Exhibit No. ___ (KHB-7TC)
Dockets UE-100749
Witness: Kathryn H. Breda
REDACTED VERSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP, Respondent.	DOCKET UE-100749

TESTIMONY OF

Kathryn H. Breda

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

September 9, 2011

CONFIDENTIAL PER PROTECTIVE ORDER
REDACTED VERSION

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I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Kathryn H. Breda. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504.

Q. Did you testify previously in this docket?

A. Yes.

Q. Please summarize the prior Commission determinations regarding the proper regulatory treatment of REC revenues.

A. In Docket UE-070725, a docket involving Puget Sound Energy, the Commission determined that "… all REC revenues should be returned to the ratepayers who pays rates to cover all the costs of the related resource…".[1] In Order 06 in the current docket, the Commission confirmed this fundamental determination[2] and further determined that for PacifiCorp, REC revenues "… should be returned in the form of bill credits identified separately on customers' monthly bills."[3]

Q. Please identify the additional information the Commission requested in this docket.

A. The Commission requested the following additional information:

[1] *Utilities and Transp. Comm'n v. Puget Sound Energy Co.,* Docket UE-070725, Order 03 (May 20, 2010) at 28, ¶ 68.
[2] *Utilities and Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.,* Docket UE-100749, Order 06 (March 25, 2011) at 71, ¶ 200.
[3] Id. at 71, ¶ 202.

1. Accounting of REC proceeds beginning January 1, 2009, to the current period, including the allocation method used to determine Washington's appropriate share of REC proceeds.[4]
2. The appropriate starting date for computing REC revenues to return to ratepayers.[5]

Q. Has there been a sufficient accounting of REC proceeds beginning January 1, 2009?

A. Yes. My Confidential Exhibit No. ___ (KHB-8C) provides a summary of REC revenues from January 1, 2009, to December 31, 2010, which incorporates REC proceeds as provided by the Company in Confidential Exhibit Nos. ___ (SJK-2C) and ___ (SJK-3C), as refined by additional data.

Q. What is the appropriate start date for computing REC revenues for return to ratepayers, and what amount of REC revenues should the Commission order PacifiCorp to return to ratepayers?

A. The start date for calculating REC revenues should be the start of the test period in this case, which is January 1, 2009. The Commission should return to Washington ratepayers $[redacted] in REC revenues for 2009, and $[redacted] in REC revenues for 2010.

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[4] Id. at 71 and 72, ¶ 203 and at 73, ¶ 208.
[5] Id. at 73, ¶ 207.

Q. How should the Commission return these revenues to ratepayers?

A. The Commission should use the existing tracking mechanism, but the revenue amount should be based on actual RECs generated rather than any forecast or projection, due to the historical and potential future volatility in the forecasts. In addition, the tariff rate should remain the same until the balancing account is exhausted to avoid large fluctuations in the tariff, or until ongoing REC sales indicate a different credit rate is appropriate.

II. REGULATORY PRACTICE

Q. Has the Commission approved recovery of any extraordinary or non-recurring revenue or expense items?

A. Yes.

Q. How has the Commission implemented rate treatment when it has approved recovery of such items?

A. The Commission typically has either recognized the amortization level for the item for ratemaking purposes in rate cases during the amortization period, or "carved out" the item and treated it as a separate tariff item.

Q. Can you provide some examples in which the Commission has approved the amortization of a specific item or separate tariff treatment of a specific item?

A. Yes. Examples of Commission orders approving amortizations include an order in a Puget Sound Energy (PSE) rate case in which the Commission allowed a ten-year amortization of the prudent costs of an abandoned nuclear project,[6] and Order 09 in the previous PacifiCorp rate case, Docket UE-090205, in which the Commission-approved settlement provided a six-year amortization of $18.0 million of Chehalis Generating Plant costs, and a three-year amortization of $2,901,000 in pension gain.[7]

Other examples come from Avista rate case Dockets UE-991606 and UG-991607, where the Commission approved the amortization over eight years of test period revenues from the buy-down of a contract with Portland General Electric, and the amortization over five years of extraordinary expenses associated with preparing the company's systems for the year 2000 (Y2K) .[8]

Examples of separate tariff treatment for a specific item include the PSE REC Docket UE-070725 (the docket I mentioned earlier), and PacifiCorp Docket UE-080220, in which the Commission approved a settlement that included a $2 million annual surcharge over approximately 3 years to recover $6.25 million in deferred hydro costs (Hydro Deferral).[9] Also, in PSE Docket UE-090704, the Commission approved a separate tariff rider to recover the costs of the Tenaska regulatory asset that was expected to be fully amortized shortly after the rate year.[10] And in PSE

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[6] *Utilities and Transp. Comm'n v. Puget Sound Power & Light Co.,* Cause U-82-38, Third Supplemental Order (July 28, 1983) at 19-20.
[7] *Utilities and Transp. Comm'n v. PacifiCorp d/b/a Pacific Power and Light Co.,* Docket UE-090205, Order 09 (December 16, 2009) at 6-7, ¶¶ 15-18 and at 11-12, ¶¶ 29-32.
[8] *Utilities and Transp. Comm'n v. Avista Corp.,* Dockets UE-991606 and UG-991607, Third Supplemental Order (September 29, 2000) at 37, ¶¶ 115-16 and at 63, ¶ 234. While the Commission referred to the amortization of Y2K costs as a "normalization", the costs were non-recurring, so it is more accurate to refer to this as an amortization.
[9] *Utilities and Transp. Comm'n v. PacifiCorp d/b/a Pacific Power and Light Company,* Docket UE-080220, Order 05 (October 8, 2008) at 4, ¶ 11.
[10] *Utilities and Transp. Comm'n v. Puget Sound Energy, Inc.,* Dockets UE-090704 and UG-090705, Order 11

Docket UE-050870, the Commission created a new tariff schedule to pass through to ratepayers the benefits of Production Tax Credits for Puget Sound Energy's Hopkins Ridge wind facility.[11]

It is noteworthy that that in each of these examples, the Commission provided for the future recovery of a current or past revenue or expense.

Q. Please explain the policy rationale for amortizing a test period revenue or cost in future rates, or providing recovery via a separate tariff.

A. The policy is to provide recovery of prudent items incurred or occurring during the test period or other period, yet moderate the impact of reflecting the item in its full amount in one year.

Q. Does this approach strictly follow the matching principle?

A. No. The utility's recovery of prudent items such as these over a number of years does not strictly follow the matching principle.

Q. Is a separate tariff appropriate to return REC revenues to ratepayers in this case?

A. Yes. The Commission has decided ratepayers are entitled to REC revenues. A separate tariff is an appropriate mechanism to implement that decision because REC revenues are unpredictable and are not expected to be available every year, due to the need for PacifiCorp to use RECs to meet renewable portfolio standards (RPS).

(April 2, 2010) at 65, ¶¶ 179-80.

[11] *Utilities and Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-050870, Order 04 (October 20, 2005) at 9, ¶ 18.

A separate tariff is particularly appropriate because it allows for direct recovery of this revenue, no more and no less.

III. CALCULATION OF REC REVENUES/APPROPRIATE STARTING DATE

Q. Have you prepared an exhibit displaying Staff's calculation of REC revenues?

A. Yes. It is my Exhibit No. ___ (KHB-8C).

Q. What start date for REC revenues is reflected in your exhibit?

A. My exhibit reflects a start date of January 1, 2009, which is the start of the test period in this docket.

Q. Why is that start date appropriate?

A. January 1, 2009, is the appropriate start date because the REC revenues PacifiCorp received in that year are included in the booked revenues for that period and those revenues are therefore before the Commission for consideration in this docket.

Q. Does page 1 of your exhibit provide a summary of the REC revenue calculation?

A. Yes. Line 3 shows the total REC revenues the Company recorded in 2009 and 2010. Line 4 imputes additional REC revenues for RECs the Company should have allocated to Washington, but did not. Line 5 provides a 2010 offset of $657,755 in REC revenues associated with the settlement in Docket UE-090205. Line 6 shows the resulting totals of Washington's share of REC revenues for 2009 and 2010, and line 8 shows the total for both years.

Q. Please explain the basis for the calculation.

A. The basis for the calculation is to provide Washington ratepayers the revenues associated with the sales of RECs generated from the Company resources allocated to Washington.

This calculation requires two steps. The first step is to identify the REC revenues PacifiCorp has allocated to Washington. A second step is required because Staff discovered that PacifiCorp banked certain RECs for compliance in Oregon and California before allocating to Washington its fair share of those particular RECs. Consequently, we must identify the RECs PacifiCorp has held or banked for compliance in other states, and provide Washington its share of those RECs.

The second step of the calculation of Washington RECs is to impute to Washington the revenues associated with Washington's share of those RECs, because PacifiCorp would have sold Washington's share of those RECs, had the Company allocated Washington its fair share, rather than banking them for the exclusive benefit of Oregon and California.

Q. Using your exhibit, please explain the first step of the calculation.

A. The first step of the calculation is shown on page 1, line 3 of my Exhibit No. ___ (KHB-8C). This line shows REC revenues recorded by the Company in the amount of $[redacted] for 2009, which is the same amount shown on the last line, last column of page 1 of the Company's Confidential Exhibit No. ___ (SJK-2C). Line 3 also shows $[redacted] in REC revenues the Company recorded for 2010, which is calculated based on the Company's Confidential Exhibit No. ___ (SJK-3C). The Company's figure for 2010 from that exhibit is understated due to a change in allocations. My exhibit contains the correct Washington allocated amount for 2010, and page 2 shows the amounts by month for 2010.

Q. Please explain the second step of the calculation.

A. The second step of the calculation determines the revenues associated with RECs PacifiCorp held for compliance in Oregon and California, but for which PacifiCorp failed to provide Washington a share. These RECs are divided into two categories; RECs generated from wind facilities and RECs generated from small hydro facilities. All other RECs do not currently have a market[12]and for that reason I eliminated them from the calculation.

Washington's share of the revenues associated with these remaining marketable RECs is shown on page 1, line 4 of my Exhibit No. ___ (KHB-8C). These figures are derived by the calculations shown on lines 20-26 for wind RECs and lines 39-45 for small hydro RECs. The price is shown on line 25 for wind facilities and on line 44 for small hydro facilities. The revenue is calculated based on the percentage of actual RECs sold by the Company times the actual sales price. The imputed REC revenues for wind RECs and small hydro RECs are shown on lines 26 and 45, respectively, and the total of these two figures is listed on line 4.

[12] PacifiCorp response to Staff Data Request 175.

As line 4 indicates, the calculation adds $[redacted] in REC revenue for 2009 and adds $[redacted] in REC revenue for 2010.

On line 5, I decrease 2010 REC revenues by $657,755 based on the Settlement Stipulation in Docket UE-090205, leaving Washington's total share of REC revenue shown on lines 6, 8, 50 and 52: $[redacted] for 2009 and $[redacted] for 2010, for an overall total of $[redacted] for both years.

Q. Please explain page 2 of your exhibit.

A. Page 2 of my Exhibit No. ___ (KHB-8C) provides the same calculation I described above for the year 2010, except the data is displayed by month.

Q. Is Staff's calculation of Washington allocated REC revenues different from the calculation Staff filed in its May 24, 2011, pleading in this docket?

A. Not in concept. However, my exhibit more accurately calculates REC revenues from Washington's share of small hydro RECs PacifiCorp held for compliance in Oregon and California, and it reflects updated information.

Q. Please summarize why this manner of calculating REC revenues is appropriate.

A. As the Commission has ruled, Washington ratepayers should receive the benefits of all REC revenues associated with the resources they support in rates. PacifiCorp has banked or held a certain amount of RECs for the exclusive benefit of Oregon and California, and thus failed to provide Washington its fair share of those RECs. Had the Company given Washington its allocated share of those RECs, the Company would have sold them. The Company's practice of giving only Oregon and California these RECs unfairly reduces the RECs available for sale and thus unfairly reduces the revenues due Washington ratepayers.

As I explained, my Exhibit No. ___ (KHB-8C) addresses this problem by calculating the revenue associated with Washington's share of these banked RECs, using a price based on the Company's actual achieved sales percentage and rate for the same year.

IV. BILL CREDIT MECHINISM

Q. Please summarize Staff's recommended changes to the bill credit mechanism.

A. Staff recommends two changes to the bill credit mechanism. First, the amount subject to the credit should be based on actual REC revenues rather than projections or forecasts. Second, the tariff rate remains the same until the balancing account is exhausted, or until ongoing REC sales indicate a different credit rate is appropriate.

Q. Please explain why the bill credit should be based on actual REC revenues rather than forecasts or projections.

A. The Company's forecasts of REC proceeds have been poor. For example, in Docket UE-090205, the Company forecast $657,755 of REC revenue for 2010[13], yet the

[13] *Utilities and Transp. Comm'n v. PacifiCorp d/b/a Pacific Power and Light Co.,* Docket UE-090205, Exhibit No. ___ (RBD-3) at 3.7.1.

actual REC revenues were $[redacted][14], even before consideration of RECs the Company held for compliance in other states.

In Docket UE-080220, the Company filed a forecast of REC revenues of $576,254[15] for 2009, yet actual 2009 REC revenues were $[redacted], again before consideration of RECs PacifiCorp held for compliance in other states.[16]

Because of the apparent unpredictable nature of these revenues, it is appropriate to base the credit amount on actual results rather than an estimate of the REC proceeds for the following 12 months.

Q. Does PacifiCorp acknowledge the volatile nature of REC revenues?

A. Yes. Company witness Stacey J. Kusters' states, "the REC market has been and continues to be volatile and unpredictable."[17]

VI. RESPONSE TO PACIFICORP

Q. Have you reviewed PacifiCorp's direct evidence in this phase of the docket?

A. Yes.

Q. How much REC revenues does PacifiCorp propose to return to ratepayers, and what start date does the Company use?

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[14] Confidential Exhibit No. ___ (KHB-8C).
[15] *Utilities and Transp. Comm'n v. PacifiCorp d/b/a Pacific Power and Light Co.*, Docket UE-080220, Exhibit No. ___ (RBD-3) at 3.5.1.
[16] Confidential Exhibit No. ___ (KHB-8C).
[17] Exhibit No.___(SJK-1CT) at 4.

A. PacifiCorp uses a start date of April 3, 2011. The Company proposes a true-up from the current $4.8 million being returned to ratepayers to the actual amount for the period April 3, 2011 to April 2, 2012[18]. Under PacifiCorp's proposal, Washington ratepayers would have their REC revenues for 2010 reduced substantially, from $4.8 million to $[redacted].[19]

Q. What reasons does PacifiCorp use to support its proposal?

A. PacifiCorp says the April 3, 2011, date is necessary to avoid "retroactive ratemaking"; the Company allegedly did not earn its "authorized" return in prior periods[20]; and the Company will have to reflect a one-time adjustment to earnings.[21] The Company also says the Settlement Stipulation prevents the Commission from passing back REC revenues for 2010,[22] and that selecting a date prior to April 3, 2011, provides the Company improper incentives.[23]

Q. Do you address retroactive ratemaking in your testimony?

A. No. It is my understanding that is a legal issue Staff will address in its brief to the Commission.

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[18] PacifiCorp Compliance Filing (May 24, 2011), at 6.
[19] Exhibit No. ___ (RBD-27C) at 1.
[20] Kelly Direct Testimony, Exhibit No. ___ (ALK-1T) at 5:11-20.
[21] Kelly Direct Testimony, Exhibit No. ___ (ALK-1T) at 5:20-23.
[22] Kelly Direct Testimony, Exhibit No. ___ (ALK-1T) at 3:27-29 and at 6:17-21.
[23] Kelly Direct Testimony, Exhibit No. ___ (ALK-1T) at 5:23 – 6:2.

Q. Is the Company's alleged failure to earn its "authorized" return in prior periods a proper basis for denying ratepayers the REC revenues the Company received?

A. No. The Commission orders are clear that REC revenues belong to ratepayers. The Commission has not imposed an earnings test as a prerequisite.

Q. In any event, has PacifiCorp provided sufficient evidence the Company has not earned a fair return?

A. No. The Company, and Exhibit No. ___ (ALK-1T) is referring to earnings for calendar year 2010. This docket is setting rates for the rate year beginning April 3, 2011. One cannot consider or compare the return for a period prior to the rate year in this case.

Q. What is the Company's argument based on the settlement in Docket UE-090205?

A. PacifiCorp says the parties agreed to a $657,755 "baseline" for REC revenues for 2010 in that docket, and suggests it would violate the Settlement Stipulation in that docket to use any other figure for RECs for 2010.[24]

Q. Does PacifiCorp quote the relevant language from the Settlement Stipulation on that issue?

A. No.

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[24] Kelly Direct Testimony, Exhibit No. ___ (ALK-1T) at 3:27-29 and at 6:17-21.

Q. Would you please quote the relevant language from the Settlement Stipulation?

A. Yes. The relevant language is on page 8 of the Settlement Stipulation (Part I, ¶ 22), which states:

> Nothing in this Stipulation limits or expands the ability of any Party to file for deferred accounting or request that the Commission take any other action regarding PacifiCorp's Washington-allocated RECs. For purposes of any such filing, the Parties agree that this case includes $657,755 in Washington-allocated REC revenues for the 2010 rate effective period.

The Settlement Stipulation acknowledges it does "not limit" the ability of any Party to request the Commission to take "any other action" regarding Washington-allocated RECs other than the Parties agreed that the prior rate case included $657,755 in RECs for 2010. This simply means PacifiCorp is entitled to a credit for that revenue in this docket, and Staff has provided such a credit in its calculation of REC revenues.

Q. PacifiCorp argues that all parties had the opportunity to file an accounting petition to address REC credits[25]. How do you respond?

A. As I explained earlier, the REC revenues at issue are before the Commission in this case, which is based on a test period beginning January 1, 2009. An accounting petition is not necessary for the Commission to deal with these revenues. If PacifiCorp was interested in requesting recovery of additional power costs or some other cost, it could have done so.

[25] Kelly Direct Testimony, Exhibit No. ___ (ALK-1T) at 3:27-29 and at 6:5-14.

Q. Is PacifiCorp correct to argue that Staff's recommendation will affect adversely the Company's incentives to manage costs?

A. No. The REC revenues in this case are an extraordinary item and the Commission is clear these revenues belong to ratepayers. The Company always has the incentive and obligation to manage its costs.

Q. Does PacifiCorp calculate REC revenues correctly?

A. No. As I explained earlier, while Staff and Company agree on the amount of REC revenues booked to the Western Control Area for 2009 and 2010, PacifiCorp calculates REC revenues based on RECs sold after it has retained significant numbers of RECs for compliance in Oregon and California. This is not fair because Washington ratepayers have supported the resources that create those RECs. PacifiCorp and Washington ratepayers should receive a commensurate level of benefits. Therefore, PacifiCorp's calculation of RECs for 2009 and 2010 does not fairly compensate Washington ratepayers.

By contrast, Staff's calculation gives Washington ratepayers their fair share of RECs. This results in an additional $[redacted] for 2009 and $[redacted] for 2010, compared to the Company's calculation, as summarized on line 4 of page 1 of my Exhibit No. ___ (KHB-8C).

Q. Does that complete your testimony for this phase of the docket?

A. Yes.