

September 30, 2011

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Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Attn: David W. Danner
Executive Director and Secretary

**RE: In the Matter of WUTC v. PacifiCorp d/b/a Pacific Power & Light Company
Docket UE-100749**

Pursuant to Washington Utilities and Transportation Commission (Commission) Prehearing Conference Order 08 in the above referenced docket and WAC 480-07-460(2), PacifiCorp, d.b.a. Pacific Power & Light Company, (PacifiCorp or the Company) transmits for filing an original and seventeen (17) copies of the Phase II rebuttal testimony and exhibits of Company witnesses Andrea L. Kelly, Stacey J. Kusters, and R. Bryce Dalley. One copy of the testimony and exhibits in electronic format is also included.

Please note that certain testimony and exhibits are marked as “confidential” and are provided confidentially in accordance with the requirements of WAC 480-07-160(3). The confidential exhibits in this case are as follows: Andrea L. Kelly (ALK-2CT); Stacey J. Kusters (SJK-6C); R. Bryce Dalley (RBD-28CT; RBD-29C; RBD-30C). The confidential testimony and exhibits are being filed in accordance with Order 03 in this docket. Pursuant to paragraph 10 of Order 08 and paragraph 17 of Order 04, PacifiCorp has also enclosed an original plus one copy of the redacted testimony and exhibits.

The Company respectfully requests that all formal correspondence and data requests regarding this matter be addressed to:

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Sincerely,

Handwritten signature of Andrea L. Kelly in cursive, with the initials "IEWR" written at the end.

Andrea L. Kelly
Vice President, Regulation

Enclosures

Cc: ALJ Patricia Clark

CERTIFICATE OF SERVICE

I certify that I have cause to be served the foregoing document, via E-mail and Overnight Delivery, to the following:

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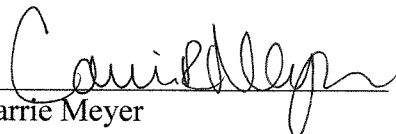
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DATED this 30th day of September, 2011


Carrie Meyer
Coordinator, Regulatory Operations

1 **Q. Are you the same Andrea L. Kelly that previously provided testimony in this**
2 **docket?**

3 A. Yes.

4 **Purpose and Summary of Testimony**

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. My rebuttal testimony responds to the direct testimony of Commission Staff
7 (Staff) witness Kathryn H. Breda and the direct testimony of Industrial Customers
8 of Northwest Utilities and Public Counsel (ICNU/PC) joint witness Donald W.
9 Schoenbeck. Specifically, my testimony:

- 10 • Demonstrates that Staff's and ICNU/PC's proposals are one-sided and
11 inappropriately isolate one cost element from prior periods without
12 regard for the Company's overall earnings levels;
- 13 • Discusses the negative policy ramifications associated with adoption
14 of Staff's or ICNU/PC's proposals; and
- 15 • Responds to Staff's and ICNU/PC's unsupported recommendation to
16 alter the design of the tracking mechanism.

17 **Q. Are there other Company witnesses sponsoring rebuttal testimony?**

18 A. Yes. Company witnesses Stacey J. Kusters and R. Bryce Dalley are also
19 sponsoring rebuttal testimony.

20 **Q. Does your testimony address the legal definition of retroactive ratemaking?**

21 A. No. My direct and rebuttal testimony do not address the legal definition of
22 retroactive ratemaking. The Company's post-hearing brief will outline the legal
23 prohibitions barring adoption of Staff's and PC/ICNU's proposals. Irrespective of

1 the Commission's legal determination on retroactive ratemaking, however, my
2 testimony demonstrates why a decision to credit to customers additional REC
3 revenues from 2009 and 2010 is poor policy and would further exacerbate an
4 already challenging regulatory and business climate for the Company in
5 Washington.

6 **Q. What are the most troubling aspects of the parties' proposals?**

7 A. The proposals of Staff and ICNU/PC cherry-pick cost and revenue elements that
8 were set in prior proceedings and seek dollar-for-dollar true-up of these elements
9 years later without regard to the fact that the Company significantly under earned
10 throughout the entire period in question. These proposals are inconsistent with
11 fundamental tenets of ratemaking. If adopted, they could also undermine the
12 settlement process and result in full litigation of all rate cases. These problems
13 are compounded by the fact that Staff and ICNU/PC have attempted to expand the
14 scope of this proceeding to increase the potential REC credit. Staff's proposal in
15 particular continues to be a moving target in this regard.

16 **Q. Please elaborate on your first concern.**

17 A. Staff's testimony acknowledges that since Docket UE-080220, the Commission
18 has set rates for the Company using a forecast level of revenues from renewable
19 energy credit (REC) sales for the rate effective period.¹ This is consistent with
20 the practice of the Commission to utilize a forecast of net power costs for the rate
21 effective period. It is uncontroverted that the Company used a forecast REC
22 revenue level for the 12-months ending June 2008 in Docket UE-080220 and used

¹ *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Exhibit No.____(KHB-7TC), page 11, lines 3 and 4.

1 a forecast REC revenue level for calendar year 2010 in Docket UE-090205.

2 Notwithstanding this history, the proposals of Staff and ICNU/PC are
3 premised on the argument that 2009 REC revenue levels should be *re-established*
4 in this proceeding based on a 2009 historic actual level and credited to customers
5 through a balancing account. On top of this, the parties also propose to capture
6 the actual levels of 2010 revenues through this proceeding, even though 2010 is
7 neither the test period nor the rate effective period in this proceeding. This results
8 in the confiscation of three years of REC revenues in a single rate case
9 proceeding—the historic test year, the forecast rate period and the time period in
10 between. There is certainly no other cost or revenue element in this rate case that
11 is triple-counted in this manner.

12 **Q. Aside from the unfairness of these proposals as applied to this case, do you**
13 **have broader policy concerns regarding these proposals?**

14 A. Yes. If the Commission were to make the policy changes required to adopt
15 Staff's or ICNU/PC's proposals, parties could thereafter cherry-pick revenue and
16 cost elements from prior cases and attempt to true-up discrepancies from
17 historical periods in a one-sided manner that picks up only cost-savings but not
18 offsetting cost increases. It would also establish precedent for analyzing isolated
19 elements of a utility's costs and revenues without regard to the overall level of
20 earnings of the utility.

21 **Q. How is this approach one-sided?**

22 A. Establishing a combined historic and forecast dollar-for-dollar balancing account
23 for REC revenues generated in 2009 and 2010 and forecast for 2011 would never

1 be acceptable to parties if the same logic was applied to costs. This would be the
2 equivalent of the Company proposing in this docket to establish a dollar-for-dollar
3 balancing account for differences between forecast and actual net power costs
4 from Docket UE-080220 and Docket UE-090205, simultaneously with
5 establishing a new net power cost baseline in rates and a dollar-for-dollar
6 balancing account for the rate effective period and all periods going forward.
7 Given the Commission's rejection of the Company's proposal for a power cost
8 adjustment (PCA) mechanism in Docket UE-080220 and the inclusion of sharing
9 bands in the PCA's of Puget Sound Energy and Avista, it seems highly unlikely
10 that this "triple-count" proposal would be acceptable to parties and adopted by the
11 Commission. Yet, this is the precise proposal advocated for REC revenues in this
12 proceeding.

13 **Q. Are there any clear limitations on the policy changes implicated by Staff's**
14 **and ICNU/PC's proposals?**

15 A. No, and this raises the question: If one cost element in a rate case is ultimately
16 different from the actual cost in the rate effective period, will parties be able to
17 seek to true that up in a future rate case? There will always be differences in costs
18 and revenues between what was used to set rates and what was actually
19 experienced in the rate effective period.

20 **Q. How should the Commission address the Company's under forecast of REC**
21 **revenues in 2009 and 2010?**

22 A. The question that should be before this Commission is whether these forecast
23 differences unfairly benefitted the Company. The Company acknowledges that

1 the forecast of REC revenues in rates for 2009 and 2010 were far different than
2 the actual amount ultimately realized. As discussed later in my testimony, no
3 party challenged these forecasts at the time or sought deferred accounting. The
4 Commission can assess whether these differences were out of balance by looking
5 at the Company's overall return on equity for the relevant period, not by
6 evaluating one cost element in isolation. And, if the Commission concludes that
7 the Company is over-earning, there are established processes and procedures for
8 handling these circumstances on a forward-looking basis.

9 **Q. If the Commission decides to credit the favorable variance in actual vs.**
10 **forecast REC revenues from 2009 and 2010 to customers, is there an**
11 **offsetting unfavorable variance in actual vs. forecast costs from 2009 and**
12 **2010 that should be considered?**

13 A. Yes. As detailed in my Exhibit No.__(ALK-3), in both 2009 and 2010, actual
14 hydro conditions were less favorable than the level included in rates. In 2009,
15 hydro generation was approximately 105 average megawatts (aMW) below the
16 hydro generation included in the net power cost study in Docket UE-080220 and
17 in 2010 hydro generation was approximately 23 aMW below the hydro generation
18 included in the net power cost study in Docket UE-090205. The Washington-
19 allocated cost to the Company of this lower hydro generation, priced at market,
20 was \$7.9 million in 2009 and \$2.4 million in 2010. Recognition of these costs is
21 consistent with Commission precedent as noted in Staff's testimony related to the
22 Hydro Deferral.² It is also consistent with Staff's testimony in this proceeding

² *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE 100749, Exhibit No.__(KHB-7TC), page 4, lines 13-16.

1 that an accounting petition is not required for the Commission to deal with REC
2 revenues or additional power costs related to the test period.³

3 **Q. Did the Company over-earn in 2009 and 2010?**

4 A. No. As I stated in my direct testimony, the Company's overall return on equity
5 during 2009 was 5.28 percent and for 2010 was 6.69 percent. No party has
6 contested these facts.

7 **Q. Have the parties presented any analysis of the financial consequences to the
8 Company of retroactively crediting 2009 and 2010 REC revenues to
9 customers in 2011, on top of 2011 forecast REC revenues?**

10 A. No. In fact, Staff's testimony is dismissive of the need to consider the financial
11 impact of its proposal on the Company. This is troubling given Staff's duty to
12 balance the interests of customers and shareholders. As discussed in the testimony
13 of Mr. Dalley, the proposals of Staff and ICNU/PC would reduce the Company's
14 earnings in the rate effective period of this proceeding by approximately [REDACTED]
15 [REDACTED]. While no party has considered or analyzed this impact, a rate change of
16 the magnitude proposed in this proceeding should not be ordered without full
17 consideration of the Company's earnings.

18 **Q. Please discuss your concerns regarding this proceeding's impact on future
19 settlement agreements.**

20 A. As I stated in my direct testimony, during the course of settlement negotiations in
21 Docket UE-090205, the parties proposed and the Company rejected the inclusion
22 of a REC revenue balancing account as part of that settlement. No party contests
23 this fact. Now, two years later, the Company is faced with a retroactive

³ *Id.* at page 14, lines 19-23.

1 imposition of a REC revenue balancing account without the ability to take any
2 actions with respect to the other elements of the Stipulation. To provide
3 perspective, the magnitude of Staff's and ICNU/PC's recommended credit to
4 customers in this proceeding exceeds the entire rate increase that was authorized
5 in the Stipulation in Docket UE-090205.

6 **Q. Is there an additional concern?**

7 A. Yes. Although Staff's testimony acknowledges that \$576,254 of Washington-
8 allocated REC revenue was included in the Company's filing in Docket UE-
9 080220 for the 12-months ending June 2008, it refuses to recognize this level in
10 its adjustment in this proceeding. This approach is inconsistent with the credit of
11 \$657,755 recognized in Staff's adjustment related to the forecast of 2010
12 Washington-allocated REC revenues included in rates in Docket UE-090205.

13 **Q. What is Staff's justification for this position?**

14 A. Staff justifies this unbalanced approach on the basis that the Stipulation in Docket
15 UE-080220 was a black box settlement. This approach attempts to further
16 penalize the Company for reaching settlement in a prior docket.

17 **Q. Please discuss your concerns with the ever-changing nature of Staff's
18 proposals in this docket.**

19 A. As discussed in detail in the rebuttal testimony of Mr. Dalley, Staff's position in
20 this case has been a moving target. In the first phase of this proceeding, Staff
21 accepted the allocation of revenues to Washington based on the method that has
22 been used since 2009 for reporting of REC revenues and for setting the REC
23 revenue forecast in rates.

1 In its May 24, 2011 pleading filed with the Commission, Staff proposed a
2 second approach, changing the allocation methodology to apply the methodology
3 that the Company developed in 2011 for a going-forward REC tracker
4 mechanism. This increases the Washington-allocated REC revenues for 2009 by
5 approximately [REDACTED] and for 2010 by approximately [REDACTED] as
6 compared to the method originally accepted and used by Staff.⁴

7 In its September 9, 2011 direct testimony, Staff proposes a third approach,
8 mixing and matching Staff's first two methods. Staff's latest approach actually
9 includes some REC revenues from RECs generated in 2008. Staff admits that this
10 is intentional and that the exclusion of 2008 REC revenues from its proposal in
11 May was "inadvertent". Staff's new proposal further increases the REC revenues
12 for 2009 by approximately [REDACTED] and for 2010 by approximately [REDACTED].⁵
13 In contrast, ICNU/PC's witness acknowledges that REC revenues from 2008
14 vintage RECs are not appropriately included in 2009 or 2010 REC revenues.

15 Staff offers no rationale for these changes. They appear to be designed to
16 produce the largest REC credit possible under the circumstances, or to punish the
17 Company, or both.

18 **Q. Is there also a moving target with respect to Staff's position on the tracking**
19 **mechanism?**

20 A. Yes. Only through discovery did the Company learn that Staff now contends that
21 the \$4.8 million currently being returned to customers is related to 2009 REC

⁴ 2010 amount reflects the variance between Washington's allocated share of 2010 booked revenues and the amount proposed by Staff in its May 24, 2011 filing.

⁵ 2010 variance reflects total Washington-allocated REC revenue prior to offset for amount included in rates.

1 revenues rather than related to forecast REC revenues for the rate effective period
2 beginning April 2011. As noted in my direct testimony, the REC revenue credit
3 in the balancing account is tied to the forecast of net power costs for the rate
4 effective period – April 3, 2011 through April 2, 2012. This is also noted in the
5 Order stating: “At the end of the rate year, PacifiCorp will be required to submit a
6 full accounting of REC proceeds actually received during the preceding 12
7 months.” (paragraph 205) Staff does not contest this statement in testimony, yet
8 its response to a Company data request surfaced this new position for the first
9 time. This new position is also in conflict with Staff’s own recommendation to
10 “change” the REC tracking mechanism from a forecast with true-up to a historical
11 mechanism. The Commission should not allow Staff to rely on this new argument
12 for an after-the-fact justification of the retroactive, triple-counting nature of its
13 proposal.

14 **Q. How did the Company implement the Commission’s Order 06?**

15 A. As noted above, the Company implemented the Commission’s Order to include
16 \$4.8 million in the original tracker related to the rate effective period. This is also
17 how the Company reflected the Order’s requirements on its financial books. This
18 interpretation is based on two key factors. First, as noted in the Company’s
19 testimony and briefs, the \$4.8 million was related to the level of forecast REC
20 revenues for the rate effective period beginning April 2011. Second, the
21 Commission’s ordering paragraph 205 states:

22 “At the end of the rate year, PacifiCorp will be required to submit a full
23 accounting of REC proceeds actually received during the preceding 12
24 months. This accounting will be considered in light of other information
25 to determine if the amount of credits that should have been returned to

1 customers exceeds or fall short of the estimated \$4.8 million upon which
2 the initial bill credits are based. In other words, the Commission will
3 authorize a true-up of the initial credits that can be reconciled as credits
4 are paid during the following 12 months.”
5

6 This indicates that there is to be a true-up from the \$4.8 million initial credit to the
7 amount actually received in the rate effective period. And, this forecast and true-
8 up method is envisioned to occur for all future periods.

9 **Q. Is there another area of disagreement among the parties as to the scope of**
10 **this proceeding?**

11 A. Yes. As noted in my direct testimony, the Company believes the Commission
12 limits the true-up of revenue to amounts received no earlier than January 1, 2010.

13 Paragraph 207 states:

14 “We require this detailed accounting, in part, considering the disputed
15 question of whether PacifiCorp should be required to include, in what we
16 here describe as a tracker account, REC proceeds received during the
17 periods after the test year, including those received during the pendency of
18 this proceeding. Staff proposed that REC proceeds received after January
19 1, 2010, be accounted for and established as a regulatory liability on the
20 Company’s books, the rate treatment of which could be determined in a
21 future proceeding. Another possible starting date for such an account
22 might be the date on which PacifiCorp made its initial filing in this
23 proceeding, which put the rate and accounting treatment of REC revenues
24 in issue. Other possible dates are conceivable, including the start of the
25 rate year. We do not finally resolve these questions in this Order. We
26 require additional briefing on the subject, and may require additional
27 evidence. We will establish process and schedule for this by subsequent
28 notice.”

29 In fact, while the Order explicitly states that the starting date of the REC tracker
30 could be later than January 1, 2010, nowhere does the Commission’s Order
31 suggest a start date prior to January 1, 2010. Yet both Staff and ICNU/PC
32 propose to apply the REC tracker to revenues received in 2009.

1 **Q. Does the Company agree with Staff's and ICNU/PC's proposal to change the**
2 **REC tracking mechanism?**

3 A. No. It is important to note that no party ever challenged the Company's forecasts
4 in 2009 and 2010 at the time they were reviewed in the general rate cases. Now,
5 Staff applies 20/20 hindsight to criticize the Company's forecast. Notably, no
6 party in this proceeding has taken issue with the Company's forecast for the rate
7 effective period that was provided to parties on May 24, 2011. Neither Staff nor
8 ICNU/PC discuss how the Company would transition from the current forecast
9 and true-up for the rate effective period to an historical approach. Given the lack
10 of discussion on this proposal in both Staff's and ICNU/PC's direct testimony,
11 there is no basis for changing the REC tracker as established by the Commission
12 in its Order.

13 **Q. Does the Company agree with Staff's and ICNU/PC's proposal to keep the**
14 **Schedule 95 rate the same irrespective of the outcome of his proceeding?**

15 A. No. Once again, Staff and ICNU/PC present no analysis or rationale for this
16 proposal. If the Commission decides to return REC revenues to customers for
17 prior periods, the Company sees no reason to delay for [REDACTED] the
18 return of revenues to customers. As discussed by Mr. Dalley, the Company is
19 required to record the full amount of any prior period adjustment in the financial
20 year when the liability is created. Spreading the return of revenues over [REDACTED]
21 [REDACTED] actually increases the financial burden on the Company.

1 **Q. Do Staff's and ICNU/PC's proposals threaten to increase the regulatory and**
2 **business challenges that the Company already faces in Washington?**

3 A. Yes. As compared to PacifiCorp's five other state regulatory environments,
4 Washington presents a unique set of challenges from the perspective of providing
5 the Company an opportunity to recover its costs and earn its authorized rate of
6 return. Factors contributing to these challenges include:

- 7 • Washington relies on a historic test period for setting rates, while the
8 majority of the Company's other states utilize some form of a future
9 test period for setting rates. Washington takes 11 months to process
10 rate cases, which is one of the longest statutory suspension periods
11 among the Company's jurisdictions. For this general rate case, the
12 combination of these two practices created a 15 month lag between the
13 end of the historic test period (2009) and the beginning of the rate
14 effective period (April 2011). In addition, the use of an average of
15 monthly averages for rate base means that the only assets that are
16 reflected in rates for a full year are those in rate base by December
17 2008, further increasing the under-recovery of costs.
- 18 • Washington is the Company's only jurisdiction without allocated
19 service territories. This means that the Company is constantly at risk
20 of losing customers and service territory to other consumer-owned
21 utilities whose policies and practices are not regulated by this
22 Commission.
- 23 • The Company's authorized return on equity, equity component and

1 return on rate base in Washington are currently the lowest of the
2 Company's six jurisdictions.

- 3 • The Company's other five jurisdictions use a common inter-
4 jurisdictional cost allocation methodology, one that this Commission
5 rejected. This increases the Company's risk of under-recovery of its
6 overall costs, creates a cost allocation methodology in Washington
7 disconnected from how the Company actually operates its system on a
8 six-state integrated basis, impedes adoption of a PCA, and impedes
9 inclusion of cash working capital costs in rates.

10 While each of these practices and decisions were determined to be reasonable in
11 isolation, collectively they create a business environment in Washington that is
12 extremely challenging, one that has contributed to the Company's chronic under-
13 earning in Washington. This makes the policy implications of this proceeding
14 that much more important.

15 **Q. Does this conclude your rebuttal testimony?**

16 **A. Yes.**

Costs Related to Actual Hydro Generation
Washington's Allocated Share

Total West Control Area	2009											
	January	February	March	April	May	June	July	August	September	October	November	December
Actual Hydro Generation (MWh)												
Company Owned - West	415,222	246,473	306,564	337,829	488,232	282,505	169,004	122,603	126,178	152,309	266,440	281,965
Mid Columbia	136,180	91,529	88,103	130,799	140,254	155,937	111,754	79,712	65,339	72,204	65,053	82,928
Total	551,402	338,002	394,667	468,628	628,486	438,442	280,758	202,315	191,517	224,513	331,493	364,893
Normalized Hydro Generation In Rates (MWh)												
Company Owned - West	497,092	451,151	446,265	332,621	340,730	304,423	236,574	196,614	202,527	196,509	289,111	415,412
Mid Columbia	142,604	115,663	127,931	125,886	141,488	144,558	127,216	104,781	78,662	89,078	103,110	117,807
Total	639,696	566,814	574,196	458,507	482,218	448,981	364,291	303,394	281,188	285,587	392,222	533,219
Hydro Generation Difference												
Actual less Normalized In Rates (MWh)												
Company Owned - West	(81,860)	(204,678)	(139,701)	5,208	147,502	(21,918)	(67,570)	(76,011)	(76,349)	(44,200)	(22,671)	(133,447)
Mid Columbia	(6,424)	(24,134)	(39,828)	4,913	(1,234)	11,379	(15,962)	(25,069)	(13,323)	(16,874)	(38,057)	(34,879)
Total	(88,284)	(228,812)	(179,529)	10,121	146,268	(10,539)	(83,533)	(101,079)	(89,671)	(61,074)	(60,729)	(168,326)
Market Price (per MWh)	\$39.39	\$38.05	\$29.95	\$21.68	\$23.44	\$18.81	\$32.56	\$35.36	\$33.68	\$41.84	\$34.18	\$52.79
Additional (Cost) / Benefit (\$)												
Company Owned - West	(3,224,784)	(7,788,815)	(4,184,356)	112,919	3,456,982	(412,272)	(2,199,960)	(2,687,456)	(2,571,502)	(1,849,483)	(774,974)	(7,044,938)
Mid Columbia	(253,058)	(918,388)	(1,192,936)	106,534	(28,923)	214,031	(519,704)	(886,329)	(448,719)	(706,075)	(1,300,928)	(1,841,359)
Total	(\$3,477,842)	(\$8,707,203)	(\$5,377,292)	\$219,454	\$3,428,059	(\$198,241)	(\$2,719,665)	(\$3,573,785)	(\$3,020,222)	(\$2,555,558)	(\$2,075,902)	(\$8,886,297)
Washington Allocated Share (\$)												
Company Owned - West	(690,436)	(1,667,609)	(895,883)	24,176	740,150	(88,269)	(471,018)	(575,392)	(550,566)	(395,980)	(165,924)	(1,508,342)
Mid Columbia	(54,181)	(196,630)	(255,411)	22,809	(6,193)	45,825	(111,270)	(189,766)	(96,072)	(151,173)	(278,533)	(384,240)
Monthly (Under) / Over Recovery (\$)	(\$744,617)	(\$1,864,238)	(\$1,151,294)	\$46,986	\$733,958	(\$42,444)	(\$362,288)	(\$765,158)	(\$646,639)	(\$347,153)	(\$444,457)	(\$1,902,583)
Cumulative (\$)	(744,617)	(2,608,855)	(3,760,149)	(3,713,163)	(2,979,206)	(3,021,650)	(3,603,938)	(4,369,096)	(5,015,735)	(5,562,887)	(6,007,344)	(7,909,927)
UE 080220												
21.4103%												
CAEW												
21.4103%												
CAEW												

Average MWh
(815,186.76)
8,760
(104.5)

Costs Related to Actual Hydro Generation
Washington's Allocated Share

Total West Control Area	2010												Average MW (202,292.92) 8,760 (23.1)	
	January	February	March	April	May	June	July	August	September	October	November	December		
Actual Hydro Generation (MWh)														
Company Owned - West	461,926	238,767	310,382	318,698	319,050	364,107	177,451	124,452	166,757	218,015	333,556	429,641		
Mid Columbia	46,165	42,311	42,561	42,709	69,056	85,807	69,914	48,469	33,380	44,233	55,346	57,204		
Total	508,091	281,078	352,943	361,407	388,106	449,914	247,365	172,921	200,137	262,248	388,902	486,845		
Normalized Hydro Generation In Rates (MWh)														
Company Owned - West	459,808	385,941	410,625	337,732	330,895	289,251	187,786	173,377	218,193	194,065	294,621	372,369		
Mid Columbia	63,456	49,929	52,003	55,538	65,824	65,924	66,508	51,641	36,425	39,786	46,837	53,711		
Total	523,265	435,870	462,629	393,270	396,720	355,176	254,294	225,018	254,618	233,851	341,458	426,079		
Hydro Generation Difference														
Actual less Normalized In Rates (MWh)														
Company Owned - West	2,118	(147,174)	(100,243)	(19,034)	(11,845)	74,856	(10,335)	(48,925)	(51,436)	23,950	38,935	57,272		
Mid Columbia	(17,291)	(7,619)	(9,443)	(12,829)	3,231	19,882	3,406	(3,172)	(3,046)	4,447	8,509	3,493		
Total	(15,174)	(154,793)	(109,686)	(31,863)	(8,614)	94,738	(6,929)	(52,097)	(54,482)	28,397	47,444	60,765		
Market Price (per MWh)	\$45.27	\$43.45	\$38.38	\$36.03	\$29.39	\$14.18	\$32.22	\$35.86	\$34.00	\$31.74	\$34.02	\$33.61		
Additional (Cost) / Benefit (\$)														
Company Owned - West	95,866	(6,394,185)	(3,847,611)	(685,833)	(348,083)	1,061,478	(333,026)	(1,754,214)	(1,748,963)	760,188	1,324,629	1,925,117		
Mid Columbia	(782,788)	(331,001)	(362,434)	(462,256)	94,953	281,936	109,742	(113,719)	(103,562)	141,135	289,480	117,418		
Total	(\$686,922)	(\$6,725,187)	(\$4,210,046)	(\$1,148,090)	(\$253,130)	\$1,343,413	(\$223,284)	(\$1,867,934)	(\$1,852,525)	\$901,323	\$1,614,109	\$2,042,535		
Washington Allocated Share (\$)														
Company Owned - West	20,459	(1,364,564)	(821,107)	(146,362)	(74,283)	226,527	(71,070)	(374,362)	(373,241)	162,230	282,685	410,833		
Mid Columbia	(167,052)	(70,638)	(77,346)	(98,649)	20,264	60,167	23,420	(24,269)	(22,101)	30,119	61,777	25,056		
Monthly (Under) / Over Recovery (\$)	(\$146,594)	(\$1,435,202)	(\$898,453)	(\$243,010)	(\$54,020)	\$286,694	(\$47,650)	(\$395,630)	(\$395,342)	\$192,349	\$344,462	\$435,891		
Cumulative (\$)	(146,594)	(1,581,796)	(2,480,249)	(2,725,259)	(2,779,279)	(2,492,585)	(2,540,236)	(2,938,866)	(3,334,208)	(3,141,859)	(2,797,397)	(2,361,505)		

UE 030205
21,3407%

CAEW
CAEW

Monthly (Under) / Over Recovery (\$)
Cumulative (\$)

1 **Q. Are you the same Stacey J. Kusters that previously provided testimony in**
2 **this docket?**

3 A. Yes.

4 **Purpose and Summary of Testimony**

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. My rebuttal testimony describes Confidential Exhibit No.__(SJK-6C), which
7 reflects a minor update to the Washington allocation of 2010 booked renewable
8 energy credit (REC) revenues. This exhibit is an update to pages 1 and 2 of my
9 previously provided Confidential Exhibit No.__(SJK-3C).

10 **Q. Please describe Confidential Exhibit No.__(SJK-6C).**

11 A. Confidential Exhibit No.__(SJK-6C) is a two page summary of the detailed
12 accounting of REC revenues for calendar year 2010. All of the data reflected on
13 the two pages of this exhibit is identical to pages 1 and 2 of Confidential Exhibit
14 No.__(SJK-3C), except for the Washington CAGW allocation percentage and
15 the Washington-allocated totals shown at the bottom of each page. The 2010
16 CAGW percentage in Confidential Exhibit No.__(SJK-6C) has been updated as
17 described in the Phase II rebuttal testimony of Company witness R. Bryce Dalley.
18 Due to the change in the 2010 Washington CAGW factor, the Washington
19 allocated totals for 2010 have increased by \$90,772.

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

21 A. Yes.

CY 2010 Renewable Energy Credits - Revenue

Resource	Control Area/Type	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Total
Ashcon	Low Impact Hydro - East													
Bard	West Hydro													
Big Fork	East Hydro													
Blundell I	Blundell II													
Blundell II	Blundell I													
Campbell Hill	East Wind													
Chesora Casper Wind	East Wind													
Cleanwater 1	Low Impact Hydro - West													
Cleanwater 2	Low Impact Hydro - West													
Condit	West Hydro													
Capoco 1	West Hydro													
Capoco 2	West Hydro													
Culler	Low Impact Hydro - East													
Eagle Point	West Hydro													
East Side	West Hydro													
Fall Creek	West Hydro													
Fish Creek	Low Impact Hydro - West													
Footo Creek I	East Wind													
Fountain Green	East Hydro													
Glenrock I	East Wind													
Glenrock III	East Wind													
Goodnoe Hills	West Wind													
Grenite	East Hydro													
Gunlock	East Hydro													
High Plains	East Wind													
Iron Gale	West Hydro													
Last Chance	Low Impact Hydro - East													
Leaning Juniper	West Wind													
Marengo	West Wind													
Marengo II	West Wind													
McFadden Ridge	East Wind													
Mountain Wind I	East Wind													
Mountain Wind II	East Wind													
Omslead	East Hydro													
Oneida	Low Impact Hydro - East													
Paris	East Hydro													
Pioneer	East Hydro													
Prospect 1	West Hydro													
Prospect 3	Low Impact Hydro - West													
Prospect 4	West Hydro													
Rock River I	East Wind													
Rolling Hills	Rolling Hills													
Sand Cove	East Hydro													
Seven Mile Hill I	East Wind													
Seven Mile Hill II	East Wind													
Slide Creek	Low Impact Hydro - West													
Snake Creek	East Hydro													
Soda	Low Impact Hydro - East													
Soda Springs	Low Impact Hydro - West													
Stairs	East Hydro													
Navro	East Hydro													
Viva Naughton	East Hydro													
Wallava Falls	West Hydro													
Weber	East Hydro													
Wolverine Creek	East Hydro													
Grand Total														\$ 99,863,991
Resource Subtotals														Total
East Wind														
Rolling Hills														
East Hydro														
Blundell I														
Blundell II														
Low Impact Hydro - East														
Subtotal East														\$ 65,362,472
West Wind														
West Hydro														
Low Impact Hydro - West														
Subtotal West														\$ 34,501,120
Grand Total														\$ 99,863,991
CY 2010 Total Reflected on Company's Financial Reports														\$ 101,136,015
Variance (primarily attributable to accrual-based accounting)														\$ 1,272,424
Washington Allocation of West Revenues														\$ 7,763,851
WA CAGW														\$ 90,772
Washington CAGW CY 2010														\$ 90,772
Variance From Exhibit No. (SJK-3C)														\$ 90,772

CY 2010 Renewable Energy Credits - MWh

Resource	Control Area/Type	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Total
Ashcon	Low Impact Hydro - East													
Bad	West Hydro													
Big Fork	East Hydro													
Blundell I	East Hydro													
Blundell II	East Hydro													
Blundell III	East Hydro													
Campbell Hill	East Wind													
Chevron Casper Wind	East Wind													
Cleanwater 1	Low Impact Hydro - West													
Cleanwater 2	Low Impact Hydro - West													
Condit	West Hydro													
Copco 1	West Hydro													
Copco 2	West Hydro													
Culler	Low Impact Hydro - East													
Eagle Point	West Hydro													
East Side	West Hydro													
Fall Creek	West Hydro													
Fish Creek	Low Impact Hydro - West													
Footo Creek I	East Wind													
Fountain Green	East Hydro													
Glenrock I	East Wind													
Glenrock III	East Wind													
Goodroe Hills	West Wind													
Granite	East Hydro													
Gunlook	East Hydro													
High Plains	East Wind													
Iron Gate	West Hydro													
Last Chance	Low Impact Hydro - East													
Leaning Juniper	West Wind													
Marengo	West Wind													
Marengo II	West Wind													
McFadden Ridge	East Wind													
Mountain Wind I	East Wind													
Mountain Wind II	East Wind													
Omsstead	East Hydro													
Oneida	Low Impact Hydro - East													
Paris	East Hydro													
Pioneer	East Hydro													
Prospect 1	West Hydro													
Prospect 3	Low Impact Hydro - West													
Prospect 4	West Hydro													
Rock River I	East Wind													
Rolling Hills	Rolling Hills													
Sand Cove	East Hydro													
Seven Mile Hill I	East Wind													
Seven Mile Hill II	East Wind													
Slide Creek	Low Impact Hydro - West													
Snake Creek	East Hydro													
Soda	Low Impact Hydro - East													
Soda Springs	Low Impact Hydro - West													
Stairs	East Hydro													
Mayo	East Hydro													
May Naughton	East Hydro													
Malakwa Falls	West Hydro													
Webster	East Hydro													
Wohar	East Hydro													
Wohar Creek	East Wind													
Grand Total														

Washington Allocated
 WA CAGW
 Washington CAGW CY 2010
 22.4742%

CONFIDENTIAL
Exhibit No.____(RBD-28CT)
Docket UE-100749
Witness: R. Bryce Dalley

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

vs.

PACIFICORP dba Pacific Power & Light
Company

Respondent.

Docket UE-100749

PACIFICORP

REDACTED PHASE II REBUTTAL TESTIMONY OF R. BRYCE DALLEY

September 2011

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

3 A. Yes.

4 **Purpose and Summary of Testimony**

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. The purpose of my testimony is to respond to the Renewable Energy Credit
7 (REC) revenue calculations and proposals sponsored by Kathryn H. Breda for the
8 staff of the Washington Utilities and Transportation Commission (Staff), and
9 Donald W. Schoenbeck for the Industrial Customers of Northwest Utilities and
10 the Public Counsel Section of the Washington State Attorney General's Office
11 (ICNU/PC).

12 **Q. Please summarize your testimony.**

13 A. My testimony first addresses the significant earnings impact and accounting
14 entries that would be necessary under Staff's and ICNU/PC's proposals to refund
15 prior period REC revenues to customers. In addition, my testimony provides the
16 following:

- 17 • A discussion of the fact that Staff and ICNU/PC now propose to
18 include REC revenues for 2009 in addition to 2010 in the REC tracker
19 account, even though the Commission's order does not consider time
20 periods prior to 2010.
- 21 • A summary of the Company's method for determining Washington's
22 allocation of historic REC revenues, a method uncontested by Staff
23 and ICNU/PC prior to this phase of the proceeding.

- 1 • An explanation of the allocation methodology proposed by the
2 Company for the rate-effective period, which was developed in 2011
3 in consultation with Staff and ICNU/PC.
- 4 • A summary of how Staff’s calculations of Washington’s historic REC
5 revenue have changed three times in the course of this proceeding,
6 each time further increasing Washington’s share of allocated revenue.
- 7 • A discussion of the errors in the calculations outlined by Staff and
8 ICNU/PC in determining Washington’s allocation of REC revenues,
9 along with the various corrections required to properly calculate
10 Washington’s share of these revenues.

11 **Earnings Impact and Associated Accounting Entries Necessary for Prior Period**

12 **REC Revenue Refund to Customers**

13 **Q. If the Commission determines that Washington-allocated REC revenues**
14 **from prior periods should be returned to Washington customers, what would**
15 **be the earnings impact to the Company?**

16 A. In the event the Commission decides to return additional REC revenues to
17 customers from prior periods, the financial impact on the Company’s Washington
18 earnings would be significant. Currently, 100 basis points on equity in
19 Washington is approximately \$5.7 million.¹ This means that for every \$5.7
20 million of Washington-allocated REC revenue returned to customers, the
21 Company’s Washington return on equity (ROE) would be reduced by one percent.

¹ *Wash. Util. & Transp. Comm’n v. PacifiCorp*, Docket UE-111190, Exhibit No.__(RBD-3), page 2.2, line 68 (July 1, 2011).

1 Staff's and ICNU/PC's proposals would have the impact of reducing the
2 Company's Washington ROE by [REDACTED].

3 **Q. When would this earnings reduction be reflected on the Company's financial**
4 **records?**

5 A. Since these revenues are associated with prior fiscal periods, the Company would
6 be required to book the associated accounting entries immediately per Financial
7 Accounting Standards Board (FASB) Accounting Standards Codification (ASC)
8 Topic 980 Regulated Operations. As a result, any refund of these revenues to
9 customers would impact the Company's 2011 Washington earnings. This
10 potential reduction to 2011 earnings would be in addition to the \$5.4 million
11 unexpected reduction in 2011 earnings the Company was required to recognize as
12 a result of the Commission ordered change in tax treatment related to the Chehalis
13 regulatory assets earlier in this proceeding.²

14 **Q. Would a refund of REC revenues from prior periods allow the Company to**
15 **earn its authorized rate of return during the rate-effective period in this**
16 **proceeding?**

17 A. No. Since a refund of REC revenues from prior periods would need to be booked
18 for accounting purposes in 2011, and given the rate-effective period in this
19 proceeding began in early 2011, any refund of REC revenues from prior periods
20 would deny the Company a reasonable opportunity to earn its authorized rate of
21 return during the rate-effective period.

² *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Petition for Reconsideration at ¶9.

1 As part of this case, the Commission has already ordered the Company to
2 return to customers an annual level of REC revenues on a prospective basis for
3 the rate-effective period. The original credit to customers established by the
4 Commission for this period is \$4.8 million. If the Commission were to order a
5 refund of additional REC revenues from prior periods, it would effectively mean
6 that more than an annual level of revenues is reflected in a single test year. In
7 fact, under Staff and ICNU/PC's proposals, three years of REC revenues would
8 be captured in one test year, while no other revenue requirement component of the
9 case is reflected at more than an annual level.

10 **Q. What accounting entries would have to be booked should the Commission**
11 **rule that REC revenues from prior periods be returned to customers?**

12 A. According to ASC Topic 980, the Company would be required to credit a
13 regulatory liability in Federal Energy Regulatory Commission (FERC) account
14 254 – Other Regulatory Liabilities. The offsetting entry would be a debit
15 (reduction) to general business revenues.

16 **Inclusion of 2009 REC Revenues in the REC Tracker**

17 **Q. Please describe Staff's and ICNU/PC's proposals with respect to 2009 REC**
18 **revenues.**

19 A. Staff and ICNU/PC both propose including 2009 REC revenues in the Company's
20 REC tracker account in addition to both 2010 revenues and revenues for the rate-
21 effective period.

1 **Q. Does Order 06 issued by the Commission in this proceeding direct a starting**
2 **date for the REC revenue tracker account prior to 2010?**

3 A. No. Both Staff's and ICNU/PC's proposals deviate from the potential starting
4 dates outlined by the Commission. Paragraph 207 of that order states:

5 "We require this detailed accounting, in part, considering the disputed
6 question of whether PacifiCorp should be required to include, in what we
7 here describe as a tracker account, REC proceeds received during the
8 periods after the test year, including those received during the pendency of
9 this proceeding. Staff proposed that REC proceeds received after January
10 1, 2010, be accounted for and established as a regulatory liability on the
11 Company's books, the rate treatment of which could be determined in a
12 future proceeding. Another possible starting date for such an account
13 might be the date on which PacifiCorp made its initial filing in this
14 proceeding, which put the rate and accounting treatment of REC revenues
15 in issue. Other possible dates are conceivable, including the start of the
16 rate year. We do not finally resolve these questions in this Order. We
17 require additional briefing on the subject, and may require additional
18 evidence. We will establish process and schedule for this by subsequent
19 notice."

20 **Q. What does the Company propose as the starting date for the REC tracker**
21 **account?**

22 A. As discussed in the Phase II direct testimony of Company witness Andrea L.
23 Kelly, the Company recommends the REC tracker account operate on a forward-
24 looking basis beginning at the start of the rate-effective period. Under the
25 Company's proposal, REC revenues for 2009 or 2010 would not be included in
26 the REC tracker account.

1 **Q. If the Commission determines that the Company's filing date in this**
2 **proceeding should be used as the starting date for the REC tracker account,**
3 **what amount of Washington-allocated REC revenue would be reflected for**
4 **2010?**

5 A. Using the Company's filing date of May 4, 2010 as the start date for the REC
6 tracker account, approximately [REDACTED] of Washington-allocated REC
7 revenue would be reflected in the account for 2010. This amount can be
8 calculated by summing Washington's allocation of revenues for the months of
9 May through December 2010, found in Company witness Stacey J. Kusters'
10 Confidential Exhibit No.__(SJK-6C) and subtracting the amount of REC
11 revenues previously reflected in rates in 2010 of \$657,755. Ms. Kusters' exhibit
12 and the amount previously established in rates are discussed in greater detail later
13 in my testimony.

14 **PacifiCorp's Proposed Allocation Methodology for Prior Period REC Revenues**

15 **Q. Please describe the allocation methodology proposed by the Company to**
16 **determine Washington's share of REC revenue for 2009 and 2010.**

17 A. As described in my Phase II direct testimony, for purposes of determining
18 Washington share of REC revenues for 2009 and 2010, the Company applied
19 Washington's Control Area Generation West (CAGW) allocation percentage to
20 the REC revenues booked from the sale of RECs from west control area
21 resources.

1 **Q. Using this methodology, what are the total Washington-allocated REC**
2 **revenues for 2010?**

3 A. As reflected in Ms. Kusters' Confidential Exhibit No.__(SJK-3C), the total
4 Washington-allocated REC revenue is \$7,663,079 for 2010.

5 **Q Does this total reflect any reduction for REC revenues reflected in rates**
6 **during 2010 as part of prior rate case filings?**

7 A. No. However, as outlined in Ms. Breda's testimony, in the Company's 2009 rate
8 case, Docket UE-090205, \$657,755 of Washington-allocated REC revenues were
9 established in rates on a forecast basis for the calendar year 2010 rate-effective
10 period in that proceeding. Any REC revenue credit for 2010 should be reduced
11 by this amount.

12 **Q. Is the Company's allocation of historic REC revenues consistent with prior**
13 **reports provided to the Commission and other parties?**

14 A. Yes. As described in my Phase II direct testimony, the allocation method
15 described above is consistent with each of the Quarterly REC Revenue Reports
16 provided to Staff and ICNU/PC (five separate filings).³ In addition, the same
17 methodology was applied in the 2009 and 2010 Commission Basis Reports and
18 the Company's rebuttal revenue requirement filing in this docket.

19 **Q. Has any party ever taken issue with this allocation method?**

20 A. No. Parties have not challenged this allocation methodology until Phase II of this
21 proceeding. In fact, Staff supported this methodology earlier in this docket. In its
22 initial post-hearing brief filed with the Commission on February 11, 2011, Staff

³ *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Exhibit No.__(RBD-25T), page 4, line 13 through page 5, line 14.

1 supported the Company's rebuttal calculation of REC revenues, which, as I
2 discuss above, was calculated using this same methodology as a proxy for the
3 forecast for the rate-effective period.⁴ In the Company's rebuttal filing, the
4 Company explained that it used 2009 revenues allocated in this manner as the
5 basis for the revenues the Company expected to receive during the rate-effective
6 period, the 12 months ending March 2013.⁵

7 **Q. Were Staff and other parties aware that the Company was holding RECs for**
8 **compliance with renewable portfolio standards in Oregon and California?**

9 A. Yes. This is not a new discovery as implied in Staff's testimony. As referenced
10 in my direct testimony, the Company provided an explanation of the disposition
11 of RECs on a state-by-state basis in a report to Staff, PC and ICNU nearly three
12 years ago, on December 31, 2009. The report stated:

13 "PacifiCorp does not sell Oregon's REC share allocation because that
14 state's RPS permits unlimited REC banking for RECs generated after
15 January 1, 2007 and the first RPS target is near-term (2011). PacifiCorp
16 does not sell California's REC share allocation because the RPS targets
17 for that state are already applicable. Beginning January 1, 2011, under
18 current laws and rules, PacifiCorp will not sell Washington's REC share
19 allocation because the first RPS target will become applicable; however,
20 Washington RECs may be sold in the future if not needed for meeting the
21 target and if the RECs cannot be banked." p. 3

22 **Q. Has the Company made any revisions to the calculation of 2010 Washington-**
23 **allocated revenues as part of its rebuttal filing?**

24 A. Yes. The Company has made a minor revision to Washington's CAGW
25 percentage for 2010 to match the allocation percentage used in the Company's

⁴ Staff Initial Post-Hearing Brief at ¶24 (February 11, 2011).

⁵ PacifiCorp Initial Post-Hearing Brief at ¶62 (February 11, 2011).

1 2011 general rate case (2010 historic test period), Docket UE-111190.⁶ The 2010
2 Washington allocation percentage used by the Company in its Phase II direct
3 filing is consistent with the percentage reported in the Company's 2010
4 Commission Basis Report. However, due to the timing of that filing with the
5 Commission, the Company was not able to incorporate a revision to the
6 calculation of jurisdictional allocation factors as outlined by the Commission in
7 Order 06 of this docket. In that Order, the Commission required the Company to
8 remove temperature normalization from the commercial customer class.⁷
9 Applying this ordered treatment to the 2010 jurisdictional loads increases
10 Washington's 2010 CAGW allocation from 22.2111% to 22.4742%.

11 **Q. What is the impact on the Washington allocation of 2010 REC revenues due**
12 **to the update of Washington's 2010 CAGW percentage?**

13 A. 2010 Washington-allocated REC revenue increases by \$90,772 from the
14 \$7,663,079 reported in Exhibit No.__(SJK-3C). The updated Washington-
15 allocated total for 2010 is \$7,753,851. This revised amount and allocation
16 percentage is reflected in Ms. Kusters' Confidential Exhibit No.__(SJK-6C).
17 This total does not reflect a reduction for the amount reflected in rates during
18 2010 discussed above.

⁶ *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-111190, Exhibit No.__(RBD-3), page 10.2.

⁷ *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06 at ¶225 (Mar. 25, 2011).

1 **PacifiCorp's Proposed Allocation Methodology for the Rate-Effective Year**
2 **(Forward-Looking Methodology)**

3 **Q. Is the allocation methodology described above the same methodology the**
4 **Company proposes for the rate-effective period onward?**

5 A. No. As described in my Phase II direct testimony and outlined in Confidential
6 Exhibit No.____(RBD-27C), the Company's proposal for the rate-effective period
7 forward requires a more intricate approach due to complexities driven by the use
8 of different jurisdictional allocation methodologies among the Company's states
9 and to account for RECs that will need to be held for compliance to satisfy
10 Washington's renewable portfolio standard (RPS) during the rate-effective period.

11 As shown on pages 2 and 4 of Confidential Exhibit No.____(RBD-27C),
12 this forward-looking methodology calculates Washington's share of REC revenue
13 by first taking total RECs generated multiplied by Washington's CAGW factor.
14 Second, eligible RECs necessary to satisfy Washington's RPS are subtracted from
15 this total, leaving the difference as the number of Washington-allocated RECs in
16 excess of the compliance requirement. Next, this total is multiplied by the
17 percentage of RECs the Company was actually able to sell from its marketable
18 pool to calculate the number of excess Washington RECs sold. This amount is
19 then multiplied by the average price per REC to determine Washington's total
20 REC revenue. This calculation is done separately for Washington RPS eligible
21 and Washington RPS non-eligible RECs.

22 **Q. When was this forward-looking allocation methodology developed?**

23 A. This methodology was developed by the Company in consultation with Staff and

1 other parties during the time between the issuance of Order 06 in this proceeding
2 on March 25, 2011 and the Company's May 24, 2011 compliance filing.

3 **Q. Should this forward-looking allocation method for the rate-effective period**
4 **be retroactively applied to determine Washington's share of historic REC**
5 **revenues?**

6 A. No. Using an allocation methodology developed in 2011 to retroactively
7 determine Washington's share of revenues received by the Company in 2009 or
8 2010 is inappropriate, since the Company does not have the option of
9 recalculating the allocation of other cost or revenue components during those
10 periods. As discussed earlier in my testimony, the methodology the Company has
11 outlined to determine Washington's REC revenue allocation for 2009 and 2010
12 was used in the Company's regulatory filings for those periods, was supported by
13 Staff in its initial post-hearing brief, and was uncontested by all parties until Phase
14 II of this proceeding.

15 **Staff's Proposed Allocation Methodology**

16 **Q. Please describe Staff's proposed calculation of Washington's allocation of**
17 **2009 and 2010 historic REC revenues.**

18 A. Staff's proposal as outlined by Ms. Breda in Exhibit Nos.__(KHB-7TC) and
19 (KHB-8C) first allocates Washington's share of revenues by taking the booked
20 revenue from west control area resources and applying Washington CAGW
21 factors for both respective years.⁸ This methodology is consistent with

⁸ Staff correctly applies the updated Washington 2010 CAGW factor of 22.4742% described earlier in my testimony.

1 the Company's calculation for 2009 and 2010, and results in Washington-
2 allocated REC revenue of [REDACTED] for 2009 and [REDACTED] for 2010.

3 However, in addition to allocating the booked REC revenue, Staff's
4 proposal calculates "imputed revenue" for RECs that have been held by the
5 Company for compliance in other jurisdictions. Staff's calculation of the imputed
6 revenues implements a similar calculation to the forward-looking methodology
7 proposed by the Company's for the rate-effective period.

8 Staff's revenue imputation calculation is done by first multiplying the
9 number of RECs held for compliance by Washington's CAGW factor for each
10 year. The result of this calculation is then multiplied by an average price realized
11 by the Company from RECs sales based on actual transactions. Staff then
12 multiplies this total by a percentage of actual RECs sold by the Company. Using
13 this methodology, Staff imputes additional revenues of [REDACTED] and
14 [REDACTED] for 2009 and 2010 respectively.

15 The final step in Staff's calculation is to subtract Washington-allocated
16 REC revenue to account for the REC revenues reflected in rates during 2010. As
17 discussed above, in the Company's 2009 rate case, Docket UE-090205, \$657,755
18 of Washington-allocated REC revenues were established in rates on a forecast
19 basis for the calendar year 2010 rate-effective period in that proceeding. As a
20 result, Staff subtracts this amount from the 2010 calculated total. As shown on,
21 line 3 of Confidential Exhibit No.__(RBD-29C), Staff's final total of
22 Washington-allocated REC revenue, following the procedures discussed above, is
23 [REDACTED] for 2009 and [REDACTED] for 2010.

1 **Q. Is Staff's proposed calculation consistent with its pleading filed with the**
2 **Commission on May 24, 2011?**⁹

3 A. No. Staff's calculation is not the same as that reflected in Staff's Pleading.

4 **Q. Please explain how Staff's proposal varies from Staff's Pleading.**

5 A. Attachment A of Staff's Pleading outlines the calculation of 2009 and 2010
6 Washington REC revenues using a method similar to that proposed by the
7 Company for REC revenues for the rate-effective period. By contrast, Staff's
8 proposal now first relies on booked revenues in 2009 and 2010, and then
9 calculates a revenue imputation based on a method similar to Attachment A of
10 Staff's Pleading.

11 **Q. Why has Staff changed its position with respect to the Washington allocation**
12 **of REC revenues for 2009 and 2010?**

13 A. It is unclear why Staff's methodology has changed. Each time Staff has modified
14 its methodology, the amount of Washington-allocated REC revenues has
15 increased. For example, Staff's calculation of 2009 Washington-allocated REC
16 revenue has increased from approximately \$4.8 million as supported in its initial
17 post hearing brief filed with the Commission on February 11, 2011, to [REDACTED]
18 [REDACTED] as included in Staff's Pleading filed with the Commission on May 24,
19 2011, to [REDACTED] as calculated and described in Ms. Breda's testimony filed
20 with the Commission on September 9, 2011.

⁹ Staff Approach for Allocating RECs, Docket UE-100749, (May 24, 2011) (Staff's Pleading).

1 **Q. If the Commission decides to use the forward-looking allocation method**
2 **proposed by the Company for the rate-effective period to determine**
3 **Washington’s allocation of prior period revenues, is Staff’s calculation**
4 **correct?**

5 A. No. Although I strongly disagree with using an allocation method developed
6 nearly 29 months after the beginning of 2009 to determine Washington’s share of
7 REC revenues for that period, if the Commission decides to use that methodology,
8 several corrections need to be made to Staff’s calculations.

9 **Q. Please explain the corrections necessary to accurately reflect Washington’s**
10 **allocation of REC revenues using the Company’s forward-looking allocation**
11 **method as outlined in Confidential Exhibit No.__(RBD-27C).**

12 A. Three corrections need to be made to Staff’s calculation in order to reflect
13 Washington’s allocated share of revenues using the Company’s forward-looking
14 methodology. First, Staff’s calculation should apply the forward-looking
15 methodology to all RECs, not only those the Company held for compliance.
16 Second, Staff’s calculation of non-eligible REC revenues should use all non-
17 eligible RECs in the calculation, not just small hydro RECs as proposed by Staff.
18 Finally, an offset to Staff’s 2009 calculation should be included to reflect the
19 amount of REC revenue in rates during that period. Each of these corrections is
20 reflected in Confidential Exhibit No.__(RBD-29C) and is discussed in detail
21 below.

22 **Q. Please describe the Company’s first correction to Staff’s proposal.**

23 A. Staff’s proposal mixes and matches two different methods. Staff proposal only

1 applies the forward-looking REC allocation method to RECs held for compliance.
2 By consistently applying the same method to all RECs generated during 2009 and
3 2010, the total Washington-allocated revenue is reduced by [REDACTED] for 2009 and
4 [REDACTED] for 2010. This correction is shown on line 6 of Confidential Exhibit
5 No.__(RBD-29C). Attachment A of Staff's Pleading is consistent with this
6 approach to the calculation.

7 **Q. What is the Company's second correction to Staff's proposal?**

8 A. Staff's revenue imputation calculation for non-eligible RECs includes only small
9 hydro RECs in the calculation of RECs generated, held for compliance, sold, and
10 retained. The Company believes that all non-eligible RECs generated should be
11 included in this calculation, consistent with the calculation for eligible RECs.
12 This correction reduces the 2009 and 2010 Washington-allocated REC revenue by
13 [REDACTED] for 2009 and [REDACTED] for 2010. This calculation is shown on line 7 of
14 Confidential Exhibit No.__(RBD-29C).

15 **Q. Please describe the Company's final correction to Staff's proposed**
16 **calculation.**

17 A. The Company's final correction to Staff's calculation is to include an offset to the
18 2009 calculated Washington-allocated total for the amount of REC revenues
19 previously established in rates for that year. If the Commission determines that
20 2009 and 2010 REC revenue should be returned to customers, the amount of
21 forecast REC revenues included in rates during these years through past rate case
22 filings should be reflected as a reduction. Staff has proposed to include an offset
23 of \$657,755 for REC revenues in rates in 2010 from UE-090205, but has not

1 included an offset for the amount included in rates through the Company's 2008
2 rate case filing in Docket UE-080220. In that docket, which used a historic test
3 year for the 12-months ending June 2007, the Company included \$576,254 of
4 forecast REC revenues.¹⁰ As a result, line 8 of Confidential Exhibit
5 No.__(RBD-29C) reflects this amount as a reduction to Staff's calculated 2009
6 amount.

7 **Q. What is the overall impact of the Company's corrections to Staff's proposal?**

8 A. The total corrections outlined above reduce Staff's calculation by [REDACTED] for
9 2009 and [REDACTED] for 2010. If the Commission decides it is appropriate to use
10 the forward-looking allocation method to determine Washington's 2009 and 2010
11 REC revenue, the appropriate level of RECs, including offsets for the amount in
12 rates is [REDACTED] for 2009 and [REDACTED] for 2010. These revised totals are
13 shown on line 11 of Confidential Exhibit No.__(RBD-29C).

14 **ICNU/PC's Proposed Allocation Methodology**

15 **Q. Please describe ICNU/PC's proposed calculation of Washington's allocation**
16 **of 2009 and 2010 historic REC revenues.**

17 A. ICNU/PC's proposal as outlined by Mr. Schoenbeck in Exhibit Nos.__(DWS-
18 5CT) and (DWS-6C) calculates Washington's share of 2009 and 2010 REC
19 revenue using a similar approach to the Company's forward-looking allocation
20 methodology discussed above. As shown on line 1 of Confidential Exhibit
21 No.__(RBD-30C), ICNU/PC's final total of Washington-allocated REC revenue
22 is [REDACTED] for 2009 and [REDACTED] for 2010.

¹⁰ *Wash. Util. & Transp. Comm'n v. PacifiCorp*, Docket UE-080220, Exhibit No.__(RBD-3), page 3.5.1, (February 6, 2008).

1 **Q. Do you agree with Mr. Schoenbeck's calculations?**

2 A. No. Consistent with my criticism of Staff's proposal above, I do not believe it is
3 appropriate to apply an allocation methodology developed in 2011 to REC
4 revenues for 2009 and 2010. However, if the Commission determines that using a
5 forward-looking allocation methodology to determine the 2009 and 2010
6 Washington-allocated REC revenues is appropriate, several corrections need to be
7 made to ICNU/PC's calculations.

8 **Q. Please explain the corrections necessary to accurately reflect Washington's**
9 **allocation of REC revenues using the forward-looking allocation**
10 **methodology discussed above.**

11 A. There are four corrections that need to be made to Mr. Schoenbeck's calculations.
12 Each of these corrections is outlined in Confidential Exhibit No.____(RBD-30C).
13 First, Washington's CAGW factor for 2010 needs to be updated as discussed
14 earlier in my testimony. Second, the number of non-eligible RECs sold in 2009
15 as reflected in the 2009 revenue calculation needs to be corrected. Third, the
16 calculation of revenues [REDACTED]

17 [REDACTED]
18 [REDACTED]
19 [REDACTED]. Finally, an offset for the amount of REC revenues

20 previously established in rates should be deducted from the 2009 and 2010 totals.

21 **Q. Please describe the Company's first correction to ICNU/PC's calculation of**
22 **REC revenues.**

23 A. Mr. Schoenbeck uses the 2010 CAGW factor as filed by the Company in its Phase

1 II direct testimony and exhibits. As explained earlier in my testimony, the 2010
2 CAGW factor needs to be updated to reflect the Commission ordered removal of
3 the temperature normalization of the commercial customer class. This correction
4 increases 2010 Washington-allocated REC revenue by [REDACTED]. This amount is
5 shown on line 4 of Confidential Exhibit No.__(RBD-30C).

6 **Q. Please describe the Company's second correction to ICNU/PC's calculation**
7 **of REC revenues.**

8 A. The Company's second correction to Mr. Schoenbeck's calculation is to include
9 the actual number of Washington non-eligible RECs sold in the calculation of
10 2009 REC revenues. Confidential Exhibit No.__(DWS-6C) understates the
11 number of actual non-eligible RECs sold during 2009 by [REDACTED]. This correction
12 increases 2009 Washington-allocated REC revenue by [REDACTED]. This amount is
13 shown on line 5 of Confidential Exhibit No.__(RBD-30C).

14 **Q. Please describe the Company's third correction to ICNU/PC's calculation of**
15 **REC revenues.**

16 A. Mr. Schoenbeck's calculation [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

1 [REDACTED]

2 [REDACTED].

3 To correct Mr. Schoenbeck's calculation, [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED].

8 **Q. Please describe the Company's final correction to ICNU/PC's calculation of**
9 **REC revenues.**

10 A. Consistent with the Company's final correction to Staff's proposal, the
11 Company's final correction to ICNU/PC's calculation is to include an offset to the
12 2009 and 2010 calculated REC revenue totals for the amount of REC revenues
13 previously established in rates in those years. If the Commission determines that
14 2009 and 2010 REC revenue should be returned to customers, the amount of REC
15 revenues included in rates during these years through past rate case filings should
16 be reflected as a reduction.

17 Line 7 of Confidential Exhibit No.____(RBD-30C) reflects the level of
18 Washington-allocated REC revenue included in rates in 2009 and 2010. As
19 discussed above, \$576,254 of forecast Washington-allocated REC revenues were
20 reflected in rates in 2009 based on the Company's 2008 rate case filing, UE-
21 080220 and \$657,755 of forecast Washington-allocated REC revenues were
22 included in rates in 2010 based on the Company's 2009 rate case filing, Docket

1 UE-090205. As a result, these amounts are included as reductions to ICNU/PC's
2 calculated totals.

3 **Q. Please explain the rounding variance amount shown on line 8 of Confidential**
4 **Exhibit No.__(RBD-30C).**

5 A. This variance represents the rounding difference between the Company's
6 correction of Staff's calculations of REC revenue and the Company's correction
7 of ICNU/PC's calculations. This variance of [REDACTED] in 2009 and [REDACTED] in 2010 is
8 attributable to the use of rounded percentages and prices. By including this
9 rounding variance on line 8 of this exhibit, the final REC revenue amounts for
10 Staff and ICNU/PC, as corrected by the Company, are the same.

11 **Q. What is the overall impact of the Company's corrections to ICNU/PC's**
12 **proposal?**

13 A. The total corrections outlined above reduce ICNU/PC's calculation by [REDACTED]
14 in 2009 and [REDACTED] in 2010. If the Commission decides it is appropriate to
15 use the forward-looking allocation method to determine Washington's 2009 and
16 2010 REC revenues, the appropriate level of RECs, including offsets for the
17 amount in rates is [REDACTED] for 2009 and [REDACTED] for 2010. These revised
18 totals are shown on line 11 of Confidential Exhibit No.__(RBD-30C).

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

20 A. Yes.

Analysis of WUTC Staff's Position			
1	Total REC Rev. Before Credit for Amount in Rates		
2	Less Amounts in Rates for 2010	\$ -	\$ (657,755) \$ (657,755)
3	Total REC Revenues Per Exhibit No.____(KHB-8C)		
4			
5	Corrections:		
6	Apply REC Vintage Method for All RECs		
7	Use All Non-Eligible RECs, not only Small Hydro		
8	Include Offset for REC Revenues in Rates in 2009	\$ (576,254)	\$ - \$ (576,254)
9	Total Corrections to Staff's Calculation		
10			
11	Total REC Revenues with Corrections		

Analysis of ICNU/Public Counsel's Position			
1	Total REC Revenues Per Exhibit No.__(DWS-6C)		
2			
3	Corrections:		
4	Correct CAGW Allocation Factor for 2010		
5	Include Correct Non-Eligible RECs Sold in 2009		
6	Apply Actual % Sold to RECs Held For Compliance		
7	Include Offset for REC Revenues in Rates	\$ (576,254)	\$ (657,755) \$ (1,234,009)
8	Rounding Variance From RBD-29 Staff Summary		
9	Total Corrections to ICNU/PC's Calculation		
10			
11	Total REC Revenues with Corrections		

