

1 **Q. Are you the same R. Bryce Dalley that previously provided testimony in this**
2 **docket?**

3 A. Yes.

4 **Q. What is the purpose of your testimony?**

5 A. My testimony addresses three key areas. First, I present the Company's earned
6 returns for calendar years 2009 and 2010 as reported to the Washington Utilities
7 and Transportation Commission (the Commission) in the Company's annual
8 Commission Basis Reports. Second, I discuss the Company's methodologies for
9 allocating renewable energy credits (RECs) and associated revenues. Finally, I
10 sponsor and explain the Company's proposal for a REC tracking mechanism
11 going forward.

12 **Overview of Company's Washington Commission Basis Reports**

13 **Q. Please describe the Company's earnings as reported in the 2009 and 2010**
14 **Commission Basis Reports.**

15 A. As shown in Exhibit No.__(RBD-26), in 2009 and 2010 the Company's return
16 on equity (ROE) in Washington was 5.28 percent and 6.69 percent respectively.¹
17 These returns are significantly less than the current authorized ROE of 9.8 percent
18 established by the Commission in Order 06 (Order) in this docket.

19 **Q. Do these earning levels include the impact of REC revenues?**

20 A. Yes. The 2009 and 2010 earnings referenced above reflect approximately \$4.8
21 million and approximately \$7.8 million of Washington-allocated REC revenues

¹ ROEs shown above are reflected on a restated basis, which include Commission ordered adjustments. The Company's reported per books ROE in Washington in 2009 and 2010 was 6.13 percent and 4.59 percent respectively.

1 respectively.²

2 **Q. What would be the impact on the Company's Washington's earnings of**
3 **removing REC revenues from the 2009 and 2010 results?**

4 A. Removing \$4.8 million of Washington-allocated REC revenues from the 2009
5 results would reduce the ROE by approximately 79 basis points to 4.49 percent.
6 Similarly, removing \$7.8 million of Washington-allocated REC revenue from the
7 2010 results would reduce the ROE by approximately 128 basis points to 5.41
8 percent.

9 **Allocation of REC revenues**

10 **Q. Please explain how the Company allocates RECs and REC revenue among its**
11 **six states.**

12 A. Each PacifiCorp state receives an allocation of the RECs generated by Company-
13 owned renewable resources or acquired through power purchase agreements for
14 the resources reflected in rates in the state. RECs are allocated using the System
15 Generation (SG) factor under the Revised Protocol allocation methodology and
16 the Control Area Generation West (CAGW) factor under the West Control Area
17 (WCA) methodology.

18 **Q. Please explain the rationale for the use of these factors.**

19 A. This allocation ensures that the allocation of RECs is consistent with the
20 allocation of resource costs. Under both the Revised Protocol and the WCA, the
21 SG and CAGW factors are used to allocate the fixed and variable costs of

² The Washington-allocated REC revenues reflected in these periods were calculated by applying Washington's CAGW factor to revenues from REC sales from west control area resources. This allocation methodology is consistent with the 2009 and 2010 allocation of revenues provided by Company witness Stacey J. Kusters in Confidential Exhibit No.__(SJK-2C) and Confidential Exhibit No.__(SJK-3C).

1 renewable resources. Initially, PacifiCorp uses forecast allocation factors to
2 approximate the allocation of RECs to each state. Forecast allocation factors are
3 updated to actual historical factors during the second quarter of the following
4 year, once actual load data is finalized.

5 **Q. What allocation methodology does the Company use in Washington?**

6 A. PacifiCorp employs the WCA inter-jurisdictional allocation methodology for the
7 purpose of allocating its costs and revenues to customers in the state of
8 Washington. The Commission approved the WCA allocation methodology in
9 Order 08, in Docket UE-061546. The west control area includes California,
10 Oregon and Washington. Generation assigned to the west control area includes
11 resources located within the west control area or with physical capability to
12 deliver energy into the west control area.

13 Consistent with this methodology, revenues from RECs generated by
14 renewable resources that have been found prudent and used and useful for service
15 to Washington customers are allocated to Washington based on the CAGW factor.
16 As such, Washington does not receive an allocation of RECs or REC revenues
17 associated with renewable resources that have not been included in rates in
18 Washington - those located in the east control area.³

19 **Q. What allocation methodology does the Company use in its other five**
20 **jurisdictions?**

21 A. PacifiCorp employs the Revised Protocol inter-jurisdictional allocation
22 methodology for purpose of allocating its costs to PacifiCorp customers in

³ Similarly, Oregon does not receive an allocation of RECs or REC revenues associated with the Rolling Hills wind resource because it is not included in rate base in Oregon.

1 California, Idaho, Oregon, Utah, and Wyoming. RECs associated with all
2 renewable resources are allocated to these states based on the SG factor.

3 **Q. What are the implications for RECs due to the use of a different allocation**
4 **methodology in Washington as compared to the rest of the states?**

5 A. The application of different allocation methodologies results in an over-allocation
6 of RECs and REC revenue associated with resources in the west control area and
7 an under-allocation of RECs and REC revenue associated with resources in the
8 east control area. Although the different allocation methods among states require
9 additional tracking, consistent with the Western Renewable Energy Generation
10 Information System (WREGIS) and state renewable portfolio standard (RPS)
11 requirements, under no circumstances will any RECs be double-counted as
12 adherence to the WREGIS Operating Rules eliminates that possibility.

13 **Q. How long has the Company employed the use of the West Control Area**
14 **allocation methodology described above?**

15 A. For purposes of determining Washington's share of REC revenues, the Company
16 has applied Washington's CAGW percentage to actual REC revenues from the
17 sale of RECs from west control area resources. This method was first applied in
18 the December 31, 2009, Quarterly REC Revenue Report, and was applied in each
19 subsequent Quarterly REC Revenue Report.⁴ In addition, this allocation method
20 was applied in the 2009 Commission Basis Report filed April 30, 2010 and the
21 2010 Commission Basis Report filed April 29, 2011, discussed above. Finally,

⁴ Subsequent reports were provided to the staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel) and the Industrial Customers of Northwest Utilities (ICNU) on July 28, 2010, October 29, 2010, February 1, 2011, April 29, 2011 and July 29, 2011.

1 this allocation method was applied in the Company's rebuttal filing in this docket.

2 Additionally, an explanation of the allocation method was previously
3 provided to Staff, Public Counsel, and ICNU on December 31, 2009, in
4 compliance with the following term of the Stipulation adopted in the Company's
5 2009 general rate case, Docket UE-090205:

6 "The Company agrees to provide a report prior to January 1, 2010 that
7 includes: (1) an explanation of how Renewable Energy Credits ("RECs")
8 and associated costs and/or revenues are allocated among PacifiCorp's six
9 states; (2) an explanation of how the Company determines proper
10 disposition of RECs on a total-company and state-by-state basis; and (3) a
11 detailed accounting of the total-company RECs that were sold and the
12 total-company RECs that were retained for each year from calendar year
13 2005 through June 2009."

14 **Q. Has any party ever taken issue with this allocation approach?**

15 A. No. Although it appears Staff is now proposing an alternative allocation of
16 historical revenues based on its filing with the Commission on May 24, 2011.

17 **REC Proceeds After January 1, 2010**

18 **Q. Have you applied the allocation methodology described above as part of the**
19 **detailed accounting of REC revenues sponsored by Ms. Kusters?**

20 A. Yes. The allocation methodology discussed above is applied to the subtotal of
21 actual REC revenues from west control area resources to calculate Washington's
22 allocated share of 2010 REC revenues. This is shown on the final line of
23 Confidential Exhibit No.__(SJK-3C).

24 **REC Revenue Tracking Mechanism Going Forward**

25 **Q. Please provide an overview of the Company's proposal for a REC tracking**
26 **mechanism going forward.**

27 A. The Company's detailed proposal for operation of the REC tracking mechanism

1 going forward focuses on two key elements: (1) the annual process for
2 reconciliation, and (2) the method for calculating Washington-allocated REC
3 revenues.

4 **Q. What does the Company propose with respect to the reconciliation process?**

5 A. Paragraphs 205 and 206 of the Order provide direction to the Company with
6 respect to the reconciliation process:

7 “At the end of the rate year, PacifiCorp will be required to submit a full
8 accounting of REC proceeds actually received during the preceding 12
9 months. This accounting will be considered in light of other information
10 to determine if the amount of credits that should have been returned to
11 customers exceeds or fall short of the estimated \$4.8 million upon which
12 the initial bill credits are based. In other words, the Commission will
13 authorize a true-up of the initial credits that can be reconciled as credits
14 are paid during the following 12 months.

15 At the end of the rate year and each subsequent annual period after the end
16 of the rate year, PacifiCorp will be required to provide an estimate of the
17 REC proceeds it expects to receive during the following 12 months. This
18 is the amount on which credits during that period will be based. As at the
19 conclusion of the initial period there will be a true-up at the end of each
20 subsequent 12 month period.”

21 Although the Order ties the annual true-up to the rate year in this
22 proceeding (April 3, 2011 through April 2, 2012), the Company respectfully
23 requests that the Commission modify the Order to allow REC accounting and
24 tracker true-ups to be based on a calendar year beginning in 2012.

25 **Q. What would be the timing of the Company’s reconciliation filings?**

26 A. The Company proposes the following:

- 27 • By May 1, 2012, PacifiCorp will submit a full accounting of REC revenues
28 actually received from April 1, 2011 through December 31, 2011. In each

1 subsequent year, the accounting of actual REC revenues will be provided for
2 the full calendar year.

- 3 • By May 1, 2012, PacifiCorp will also provide an estimate of the REC
4 proceeds it expects to receive for calendar year 2012. In each subsequent
5 year, an estimate for that subsequent calendar year will be provided.
- 6 • The Company proposes to accrue interest on any positive or negative balance
7 in the tracker at the Company's authorized weighted average cost of capital
8 (WACC). Under the Order, this results in a 7.81 percent interest rate.

9 **Q. How would rate changes be implemented?**

10 A. The Company proposes to file an advice letter on May 1 of each year to increase
11 or decrease the renewable energy revenue adjustment credit in Schedule 95 to
12 reflect the true-up for the prior period and the estimate of future proceeds. The
13 advice letter filing would then be reviewed by parties and approved at a
14 Commission public meeting.

15 **Q. Please explain the Company's proposal for the calculation of Washington-**
16 **allocated REC revenues going forward.**

17 A. Beginning in 2011, the Company will hold RECs for compliance with the
18 Washington RPS, which means that fewer Washington-allocated RECs will be
19 available for sale. As discussed above, the difference between the Revised
20 Protocol and WCA allocation methodologies also creates complexities. For RPS
21 compliance, a REC cannot be used more than once, or for more than one state.
22 While in the past, the Company was not restricted from over-allocating REC
23 revenues, under state RPS requirements, it is precluded from over-allocating the

1 actual RECs. The calculation of revenues to be allocated to Washington under the
2 REC tracking mechanism is designed to address this restriction. A sample
3 calculation of the REC tracking mechanism is provided in Confidential Exhibit
4 No.__(RBD-27C).

5 **Q. Please describe this Confidential Exhibit.**

6 A. Page 2 and 3 of the Confidential Exhibit provide the calculation of Washington-
7 allocated REC revenues associated with west control area resources that are
8 eligible for compliance with the Washington RPS. Pages 4 and 5 of the
9 Confidential Exhibit provide the calculation of Washington-allocated REC
10 revenues associated with west control area resources that are not eligible for
11 compliance with the Washington RPS. A small portion of these resources are
12 eligible for compliance with the Oregon and/or California RPS. Due to the
13 difference between the rate period and the calendar year, for 2011 and 2012, the
14 data is reflected in two columns for each year; a three-month period from January
15 to March and a nine-month period from April to December.

16 **Q. How are the RPS-Eligible RECs treated under the Company's proposal?**

17 A. Page 2, lines 1-5 show the total forecast generation and RECs from Washington
18 RPS-eligible resources. Lines 7-11 apply Washington's CAGW allocation factor
19 to the forecast generation to calculate the Washington-allocated RECs from
20 Washington RPS-eligible resources by year. Washington's RPS requires utilities
21 to provide three percent of the average prior two years retail sales from eligible
22 renewable resources by January 1st of compliance years 2012 through 2015. Line
23 13 shows the RPS requirements based on load forecasts shown in the tables at the

1 bottom of the page. Line 15 shows the actual RECs that are available to be
2 allocated to Washington for Washington RPS-eligible resources based on the
3 Revised Protocol. To ensure compliance with the RPS, the Company will make a
4 below-the-line purchase for the difference between the Washington RPS
5 compliance requirement and the estimated Washington eligible RECs using the
6 Revised Protocol allocation method (SG Factor), as shown on line 16. Line 19
7 shows the Company's estimates of Washington's allocation of "pseudo RECs"⁵ in
8 excess of its annual compliance targets for 2012 through 2015. The percentage of
9 Washington's pseudo excess RECs "sold" is determined by taking the actual
10 eligible west control area RECs sold divided by the total eligible west control area
11 RECs available for sale. This percentage is then applied to Washington's pseudo
12 excess RECs. The percentage of actual RECs sold is calculated on Page 3. The
13 total Washington revenue credit from eligible resources is computed using the
14 actual average REC price from west control area eligible resources (also
15 calculated on Page 3) multiplied by the calculated pseudo excess RECs sold. This
16 calculation is shown on lines 19-26.

17 **Q. How is the Company proposing to treat RPS Non-Eligible RECs?**

18 A. To the extent the Company is able to make sales of Washington RPS non-eligible
19 RECs in the future, the calculation of Washington's allocated share of the
20 revenues will be done in the same manner as described above for RPS eligible
21 RECs. As discussed in the testimony of Ms. Kusters, due to the limited size of

⁵ As discussed above, because the Company cannot allocate more than 100 percent of actual RECs, pseudo RECs are the difference between Washington's allocation of RECs using the SG factor and the CAGW factor.

1 the market for RPS non-eligible RECs, at this time, the Company does not
2 forecast any sales in the future.

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

4 A. Yes.