	Temporary Facilities (185)	91,705			91,705		-	-	91,705
79	Miscellaneous Deferred Debits (186)	68,946,761			68,946,761		2,995,635	63,912,195	2,038,931
80	Differed Loss from Disposition of Utility Plant (187)	-			-				
81	Research, Develpmt, and Demonstration Expenditures (188)	-			-				
82	Unamortized Loss on Reacquired Debt (189)	15,067,431				(15,067,431)			
83	Accumulated Deferred Income Taxes (190)	626,290,145			626,290,145		5,165,174	96,513,928	524,611,043
84	Unrecovered Purchase Gas Costs (191)	-			-				
85	TOTAL Deferred Debits	2,263,291,125	-		2,211,348,668	(51,942,457)	13,796,903	280,188,213	1,917,363,552
86									
87	**TOTAL ASSETS**	**17,770,543,427**	**1,219,073,396**		**16,499,527,574**	**(51,942,457)**	**905,457,497**	**11,580,840,925**	**4,013,229,152**
88	total asset ck>>	17,770,543,427							

Line	A Title of Account	O AMA	P Current Asset	Q Current Liability	R Investments	S Invested Capital	T Washington	U Investments Allocated Other States	V Non-utility
89									
90									
91	PROPRIETARY CAPITAL								
92	Common Stock Issued (201)	3,417,945,896				3,417,945,896			
93	Preferred Stock Issue (204)	41,463,300				41,463,300			
94	Capital Stock Subscribed (202, 205)	-				-			
95	Stock Liability for Conversion (203, 206)	-				-			
96	Premium on Capital Stock (207)	-				-			
97	Other Paid-In Capital (208-211)	882,272,290				882,272,290			
98	Installments Received on Capital Stock (212)	-				-			
99	(Less) Discount on Capital Stock (213)	-				-			
100	(Less) Capital Stock Expense (214)	(41,288,207)				(41,288,207)			
101	part 1 retained earnings (215, 215.1, 216)	-				-			
102	part 2 retained earnings (4181100)	-				-			
103	part 3 retained earnings - place holder for EACS	-				-			
104	Retained Earnings (215, 215.1, 216)	1,942,741,065				1,942,741,065			
105	Unappropriated Undistributed Subsidiary Earnings (216.1)	7,265,413				7,265,413			
106	(Less) Reacquired Capital Stock (217)	-				-			
107	Accumulated Other Comprehensive Income (219)	(3,020,076)				(3,020,076)			
108	TOTAL Proprietary Capital	6,247,379,682	-			6,247,379,682			
109									
110	LONG-TERM DEBT								
111	Bonds (221)	6,409,035,750				6,409,035,750			
112	(Less) Reacquired Bonds (222)	-				-			
113	Advances from Associated Companies (223)	-				-			
114	Other Long-Term Debt (224)	-				-			
115	Unamortized Premium on Long-Term Debt (225)	36,922				36,922			
116	(Less) Unamortized Discount on Long-Term Debt-Debit (226)	(15,581,682)				(15,581,682)			
117	TOTAL Long-Term Debt	6,393,490,990	-			6,393,490,990			
118									
119	OTHER NONCURRENT LIABILITIES								
120	Obligations Under Capital Leases - Noncurrent (227)	58,221,064				58,221,064			
121	Accumulated Provision of Property Insurance (228.1)	-			-				
122	Accumulated Provision for Injuries and Damages (228.2)	8,577,864			(8,577,864)		(635,480)	(7,942,384)	-
123	Accumulated Provision for Pensions and Benefits (228.3)	574,987,729			(574,987,729)		(1,600,000)	(20,005,711)	(553,382,018)
124	Accumulated Miscellaneous Operating Provisions (228.4)	41,945,820			(41,945,820)		(331,000)	(1,169,000)	(40,445,820)
125	Accumulated Provision for Rate Refunds (229)	-							
126	Long-Term Portion of Derivative Instrument Liabilities	407,341,145		407,341,145					
127	Long-Term Portion of Derivative Instrument Liab. - Hedges	-							
128	Asset Retirement Obligations (230)	90,344,950			(90,344,950)		(444,000)	(3,986,000)	(85,914,950)
129	TOTAL OTHER Noncurrent Liabilities	1,181,418,573	-	407,341,145	(715,856,364)	58,221,064	(3,010,480)	(33,103,095)	(679,742,788)
130									
131	CURRENT AND ACCRUED LIABILITIES								
132	Notes Payable (231)	3,541,667				3,541,667			

Line	A Title of Account	O AMA	P Current Asset	Q Current Liability	R Investments	S Invested Capital	T Washington	U Investments Allocated Other States	V Non-utility
133	Accounts Payable (232)	594,643,057		594,643,057					
134	Notes Payable to Associated Companies (233)	-		-					
135	Accounts Payable to Associated Companies (234)	14,223,770		14,223,770					
136	Customer Deposits (235)	27,415,710			(27,415,710)		(2,980,496)	(24,435,214)	
137	Taxes Accrued (236)	52,980,213		52,980,213					
138	Interest Accrued (237)	98,715,428		98,715,428					
139	Dividends Declared (238)	347,298		347,298					
140	Matured Long-Term Debt (239)	-		-					
141	Matured Interest (240)	-		-					
142	Taxes Collections Payable (241)	13,730,467		13,730,467					
143	Miscellaneous Current and Accrued Liabilities (242)	64,384,977		64,384,977					
144	Obligations Under Capital Leases-Current (243)	4,221,253				4,221,253			
145	Derivative Instrument Liabilities (244)	497,612,497		497,612,497					
146	(Less) Long-term Portion of Deriv Instrument Liab	(407,341,145)		(407,341,145)					
147	Derivative Instrument Liabilities - Hedges (245)	113,482		113,482					
148	(Less) Long-term Portion of Deriv Instrument Liab - Hedges	-		-					
149	TOTAL Current & Accrued Liabilities	964,588,674	-	929,410,044					
150									
151	DEFERRED CREDITS								
152	Customer Advances for Construction (252)	17,574,254			(17,574,254)		(334,000)	(17,240,254)	
153	Accumulated Deferred Investment Tax Credits (255)	48,186,913			(48,186,913)		(1,096,753)	(7,145,066)	(39,945,094)
154	Deferred Gains from Disposition of Utility Plant (256)	-			-				
155	Other Deferred Credits (253)	41,736,203			(41,736,203)		(1,411,000)	(22,997,000)	(17,328,203)
156	Other Regulatory Liabilities (254)	74,085,796			(74,085,796)		(543,000)	(6,462,000)	(67,080,796)
157	Unamortized Gain on Reacquired Debt (257)	-				-			
158	Accumulated Deferred Income Taxes - Accel. Amort. (281)	-			-				
159	Accumulated Deferred Income Taxes - Other Property (282)	2,335,936,921			(2,335,936,921)		(129,035,267)	(1,750,536,212)	(456,365,442)
160	Accumulated Deferred Income Taxes - Other (283)	466,145,422			(466,145,422)		(4,699,481)	(74,895,634)	(386,550,307)
161	TOTAL Deferred Credits	2,983,665,508			(2,983,665,508)				
162									
163	**TOTAL Liab & Other Credits**	**17,770,543,427**	-	**1,336,751,189**	**(3,726,937,582)**	**12,706,854,655**	**(143,110,477)**	**(1,936,814,475)**	**(1,647,012,630)**
164	Total Liability + Owners Equity check >>	17,770,543,427							
165	Assets less Liabilities and Owners Equity check	-							
166									
167	Total Current Assets and Current Liabilities-Adjusted		1,219,073,396	1,336,751,189					
168			(117,677,793)						
169	**Total Investments and Invested Capital-Adjusted**				**12,772,589,992**	**12,654,912,199**	762,347,020	9,644,026,450	2,366,216,522
170	**Investor-Supplied Working Capital**					**(117,677,793)**			
171	Allocation Percentages				ratio of WA tototal		5.97%	75.51%	18.53%
172	Allocated Investor-supplied Working Capital				Allocated ISWC		(7,023,737)	(88,853,377)	(21,800,679)
173									
174						Total investment	762,347,020	9,644,026,450	2,366,216,522
175						capital allocated	755,323,283	9,555,173,073	2,344,415,843
176						ISWC	(7,023,737)	(88,853,377)	(21,800,679)

PacifiCorp

Investor-Supplied Working Capital
Allocation of Investments

UE-100749
Exhibit No. ___ (TES-2)
October 5, 2010

Allocation of Investments

Investment total			Total per RBD-3	WASH	Other states	Non-util
Accts Utility Plant (101-106, 114)	B tabs	Tab 2	19,197,832,855			145,525,663
101 Electric plant in service	B8	p. 2.32	18,880,589,015	1,398,743,841	17,481,845,174	
105 Future Use		p. 2.33	14,524,397	37,310	14,487,087	
114 Plant Acquisition		p. 2.33	157,193,780	-	157,193,780	
			19,052,307,192	1,398,781,151	17,653,526,041	
108 Accum. Depr.		p. 2.40	(6,490,343,793)	(503,192,584)	(5,987,151,210)	
111 Capital lease		p. 2.41	(419,705,336)	(34,606,345)	(385,098,991)	
			(6,910,049,129)	(537,798,929)	(6,372,250,201)	
			12,142,258,063	860,982,222	11,281,275,840	-
			(7,055,574,792)			
107 Construction Work in Progress (107)			1,454,106,100			1,454,106,100
form 1			(7,036,989,475)			(33,353,149)
108 Accum. Depr.		p. 2.40	(6,490,343,793)	(503,192,584)	(5,987,151,210)	
111 Capital lease		p. 2.41	(419,705,336)	(34,606,345)	(385,098,991)	
115 Accum. Prov. Asset Acq. Adj.		p.2.33	(93,587,196)	-	(93,587,196)	
			(7,003,636,325)	(537,798,929)	(6,465,837,397)	
Other investments						
124 Weatherization		p. 2.33	2,933,565	2,046,741	886,825	
182 Weatherization		p. 2.33	27,854,192	-	27,854,192	
182 Misc. Reg. Assets		p. 2.35	77,049,992	3,676,094	73,373,898	
182.3 Reg assets	B16		100,923,000	1,960,000	18,534,000	80,429,000
			205,827,184	5,636,094	119,762,090	80,429,000
NON-Utility						
182.22 Nuclear-trojan		p. 2.36	2,644,176	268,577	2,375,599	2,644,176
182.26 unrecovered plant	B16, p2		(10,608,000)	-	(10,609,000)	(10,609,000)
Trail Mtn			10,608,000	837,000	9,770,000	10,607,000
182.27 powerdale	B16, p2		3,982,000	879,000	3,103,000	3,982,000
			6,626,176	1,984,577	4,639,599	6,624,176
			68,946,761			2,038,931
186 misc. Def. Debits		p. 2.35	66,907,830	2,995,635	63,912,195	
190 Accum. Def. Inc.Tax	Form 1	626,290,145				522,652,043
		p2.37, B19	103,638,102	5,165,174	96,513,928	1,959,000
228.2 Accum. Inj. & Damages	Form 1	(8,577,864)				(0)
		p. 2.36	(8,577,864)	(635,480)	(7,942,384)	
228.3 AccumPen&Ben Obliga	Form 1	(574,987,729)				(553,382,018)
		p. 2.36, B15	(21,605,711)	(1,600,000)	(20,005,711)	
228.4 AccumOther Operating	Form 1	(41,945,820)				(40,445,820)
		B15	(1,500,000)	(331,000)	(1,169,000)	
230 ARO	Form 1	(90,344,950)				(85,914,950)
B14p1			(2,416,000)	1,000	(2,417,000)	
B15p4			(2,014,000)	(445,000)	(1,569,000)	
			(4,430,000)	(444,000)	(3,986,000)	
253 other deferred credits	Form 1	(41,736,203)				(16,743,203)
	B13p5		(3,387,000)	(13,000)	(3,374,000)	
	B14p3		(6,046,000)	(87,000)	(5,959,000)	
	B15p4		(3,611,000)	(356,000)	(2,670,000)	(585,000)
	B15p4		(11,949,000)	(955,000)	(10,994,000)	
	see p 2.35 sum		(24,993,000)	(1,411,000)	(22,997,000)	(585,000)
254 other reg liab.	Form 1	(74,085,796)				(63,957,796)
	B14p3		(717,000)	-	(717,000)	
	B15p5		(6,066,000)	197,000	(3,140,000)	(3,123,000)
	B15p5		(3,345,000)	(740,000)	(2,605,000)	
			(10,128,000)	(543,000)	(6,462,000)	(3,123,000)
255 Accum. Invest Tax Cred	Form 1	(48,186,913)				(39,945,094)
		p. 2.37	(8,241,819)	(1,096,753)	(7,145,066)	
282 ADIT - Other Prop	Form 1	(2,335,936,921)				(456,366,834)
		p. 2.37, B19	(1,879,570,087)	(129,035,267)	(1,750,536,212)	1,392
283 ADIT-Other	Form 1	(466,145,422)				(386,529,558)
		p. 2.37, B19	(79,615,864)	(4,699,481)	(74,895,634)	(20,749)