BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	DOCKET NO. UE-130043
	)	
Complainant,	)	
	)	CONFIDENTIAL POST-HEARING BRIEF OF BOISE WHITE PAPER, L.L.C.
v.	)	
	)	
PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY,	)	
	)	
Respondent.	)	

CONFIDENTIAL POST-HEARING BRIEF

ON BEHALF OF

BOISE WHITE PAPER, LLC

REDACTED VERSION

October 1, 2013

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I. INTRODUCTION

1 Pursuant to WAC § 480-07-390 and Prehearing Conference Order 03, Boise White Paper, LLC ("Boise") hereby submits this post-hearing brief requesting that the Washington Utilities and Transportation Commission ("WUTC" or the "Commission") significantly reduce PacifiCorp's (or the "Company") proposed rate increase. PacifiCorp has not demonstrated that its costs justify either its initial request for a 14.1%, $42.8 million increase, nor its revised request for a 12.1%, $36.9 million rate increase. The Company does not demonstrate that rising costs justify additional revenue; rather, this general rate case ("GRC") is largely built around accounting schemes and regulatory mechanisms intended to provide the Company with immediate recovery of all of its costs by shifting every possible business risk to customers. This new approach, which seeks to eliminate risk from regulatory lag, is matched with a requested return on equity ("ROE") far higher than the Company's demonstrated cost of equity. In addition, the Company proposes limited, one-sided changes to its interjurisdictional allocation methodology that would result in shifting of additional costs to Washington customers from other jurisdictions, and could allow the Company to over-recover between jurisdictions.

2 Much of PacifiCorp's case is unrelated to rising costs, yet it seeks to impose another proposed double-digit rate increase upon customers in a rural, economically challenged region of Washington that struggles to recover from the Great Recession and PacifiCorp's repeated rate increases. The evidence shows that the Commission should hold PacifiCorp to its burden of proof and reject most of its proposed rate increase.

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II. BACKGROUND

3 Since its merger with MidAmerican Energy Holdings Corp. ("MEHC" or "MidAmerican"), PacifiCorp has come to the Commission with nearly annual rate cases. Throughout this period, the issue of how to allocate costs between PacifiCorp's six state jurisdictions has created yearly controversy. While five states adopted what became known as the Revised Protocol for cost allocation, the Commission determined that the Revised Protocol could not legally be adopted under Washington law.[1/] In 2006, the Company proposed the Western Control Area ("WCA") methodology. The Company accepted some modifications proposed by the parties in that case, and the Commission ultimately accepted the WCA on a five-year trial basis, over the opposition of Public Counsel and the Industrial Customers of Northwest Utilities ("ICNU").[2/] Following this trial period, as part of the settlement of its general rate case, the Company agreed to a one-year rate case stay-out in order to work collaboratively with the parties to develop a potential replacement for the WCA.[3/] No agreement was reached during the collaborative process, yet PacifiCorp has elected to unilaterally change the WCA and has applied selective, one-sided changes in an effort to shift unjustified costs to Washington customers.

4 The Commission should decline to accept PacifiCorp's one-sided changes to the WCA, as well as the Company's unfair and poorly designed power cost adjustment mechanism ("PCAM"). The WCA has shielded customers from some of the worst effects of the Company's

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1/ WUTC v. PacifiCorp, Docket Nos. UE-050684 and UE-050412, Order 04 at P. 52, 54 (April 17, 2006).
2/ WUTC v. PacifiCorp, UE-061546 and UE-060817, Order No. 08 at P. 43-44 (June 21, 2007).
3/ WUTC v. PacifiCorp, UE-111190, Order No. 07 at P. 20 (March 30, 2012).

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higher growth rates in jurisdictions like Utah and Wyoming.[4/] Washington customers should not be burdened with the costs of serving customers in other jurisdictions when these costs produce no benefits to Washington. Therefore, the Commission should decline to allow PacifiCorp to modify and replace the WCA outside of a full review, particularly given that Commission Staff ("Staff") is now participating in new multistate discussions designed to replace the Revised Protocol.[5/]

III. ARGUMENT

A. PacifiCorp's Rate Increase Should Be Significantly Reduced or Eliminated

5 PacifiCorp has slightly reduced its rate increase request in rebuttal testimony to account for errors and corrections identified by experts from Boise, Staff, and Public Counsel; still, the Company requests yet another double-digit rate increase premised on a theory that it is entitled to full and instantaneous recovery of all costs, and that any regulatory lag (that is not beneficial to the Company) must be eliminated.

6 It is axiomatic that regulatory lag may benefit customers if costs are higher than they were at the time rates were set, and will benefit a utility when costs are lower than at the time rates were set.[6/] Therefore, regulatory lag permits a utility to buffer the impact of abrupt cost increases to customers, and allows the utility to benefit from decreases in costs or increases in revenue until rates are reset. In addition, regulatory lag creates a strong and important

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4/ Exh. No. B-2 shows that the Company's investment both in production and transmission plant outside of the WCA dwarfs its WCA investment. This exhibit demonstrates that investment in Washington, in particular, is negligible.

5/ Griffith, TR. 129:12-15.

6/ See, e.g., Shirley et al., Report to the MN PUC: Criteria and Standards for Decoupling, Regulatory Assistance Project, June 30, 2008.

incentive for utility management to reduce costs and operate efficiently.[7/] The Company's ROE also compensates it for the risk of regulatory lag. Thus, regulatory lag is an important function of regulated utility operation, and the Commission itself has expressly endorsed this understanding.[8/]

7 PacifiCorp's rate request demonstrates a belief that it is entitled to full recovery of all costs without regulatory lag. PacifiCorp did not file an attrition study as part of its case, and it reports a drastic *decrease* in capital expenditures over the past three years.[9/] Further, PacifiCorp has provided evidence demonstrating a projected decline in capital investment through 2015.[10/] Notwithstanding, on rebuttal, PacifiCorp has taken to misidentifying normal regulatory lag as "attrition," and now claims that the entire rate case should be considered an attrition study.[11/] This belated cry of "attrition" is wholly unsupported on the record and inappropriate in this case.

8 The Company claims that this alleged "attrition" is largely a result of the Commission's use of a modified historic test year, the absence of a PCAM, and the WCA allocation that the Company itself developed.[12/] As has been demonstrated by the expert testimony submitted by Boise, Staff, and Public Counsel, the Company has vastly overstated its alleged under-recovery of its costs. Furthermore, without an attrition study, PacifiCorp's alleged under-earning could simply be due to poor management.

7/ Glen Blackmon, Incentive Regulation and the Regulation of Incentives (1994).

8/ WUTC v. PSE, Docket Nos. UE-060266, UG-060267, Order 08 at P.37 (January 5, 2007).

9/ Exh. No B-3 at 3 (All Plant Additions).

10/ Exh. No B-4 at 2 (please note that the Company did not paginate the documents contained in Exhibit B-5 sequentially).

11/ Griffith, TR. 110:23-111:7.

12/ Griffith, Exh. No. WRG-1T at 2:14-3:11.

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9 A fundamental problem with PacifiCorp's position is that it blatantly selects what costs it would like to update based on potential benefit to the Company. This results-oriented approach is evident in the Company's request to eliminate normal and reasonable regulatory lag through a PCAM lacking requisite deadbands or sharing bands to allocate risks and benefits, and its unilateral, selective updates to the WCA. All the while, PacifiCorp inconsistently rejects Boise's well-founded recommendations to reduce – not eliminate – regulatory lag that *benefits* the Company in power cost modeling. The Company wishes to have its cake and eat it too, and in the process attempts to saddle customers with the rate shock of a double-digit increase.

10 The Company's complaints about the Commission's test year are emblematic of its case in this proceeding. The Company claims that it is suffering in a poor regulatory environment because it must file its GRC using a historic test year.[13/] However, when questioned, Mr. Griffith admitted that Washington's modified historic test year does, in fact, include all measurable future costs.[14/] In fact, using the modified historic test year, PacifiCorp has included in its filing all five large capital projects that it expects to put into rates in the coming year.[15/] Thus, the modified historic test year is well-suited to minimizing regulatory lag by permitting the Company to reflect known and measurable additions, while retaining enough regulatory lag to incentivize efficient and intelligent management.

11 Boise recommends that the Commission reduce the requested rate increase by approximately $28.1 million. In combination with Staff and Public Counsel's adjustments, the

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13/ Id. at 2:17-19.
14/ Griffith, TR. 119:16-19.
15/ Id. at 118:6-11.

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record demonstrates that PacifiCorp is entitled to little or no rate increase. Boise's recommended adjustments are presented in summary form in the following table:

Boise Proposed Adjustments to PacifiCorp's Rate Increase on a Washington Jurisdictional Basis (millions)	
Cost of Capital	$8.3
Net Power Costs	
QF Situs Assignment	$10.1[16]
DC Intertie/NOB Purchases	$1.1
GRID Market Caps	$2.9
Bridger Heat Rate	$0.6
Bridger Coal Costs	$4.3[17]
West Control Area Cost Allocation	
CAGW Allocation Factor	$0.8
Total Boise Adjustments	$28.1[18]

B. PacifiCorp Has the Burden of Proof to Support Its Requested Rate Increase

12 PacifiCorp bears the burden of proof to demonstrate that its proposed tariffs are just and reasonable.[19] This burden includes "the burden of going forward with evidence and the burden of persuasion."[20] The Company retains this burden throughout the proceeding and must

[16] PacifiCorp's updated filing reduced the amount of Oregon QF resources included in their filing, thus, reducing the value of Boise's QF adjustment by 10%, from $11.2 million to $10.1 million, as reflected in this table.

[17] In rebuttal, PacifiCorp correctly pointed out an error in the calculation of Boise's Bridger Coal Cost adjustment, lowering the value of this adjustment from the original $5.1 million to the $4.3 million included in this table.

[18] PacifiCorp accepted Boise's wind energy forecast adjustment ($1.0 million) and included a revenue credit, which resolved Boise's wind integration adjustment ($0.2 million). See Duvall, Exh. No. GND-7CT at 10:10-11:10. These adjustments are reflected in PacifiCorp's updated filing, and have been removed from Boise's recommended adjustments.

[19] RCW § 80.04.130(4); WAC § 480-07-540; WUTC v. Avista, Docket Nos. UE-100467 and UG-100468 Order No. 1 P. 12 (Apr. 5, 2010).

[20] WAC § 480-07-540.

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establish that the rate change is just and reasonable.[21] Accordingly, PacifiCorp also retains the burden of proof to demonstrate that its proposed changes to the WCA cost allocation methodology will produce just and reasonable rates.[22]

13 When setting rates, a utility is allowed an opportunity to recover its operating expenses and to earn a rate of return on its property that is used to provide service.[23] The amount of a utility's operating expenses included in rates is typically "based on actual operating expenses in a recent past period referred to as the 'test period' or 'test year.'"[24] The Commission also removes from rates all property not used and useful to serve Washington customers,[25] all non-recurring or one-time expenses, and other costs that a utility is unlikely to experience during the term of the proposed rates.[26] Costs that are abnormal, fluctuate, or are not accurately estimated in the test period must be normalized to achieve an expected cost level based on typical conditions.[27] Regardless of prudence, costs and expenses that do not benefit ratepayers or were incurred to benefit shareholders are not recoverable.[28]

C. PacifiCorp's Filed Cost of Capital is Exaggerated, Not Supported by Credible Evidence, and Should Be Reduced

14 PacifiCorp has requested an increase in its cost of capital that is entirely unwarranted and does not reflect the Company's actual capital costs. The Commission should

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[21] WUTC v. Pacific Power & Light Co., Cause No. U-84-65, Fourth Suppl. Order at 17 (Aug. 2, 1985).

[22] WUTC v. PacifiCorp, Docket No. UE-061546, Order 01 at P. 9 (Oct. 10, 2006); Re PacifiCorp, Docket Nos. UE-991832 and UE-020417, Eighth/Sixth Suppl. Order at P. 22 (July 15, 2003).

[23] People's Org. for Wash. Energy Resources v. WUTC, 104 Wn.2d 798, 808-11 (1985); WUTC v. Puget Sound Energy, Inc. ("PSE"), Docket Nos. UE-090704 and UG-090705, Order 11 at P. 19 (Apr. 2, 2010).

[24] People's Org. for Wash. Energy Resources, 104 Wn.2d at 810.

[25] RCW § 80.04.250; Docket Nos. UE-050684 and UE-050412, Order 04 at PP. 48-70.

[26] WUTC v. Avista Corp., Docket Nos. UE-991606 and UG-991607, Third Suppl. Order PP. 205-07 (Sept. 29, 2000).

[27] Id. at P. 34.

recognize that capital costs remain low, and that in the current economy, utilities are viewed as favorable investment opportunities. In fact, current economic conditions make utilities like PacifiCorp extremely attractive investment opportunities because they appeal to investors looking for stable investments during difficult economic times.[29/]

15 Based on the testimony of Mr. Michael Gorman, Boise recommends that the Commission adopt a 9.2% ROE for PacifiCorp, which, based on the Company's currently accepted capital structure, will result in a 7.25% rate of return ("ROR"). The Commission should decline to abandon the capital structure that it has ordered in the past two rate cases.

1. The Commission Should Reduce PacifiCorp's Proposed Return on Equity

16 Mr. Gorman began his review by examining the market's assessment of utility performance generally. Mr. Gorman found that electric utilities' credit ratings are more stable than they have been historically, and agencies even conclude that utilities generally will have "strong market capital access" in the face of "downward pressure on authorized ROEs . . . ."[30/] Utility stock performance has likewise been positive in recent market environments, and as a whole, ratings agencies consider the utility sector to be stable, low risk, and in high demand.[31/] This understanding has been confirmed as, contrary to Dr. Hadaway's predictions, the Federal Reserve has declined to taper its monetary stimulus, leading to a surge in utility stock prices and

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[28/] U.S. West v. WUTC, 134 Wn.2d 74, 126-27 (1997); WUTC v. Avista Corp., Docket Nos. UE-080416 and UG-080417, Order 08 at P. 29 (Dec. 29, 2008).

[29/] Gorman, Exh. No. MPG-1T at 10:8-14.

[30/] Id. at 7:18-31.

[31/] Id. at 10:10-14.

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a drop in interest rates.[32] PacifiCorp itself is rated as "Stable" by both Moody's and S&P, with unsecured corporate bond ratings of "Baa1" and "A-," respectively.[33]

17 In order to estimate PacifiCorp's market cost of equity for its Washington operations, Mr. Gorman relied upon the results of five financial models, including: 1) a Constant Growth DCF model; 2) a Sustainable Growth DCF model; 3) a Multi-Stage Growth DCF model; 4) a Risk Premium model; and 5) a Capital Asset Pricing Model ("CAPM").[34] Similarly, if a few incorrect assumptions relied upon by Dr. Hadaway's studies are corrected, his models also support an ROE of approximately 9.2%.

18 Because PacifiCorp is a privately held company for which some market information is not readily available, it is necessary to use a proxy group to derive a number of inputs for financial modeling. Mr. Gorman used the proxy group developed by Dr. Hadaway in this case, but properly excluded TECO Energy because it announced its acquisition of New Mexico Gas on May 28, 2013.[35] At hearing, Dr. Hadaway conceded that Mr. Gorman was correct, and he would likely use Mr. Gorman's proxy group going forward.[36]

19 Mr. Gorman's Constant Growth DCF model was based upon a thirteen-week average of stock prices for the proxy group, meaning that the period is recent enough to reflect current market trends, but not so short as to be susceptible to short-term changes that do not reflect the stock's fundamental market value.[37] For the DCF model's dividend component, Mr.

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[32] Michael P. Regan & Nick Taborek, *Stocks Rally With Treasuries, Gold, As Fed Resists Taper*, Bloomberg, Sept. 18, 2013, http://www.bloomberg.com/news/2013-09-17/asian-index-futures-rise-before-fed-as-crude-oil-rebounds.html.

[33] Gorman, Exh. No. MPG-1T at 10:18-21.

[34] Id. at 16:20-17:3.

[35] Id. at 17:8-10.

[36] Hadaway, TR. 243:23-244:1.

[37] Gorman, Exh. No. MPG-1T at 19:18-21.

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Gorman used PacifiCorp's most recent quarterly dividend, as reported by Value Line, annualized and adjusted for next year's growth.[38] For the Constant Growth model, Mr. Gorman used an average of professional analysts' growth rate estimates representing a consensus, derived from Zack's, SNL, and Reuters. The Constant Growth model suggested an average and a median return of 9.21% and 9.33%, respectively.[39] These results are likely overstated, because three-to-five-year growth rates are above the sustainable long-term growth rate.

20 Mr. Gorman's Sustainable Growth DCF recognizes the fact that, as rate base grows through reinvested earnings, the payout ratio of the company must decline. Thus, the Sustainable Growth DCF uses a long-term earnings retention growth rate to help gauge whether the consensus three- to-five-year growth rate can be sustained over a long term. The Sustainable Growth model produced average and median DCF results of 8.38% and 8.35%, respectively.[40]

21 Because utility construction cycles tend to produce periods of increased investment, which eventually must level out and cannot exceed the long-term growth of the economy generally, Mr. Gorman developed a Multi-Stage Growth DCF that recognizes the recent capital intensive period, but adjusts, generously, to reflect a long-term growth equal to the projected growth of the United States Growth Domestic Product growth rate.[41] The Multi-Stage Growth model produces an average and median DCF return on equity of 8.91% and 8.88% respectively.[42] Mr. Gorman averaged the results of his three DCF models, which resulted in a

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[38] Id. at 20:3-5.
[39] Id. at 21:16-17.
[40] Id. at 23:4-5.
[41] Id. at 24:28-25:11.
[42] Id. at 28:11-12.

reasonable DCF return for PacifiCorp of 9.10%.[43/] To reach this conservative recommendation, Mr. Gorman weighted the Constant Growth and Multi-Stage models more heavily, as the Sustainable Growth model would have suggested a lower ROE.[44/]

22 Mr. Gorman also performed a risk premium analysis, which was based upon the 13-week average yield spreads between Treasury bonds and "A" rated and "Baa" rated utility bonds.[45/] This study demonstrated that the market considers the utility industry to be a desirable, low-risk investment, and confirmed Mr. Gorman's assessment that utilities continue to have strong access to capital in the market.[46/] The risk premium analysis, weighted conservatively to recognize the large yield spreads between Treasury bonds and utility bonds, produced a low end ROE of 9.05% and a high end estimate of 9.44%. The midpoint of these estimates suggests an equity risk premium ROE of 9.25%.

23 Finally, Mr. Gorman also utilized a CAPM model. This was based on Morningstar's Market risk premium of 6.7%, a risk free (30-year Treasury bill) rate of 3.70%, and a beta of .71. The CAPM model estimates an ROE for PacifiCorp of 8.47%, which Mr. Gorman rounded up to 8.50%.[47/] Because of concerns with the risk free rate and market risk premium, Mr. Gorman placed minimal weight on the CAPM result.[48/]

24 Taking each of these models into account, Mr. Gorman developed a range of reasonableness of 9.10% to 9.25%, based on the results of the DCF studies and the risk premium study. Within the high side of this range, Mr. Gorman recommends an ROE of 9.20%.

43/ Id. at 16.
44/ Id. at 14-17.
45/ Id. at 32.
46/ Id. at 32:12-14.
47/ Id. at 39:2-4.

25 Notably, Mr. Gorman was asked at the hearing whether the fact that bond yields had risen slightly between the time he completed his analysis and the time of the hearing would change his recommendations. Mr. Gorman explained that it was true that his analysis could change slightly based on different observable data, but changes to other offsetting factors, such as the impact on equity valuations, would also need to be considered.[49/] This thoughtful approach is sharply contrasted with Dr. Hadaway's overreliance on the short-term spot interest rates used in his risk premium analysis, and his assertion that an impending September "taper" of monetary easing by the Federal Reserve Bank would cause interest rates to rise and cause stock prices to fall. Ironically, there was no September "taper," and bond rates have dropped sharply while utility stocks have moved upward since the hearing and the submission of briefs. The better view is Mr. Gorman's, who stated that a reliable ROE analysis should be based on multiple models, not driven by daily or weekly spot fluctuations in market conditions.

2. Dr. Hadaway's Recommendations are Based on Inflated and Inaccurate Analyses

26 Dr. Hadaway makes several improper assumptions in the development of his DCF and risk premium models that, if corrected, corroborate Mr. Gorman's finding that a 9.2% ROE is appropriate for PacifiCorp in current market conditions. In fact, even with its errors, Dr. Hadaway's updated DCF analysis produced a range of 9.0% to 9.6%, which further supports Mr. Gorman's recommendation.[50/]

48/ Id. at 29:11-15.
49/ Gorman, TR. 201:13-202:19.
50/ Hadaway, Exh. No. SCH-10T at 23:2-3.

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One of the fundamental flaws of Dr. Hadaway's recommendation is his request that the Commission abandon its use of the DCF model. While admitting that the Commission typically relies on DCF methodology to set ROEs, Dr. Hadaway recommends that the Commission use the risk premium analysis on a stand-alone basis.[51/] As the Commission has noted, relying on Dr. Hadaway's risk premium alone would require the Commission to set an ROE based on spot interest rates captured at the moment Dr. Hadaway developed his risk premium analysis, rather than relying on the multiple data points used to develop the analyses in all five models presented by Mr. Gorman. Dr. Hadaway gives no convincing reason for the Commission to make a policy change based on such a shifting, short-term basis. He simply states that the DCF cannot reflect recent policy shifts or a recent uptick in interest rates.[52/] The fact that, contrary to Dr. Hadaway's predictions, the Federal Reserve did *not* change its monetary policy in September, and spot interest rates and bond yields have dropped significantly since his testimony, highlight the arbitrary and capricious nature of Dr. Hadaway's recommendation.[53/] Dr. Hadaway's recommended policy change is simply results oriented. The DCF model produces reliable results that correctly gauge the appetite of the market for utility stocks, and should not be abandoned by the Commission because it does not produce PacifiCorp's desired result.

51/ Hadaway, TR. 247:9-10.

52/ Hadaway, Exh. No. SCH-10T at 23:17-21.

53/ Michael P. Regan & Nick Taborek, *Stocks Rally With Treasuries, Gold, As Fed Resists Taper*, Bloomberg, Sept. 18, 2013, http://www.bloomberg.com/news/2013-09-17/asian-index-futures-rise-before-fed-as-crude-oil-rebounds.html.

A second important flaw is embedded in Dr. Hadaway's DCF model. Dr. Hadaway develops his DCF model using a GDP growth rate that is far higher than the consensus economists' projected GDP growth rate for the next five and ten years, and he reflects historic inflation levels, which are far higher than current and market-expected forward looking inflation.[54/] Though the Commission rejected his long-term GDP growth rate methodology in the last PacifiCorp rate case, Dr. Hadaway claims that because the Fed has signaled an end to monetary policies "designed to artificially hold interest rates low," the Commission should reverse itself and apply his model.[55/] Mr. Hadaway, thus, asks the Commission to pretend that it is setting rates in different market conditions that are "out of line and out of touch" with today's market.[56/] Properly corrected, Dr. Hadaway's DCF supports an ROE of no higher than 9.3%.[57/]

While Dr. Hadaway's updated DCF model supports Mr. Gorman's recommended ROE of 9.2% with or without proper correction, his risk premium analysis is extremely overstated. Dr. Hadaway's risk premium is flawed because he applies a simplistic regression analysis, and he relies on forecasted interest rates and volatile utility spreads that create errors and unreliable assumptions. As Mr. Gorman points out, Dr. Hadaway's claim that there is a direct, inverse relationship between interest rates and equity premiums is not supported by academic research.[58/] The relationship between these two rates has been found to change over

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54/ Gorman, Exh. No. MPG-1T at 45:14- 46:5.

55/ Hadaway, Exh. No. SCH-10T at 22:7-10; see WUTC v. PacifiCorp, Docket No. UE-100749, Order 06 at PP. 86-87 (March 25. 2011).

56/ Gorman, Exh. No. MPG-1T at 46:13-15.

57/ Id. at 47:17-19.

58/ Id. at 50:13-18.

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time, and the relationship is influenced by changes in investor perceptions of risk.[59/] Dr. Hadaway ignores the research, provides no statistical analysis of a simple inverse relationship, and says that because the relationship looks "obvious" when presented on a chart, it must be accurate.[60/] Applying such a simplistic adjustment, based on a relationship between interest rates and equity returns that may have existed in the past, but that ignores a multitude of other factors and the academic research, does not produce accurate or reliable risk premium results.[61/] When corrected, Dr. Hadaway's risk premium model produces a range of reasonable returns of 8.59% to 9.19%.[62/] As it has in the past, the Commission should again reject Dr. Hadaway's risk premium model analysis.

3. PacifiCorp's Capital Structure Should Be Optimized to Reduce Costs

27 A utility must manage its capital structure in order to balance dual obligations of minimizing the cost of capital while also maintaining financial integrity.[63/] Common equity is the most expensive source of capital, meaning that a capital structure utilizing excessive common equity will unduly inflate the cost of capital.[64/] On the other hand, debt capitalization decreases costs up until the point that over-leveraging prevents the company from accessing low cost capital.[65/]

[59/] Id.
[60/] Hadaway, Exh. No. SCH-10T at 19:18-21.
[61/] Gorman, Exh. No. MPG-1T at 51:12-16.
[62/] Id. at 52:2-5.
[63/] Id. at 15:12-16; Docket No. UE-100749, Order 06 at P. 21.
[64/] Gorman, Exh. No. MPG-1T at 15:17-16:2. Mr. Gorman notes that equity must be grossed up for income tax, meaning that the revenue requirement cost of equity at 9% is actually 14.5%, whereas interest coverage on debt (currently around 4.5%) is, conversely, tax deductible.
[65/] Id.

28 PacifiCorp requests the Commission to allow it to set rates using a capital structure of 52% common equity.[66/] This requested level does not optimize costs and is unnecessary. In at least its last two rate cases, the Commission has assigned PacifiCorp a hypothetical capital structure of 49.1% common equity, 50.6% long-term debt, and 0.3% preferred stock.[67/] The Commission should continue to use this capital structure for PacifiCorp because it supports PacifiCorp's current bond rating and is consistent with the Company's duty to optimize its capital structure to minimize costs.[68/] As Mr. Gorman notes, this capital structure has been used to set Washington rates for several years, and the credit ratings agencies have continued to assign a Stable credit outlook to PacifiCorp, meaning that this capital structure will continue to maintain its access to low cost capital.[69/] In fact, Moody's has pointed out that PacifiCorp had inflated its actual common equity component to approximately 53%, but Moody's expected the Company to continue paying dividends to manage the equity ratio at about 50%.[70/] This demonstrates that the actual capital structure is completely controlled by MEHC, and can be raised or lowered through payments (or non-payments) to MEHC.

29 PacifiCorp now asks the Commission to set rates using this inflated equity component of 52.51%. This is unreasonable, given that PacifiCorp's creditors expect the Company to manage its common equity at approximately 50%.[71/] PacifiCorp's high equity level is completely discretionary, and because it adds significantly to costs without providing any benefits, the Commission should decline to accept PacifiCorp's request to abandon the common

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66/ Williams, Exh. No. BNW-14T at 3:00-11.
67/ Gorman, Exh. No. MPG-1T at 14:12-14.
68/ Id.
69/ Id. at 13:3-7.
70/ Id. at 14:2-11.

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equity ratio that the Commission has been using for many years to set PacifiCorp's Washington rates.

30 Although Mr. Gorman and Staff witness Mr. Elgin take different approaches to reach their conclusions regarding PacifiCorp's capital structure, Messrs. Elgin and Gorman agree that PacifiCorp is not minimizing its cost of capital to maintain its financial integrity at the lowest cost to customers, but instead proposes an excessive capital structure that unnecessarily inflates the common equity ratio to increase PacifiCorp's profitability and cash flows.[72/] Continued use of PacifiCorp' currently authorized common equity ratio of 49.1% will reduce the revenue requirement in this case by $2.7 million.

4. Mr. Gorman's Proposed ROR will Support PacifiCorp's Financial Integrity and Access to Capital

31 After determining an appropriate cost of equity for PacifiCorp and recommending continued application of the Company's currently authorized capital structure, Mr. Gorman compared the resultant 7.25% ROR to S&P's benchmark financial ratios using S&P's new credit metric ranges.[73/] This cross check confirms that Mr. Gorman's overall recommended ROR will support an investment grade bond rating for PacifiCorp.[74/] S&P evaluates a utility's credit rating based on three primary financial ratio benchmarks, including: 1) Total Debt to Total Capital; 2) Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"); and 3)

71/ Id. at 13:5-14:11.

72/ Elgin, Exh. No. KLE-1T at 9:17-10:8.

73/ Gorman, Exh. No. MPG-1T at 40:4-6. This overall ROR was calculated using the Company's as-filed cost of debt. The Company states on rebuttal that favorable refinancing has reduced debt costs from 5.37% to 5.29%. See Williams, Exh. No. BNW-14T at 5:4-5. This demonstrates the benefits of the ongoing low capital cost environment.

74/ Gorman, Exh. No. MPG-1T at 42:9-43:2.

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Funds From Operations ("FFO") to Total Debt.[75] After adjusting for those Off-Balance Sheet Debt adjustments related to operating leases and power purchase agreements, Mr. Gorman found that the Company's debt ratio was approximately 52%, its EBITDA ratio was 3.2x, and its FFO to total debt coverage would be 24%.[76] Each of these credit metrics are supportive of PacifiCorp's current "A-" utility bond rating.[77]

32 PacifiCorp attempts to discredit Mr. Gorman by arguing that an "A-" would be a reduction from the Company's current bond rating.[78] At hearing, Mr. Gorman noted that PacifiCorp's claim was another attempt at distraction; the Company's unsecured bond rating is in fact "A-," and its secured, "A" rating will always be maintained at least one notch higher than the unsecured rating.[79]

33 Finally, on rebuttal, PacifiCorp revealed that it had refinanced some debt at lower interest rates.[80] These refinancings demonstrate the very favorable nature of current capital market conditions. Also, they reduce PacifiCorp's cost of debt to 5.29%. This change should be reflected in the rates adopted in this proceeding and further supports Mr. Gorman's recommendations on PacifiCorp's cost of capital.

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[75] Id. at 41:5-7.

[76] Id. at 42:9-21. Mr. Gorman notes that equity must be grossed up for income tax meaning that the revenue requirement cost of equity at 9% is actually 14.5%, whereas interest coverage on debt (currently around 4.5%) is, conversely, tax deductible.

[77] Id. at 43:1-3.

[78] Williams, Exh. No. BNW-14T at 17:11-12.

[79] Gorman, TR at 196:12-24

[80] Williams Exh. No. BNW-14T at 5:1-5.

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D. PacifiCorp's Net Power Costs Are Exaggerated and Unreasonable

34 PacifiCorp's selective, one-sided changes to the WCA: 1) shift risk to Washington ratepayers; 2) shift PacifiCorp's power costs in other jurisdictions to Washington ratepayers; and 3) create the potential for over-recovery among its jurisdictions.

1. QF Situs Allocation Should Remain in Effect

35 PacifiCorp seeks to increase its Washington allocated costs by over $10 million through the inclusion of the full costs of Oregon and California qualifying facilities ("QF") in Washington rates. The Public Utility Regulatory Policy Act of 1978 ("PURPA") mandates that utilities must purchase energy from QFs; however, PURPA leaves to each state the responsibility for determining how to calculate the avoided cost rates that utilities must pay for QF energy, and what policies will be implemented to govern QF sales.[81/]

36 In 2006, the Commission said, "[w]e cannot delegate our statutory responsibilities for determining prudence and protecting the interests of Washington ratepayers to other states . . . ."[82/] By requesting that the Commission accept and allocate to Washington customers the financial effects of the decisions and methodologies adopted by the Commissions in Oregon and California to implement PURPA, PacifiCorp asks the Commission to make just such a delegation. In addition, it asks the Commission to sanction an over-recovery of the costs of QF power in those states from Washington ratepayers.

81/ Gomez, Exh. No. DCG-1CT at 12:13-15.
82/ Docket Nos. UE-050684 and UE-050412, Order 04 at P. 55.

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a. The Commission Should Not Expose Washington Customers to Potential Harm From QF Pricing Policies in Other States

37 PURPA provides that each state must individually adopt policies controlling contracts between utilities and QFs. As a practical matter, QF contract pricing and contract terms are handled very differently in Washington than in Oregon or California.[83/] As currently adopted, the WCA provides that QF resources should be situs assigned, meaning that each state's ratepayers are responsible for paying the costs incurred through their own QF policies.[84/] This methodology prevents Washington consumers from being harmed by QF contract policies adopted in other states – policies over which Washington's ratepayers have no influence.[85/] PacifiCorp has pointed out that power flows occur between Washington and Oregon, meaning that some power from Oregon QFs may theoretically reach Washington customers (though the Company admitted it had not conducted a study to verify whether any Oregon or California QF power *actually* reaches Washington customers).[86/]

38 The WCA provides for market prices to be substituted as a proxy for the contract price of the power produced by these out-of-state QFs.[87/] There is no compelling reason to change this policy.

39 In addition, the states have different requirements regarding the size of the resource, the length of the contracts offered, and pricing policies.[88/] At hearing, Staff witness Mr. Gomez, illustrated that these policy differences are significant enough to create substantial

83/ Deen, Exh. No. MCD-1CT at 6:18-19.
84/ Id. at 7:5-9.
85/ Id.
86/ Duvall, TR. 296:22-23.
87/ Deen, Exh No. MCD-1CT at 7:5-6.
88/ Gomez, Exh. No. DCG-1CT at 10: 9-12.

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ratepayer impacts. For example, Mr. Gomez noted that Washington policy restricts the length of PacifiCorp's standardized QF contracts to five years, and restricts these contracts to facilities with nameplate ratings of 2 MW or less, while Oregon offers standard contracts with fixed pricing for up to 15 years for facilities with nameplate ratings as high as 10 megawatts.[89] As Mr. Gomez pointed out, if just three Oregon wind QFs identified in his testimony had been on QF contracts of the length favored by Washington policy, they could have been renewed during the past year at significantly lower rates, reducing WCA power costs by approximately $6.6 million.[90] Mr. Gomez' point illustrates that state policies have large cost impacts.

40 PacifiCorp claims that it must include an allocation of the costs of Oregon and California QF contracts in Washington rates because this would be a "logical extension of the WCA," and because not including incremental, politically derived costs of other states' contracts is allegedly contrary to PURPA.[91] This is patently false. PURPA does not mandate that the Commission of one state abdicate its duty to protect ratepayers and determine prudence in favor of the policy decisions of Commissions in other states. When questioned by Commissioner Jones, PacifiCorp admitted that PURPA only controlled the type of resource, size of resource, and "overall methodology."[92] Contrary to PacifiCorp's assertions, each state may implement its PURPA policy within the framework of the federal law.

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[89] Gomez, TR. 500:18-21; 502:16-19.
[90] Id. at 504:8-11.
[91] Duvall, TR at 299:13-16.
[92] Id.

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b. The Commission Should Not Sanction PacifiCorp's Over-Recovery Scheme

41 PacifiCorp makes the vague claim that the WCA "denies the company cost-recovery for resource acquisitions mandated by federal statute."[93/] Nonetheless, PacifiCorp never substantiates any claim of under-recovery. In fact, it appears that the Company is already over-recovering the costs of Washington QFs, and it now asks the Commission to extend its over-recovery to Oregon and California QFs. Under Washington's WCA allocation methodology, the costs of QFs are situs assigned by state.[94/] This means that Washington ratepayers pay the full cost of these Washington resources. Despite this recovery, PacifiCorp is also allocating the costs of Washington's QFs to each of the other five states it serves.[95/] Thus, it appears PacifiCorp is already over-recovering some of the costs of Washington QFs. It now attempts to use its unique multi-jurisdictional status to seek to over-recover an additional $10.7 from Washington ratepayers related to Oregon and California QFs.

42 Mr. Duvall states that in the "Company's other five state jurisdictions, all QF contracts are treated as system resources and allocated system-wide."[96/] This means that, because Washington, the only state that has not adopted the Revised Protocol, represents about 7% of the Company's operations, 93% of the costs of the Oregon and California QF Contracts are already being recovered from other states.[97/] Now, PacifiCorp seeks to allocate to Washington 22.6% of these same QF Contracts, on the theory that Washington represents a

93/ Duvall, Exh. No. GND-1CT at 6.
94/ Deen, Exh. No. MCD-1CT at 6:18-23.
95/ Duvall, Exh. No. GND-7CT at 22:5-8.
96/ Duvall, Exh. No. GND-1CT at 7:12-14.
97/ Williams, TR. 261:5; Duvall, Exh. No. GND-1CT at 7:12-14.

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22.6% share of the WCA.[98] If the Commission were to implement PacifiCorp's new allocation method, the Company would over-recover the cost of these contracts. The Commission should decline to extend this over-recovery at the expense of Washington customers.

43 It is telling that through direct testimony, rebuttal testimony, and an evidentiary hearing, PacifiCorp has never made an assertion of an amount by which it is under-recovering the costs of the Oregon and California QF contracts. Rather, Mr. Duvall's testimony is limited to vague assertions about the spirit of PURPA and policy statements that have no bearing on whether or not PacifiCorp should recover the cost of these contracts twice.

44 To the extent the Company were to make any showing of under-recovery of Oregon and California QF costs because of different allocation methodologies in its various jurisdictions, PacifiCorp has accepted and must bear that risk. As the Commission noted in Order 04 of the Company's 2005 GRC:

> The Company claims that it is entitled to full recovery of its prudently incurred costs systemwide, and should not bear the risk that state decisions about cost recovery will not, in combination, ensure this entitlement . . . In fact, the company created and accepted the risk that divergent allocation decisions among the states might result in under-recovery when it chose to merge 20 years ago . . . In short, any claim of entitlement to a uniform allocation methodology among states is inconsistent with the "deal" the Company agreed to in the merger.[99]

Thus, the Company has agreed, and the Commission has affirmed, that any risk of under-recovery caused by divergent allocation methodologies lies with the Company alone. While the Company has not demonstrated that it is under-recovering QF costs, even if it were, it has no entitlement to such recovery. Likewise, it is improper and unconscionable that the Company

[98] Gomez, Exh. No. DCG-1CT at 9:7-10.

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now wishes to use the alleged gaps between allocation methods to charge an additional $10 million to Washington ratepayers.

45 PacifiCorp's attempt to over-recover QF costs also demonstrates that it would be bad policy to accept piecemeal changes to the WCA. If the Company is allowed to make selective changes to the WCA without a comprehensive review by the Commission of how these changes will affect Washington ratepayers, there is no way to know whether the resulting rates will be just and reasonable.

2. DC Intertie/NOB Costs Should Not Be Added to Rates

46 Among its many attempts to maximize rate recovery without a corresponding benefit to ratepayers, the Company has resurrected a past proposal that the Commission has already considered and rejected. In 2010, the Commission disallowed inclusion of costs related to the DC Intertie, a defunct transmission entitlement that no longer serves its purpose of importing over 200 MW of energy into Oregon from California.[100/] The Commission stated that it might be appropriate, in the future, for the Company to retire the transmission contract and write its costs off of the books.[101/] Instead, the Company again asks that the costs be put into rates. However, as Mr. Deen and Staff witness Mr. Gomez correctly point out, the Company has not justified its request that the Commission reverse its prior order excluding the DC Intertie from rates.[102/]

99/ Docket Nos. UE-050684 and UE-050412, Order 04 at P. 56.
100/ Duvall, Exh. No. GND-7CT at 42:11-15.
101/ Docket No. 100749, Order 06 at P.145.
102/ Deen, Exh. No. MCD-1CT at 6:8-14; Gomez, Exh. No. DCG-1CT at 21:11-13.

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47 Mr. Duvall asserts that the Commission disallowed the costs of the DC Intertie "because it was not included in GRID."[103/] This is incomplete and misleading. In fact, in 2010 Staff called for the disallowance of the DC Intertie because the capacity was not likely to be used by the Company in any significant manner to benefit customers; the fact that it was not modeled in GRID was simply corroborating evidence.[104/] Now, Mr. Duvall appears to believe that because the Company updated the GRID topology to include the DC Intertie in its models, the Commission should change its mind, despite the fact that PacifiCorp has not testified that it has changed how it *uses* the DC Intertie.[105/] Again, the Company has unilaterally changed its modeling parameters in a manner targeted to produce more costs without correspondingly increased benefits to customers.

48 While the burden of proof does not lie with Boise or with Staff, it is worth noting that Staff testifies that the majority of the DC Intertie's power flow is to the south, moving lower-cost power from the Northwest into the southwest and California.[106/] In response to the Commission's disallowance in the 2010 rate case, the Company has modeled a de minimis import of approximately 27,000 megawatt hours ("MWh"), or 0.14% of the Washington jurisdictional requirement, in a bald attempt to add over $1 million to rates through modeling, rather than because of increased costs or value to ratepayers.

103/ Duvall, Exh. No. GND-7CT at 43:16-17.

104/ Docket No. 100749, Order 06 at P.145.

105/ Rather, PacifiCorp now claims that its use of DC Intertie has remained consistent for at least the last five years, in apparent contradiction of the record in the 2010 GRC. Duvall, Exh. No. GND-7CT at 44.

106/ Gomez, Exh. No. DCG-1CT at 20.

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3. GRID Market Caps Should Be Removed

49 PacifiCorp's GRID model, as presented in its filing, inflates the Company's revenue requirement by under-estimating the amount of energy that the Company is likely to sell off-system. The goal of power supply modeling should be to accurately project the costs and revenues that the Company will experience during the rate-effective year. PacifiCorp includes modeling restrictions that incorrectly under-estimate the sales that the Company has historically achieved, and should be expected to achieve in the rate-effective year.[107]

50 Like other electric utilities, PacifiCorp offsets its overall net power costs by engaging in short-term sales at each of the market hubs to which it has transmission access. Unlike any other Northwest utility, however, PacifiCorp places caps on the potential market sales in its power cost model.[108] PacifiCorp limits only the amount of profitable market sales that it can make, but does not impose any limitations or caps on the amount of costly market purchases that can be made in GRID.[109] This is simply unbalanced in favor of the Company.

51 PacifiCorp's market caps limit the Company's ability to sell power based on the average energy sold over the entire monthly peak or off-peak period for PacifiCorp's last four years. This "average of the averages" limitation is applied to every hour of the test period modeling, resulting in many hours in the historical period in which the actual sales exceeded the average sales value for a particular time interval.[110]

52 The market caps increase net power costs because they systematically result in GRID unrealistically cutting off sales that are higher than average. The market caps are set

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[107] Deen, Exh. No. MCD-1CT at 12:21-23.
[108] Id. at 12:23-13-2.
[109] Id. at 11:22-24.

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using monthly sales averages that include hours in which there were minimal or no transactions. This restricts or "caps" the level of modeled sales far "below the levels that the Company has achieved historically."[111/] This results in profitable sales levels that are abnormally lower than historic actuals, because the market caps "ignore the size of actual hourly transactions the Company has executed at each hub."[112/]

53 PacifiCorp makes the claim that market caps are necessary because "GRID would allow sales at every market at any time of the day or night until transmission or generation constraints are met."[113/] PacifiCorp paints a picture in which, without caps, its own economic dispatch model would run amok, over-dispatching generation, imputing economic sales, and lowering customer rates to the detriment of shareholders. In fact, market caps are not needed to prevent GRID from assuming that PacifiCorp will make unlimited short-term sales. The GRID model contains limitations that already constrain market sales, including the amount of energy PacifiCorp's resources can physically produce and wheeling limitations.[114/]

54 Further, the relative liquidity of each market is implicit in the forward price curves generated by GRID for each hub.[115/] This means that, although GRID's prices are static, GRID prices are based on PacifiCorp's forward price curves, which by definition include the market's expectation of available supply and demand at the hub at each hour. The forward price curves, which account for liquidity, in combination with wheeling constraints and the cost and nature of PacifiCorp's generation resources act as appropriate constraints on the number of

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110/ Id. at 11:26-12:3.
111/ Id. at 12:19.
112/ Id. at 12:19-20.
113/ Duvall, Exh. No. GND-7CT at 30:9-10.
114/ Deen, Exh. No. MCD-ICT at 14:24-15:2.

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transactions simulated at each hub. To the extent that GRID is able to more efficiently balance the system on an hourly basis through the use of balancing sales, the model is working properly and should not be cut off artificially.

55 PacifiCorp spends much time arguing that removing market caps results in additional sales at California Oregon Border ("COB"), a less active hub than the Mid-C. This is not relevant. Even though removing market caps increases the number of COB transactions during the test period, the overall level of off-system sales remains well below PacifiCorp's historic averages. This means that, while PacifiCorp's model may not work perfectly, removing the caps still understates the overall level of transactions PacifiCorp regularly engages in.[116/] In the 48-month historical period, PacifiCorp achieved annual sales at COB and Mid-C of [redacted] MWh, yet with market caps, GRID simulates [redacted] MWh.[117/] With market caps removed, GRID still only simulates a total of [redacted] MWh, still far below the amount of sales the Company can expect to make during the rate year.[118/] This adjustment reduces the revenue requirement by $2.9 million.

56 PacifiCorp presented no evidence that COB or Mid-C hubs are illiquid, or that the transactions GRID models without market caps are not economically feasible. Mr. Deen's analysis demonstrates that all of the market hubs have robust trading in the real time market and that "PacifiCorp's trading activity represents a small percentage of the total market activity."[119/]

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115 Deen, TR. 543:16-24.
116/ Deen, Exh. No. MCD-1CT at 12:6-13:3.
117/ Id. at 12:7-9.
118/ Id. at 12:10-11.
119/ Id. at 14:16-18.

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57 PacifiCorp originally argued to the Utah Public Service Commission ("Utah Commission") that "the *entire point* of the caps is to ensure a reasonable amount of coal generation is included in normalized net power costs."[120] Now the Company argues that the removal of market caps increases GRID's model of coal generation above the 48-month average.[121] Mr. Deen acknowledges that a small increase in coal generation occurs, but this increase still stays within PacifiCorp's historic norms.[122] Such a minimal increase is a far more reasonable result than projecting sales at a level far less than their historic average.

58 Each year, as PacifiCorp transacts far more off-system sales than modeled, the Company and its shareholders retain the profit. The benefit the Company receives is yet another component of regulatory lag – that function of ratemaking wherein the utility acts as a buffer, and is paid a return on equity as compensation for performing this function. Without market caps, GRID will model more off-system sales, but these sales will still fall well short of PacifiCorp's historical average, meaning that the Company's regulatory lag windfall will persist, but it will be reduced. Ironically, PacifiCorp wishes to eliminate all regulatory lag that has benefitted customers, but opposes Boise's economically sound, empirically supported adjustments that may somewhat reduce the regulatory lag that benefits the Company.

59 If the Commission determines that some market caps should be maintained, Boise recommends that the Commission adopt a market cap based on the highest of the four years of historical data for a given monthly period, rather than the average of four values.[123] This

120/ Re Rocky Mountain Power, Utah Commission Docket No. 09-035-23, Report and Order at 26 (Feb. 18, 2010) (emphasis added).
121/ Duvall, Exh. No. GND-7CT at 39:22-40:2.
122/ Deen, Exh. No. MCD-1CT at 15:11-13.
123/ Id. at 17:8-11.

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approach, which was suggested by the Oregon Commission Staff, and adopted by the Oregon Commission, would reduce the revenue requirement by $1.2 million, and would move the Company's power cost modeling somewhat closer to the Company's actual yearly sales level.[124/]

4. Bridger 2 Heat Rate Improvements Should Be Included In Rates

60 PacifiCorp is seeking to include the Bridger 2 turbine upgrade into rates despite the fact that this project falls outside the test year. If the Commission allows the Bridger upgrade to be included in rates, then the Commission should make a conservative change to the Jim Bridger 2 unit heat rate to reflect the efficiency upgrades, as suggested by Mr. Deen.[125/]

61 PacifiCorp does not dispute that there will be net power cost benefits associated with the upgrades, but asserts that Mr. Deen's calculations of the efficiency upgrades are difficult to quantify, will eventually be reflected in rates over time, and are inconsistent with retired witness Randy Falkenberg's testimony on behalf of the Industrial Customers of Northwest Utilities ("ICNU") in an unrelated 2010 Oregon rate case. Mr. Deen's recommended heat rate improvement adjustment should be adopted because it is reasonable, based on comparable upgrades at the Bridger unit 1 facility, and [redacted]. Failure to include the efficiency improvements in rates now is inequitable. Customers should not be forced to bear the costs without including some measure of the benefits.

124/ Id. at 12:11-13; 17:19-21.
125/ Id. at 18:14-16.

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a. Boise's Heat Rate Adjustment Is a Conservative Estimate of the Net Power Cost Benefits Associated with Jim Bridger 2 Upgrade

62 PacifiCorp's turbine upgrade at its Jim Bridger 2 facility went into service in May 2013.[126] The turbine upgrade's total estimated cost is approximately $31 million, which will be paid for by PacifiCorp's ratepayers, including its Washington customers.[127] The main benefit of the upgrade is that it will increase Bridger's generating capacity by about 12 MWs with no additional fuel requirements.[128] The Company's Jim Bridger Project Proposal ("Project Proposal"), included in redacted Bench Exhibit-5, states that the turbine upgrade contract includes a guarantee by the Contractor that the project will produce a minimum of 417 BTU/kWh efficiency improvement, and the contractor has agreed to pay liquidated damages to the Company if this conservative, minimum heat rate improvement is not met or exceeded.[129]

63 PacifiCorp witness Dana Ralston provided a full description of the costs and benefits associated with the turbine upgrade, claiming that PacifiCorp estimates that the upgrade will result in an approximately 500 BTU/kWh efficiency improvement.[130] PacifiCorp's estimated efficiency improvement in the Jim Bridger 2 unit is based upon the efficiency upgrades that occurred at the Jim Bridger 1 unit, which the Company stated "are of similar design, capacity and size."[131] Mr. Deen agreed that the units were comparable, and reviewed the Jim Bridger 1 operations before and after its upgrades. Mr. Deen then proposed that the average heat rate for the Jim Bridger 1 unit be used to estimate the efficiency improvements of the Jim

[126] Id. at 18:5.
[127] Id. at 17: 25-18:7.
[128] Id. at 18: 1-2.
[129] Exh. No. B-5 at Project Proposal, 8 (please note that the Company did not paginate the documents contained in Exhibit B-5 sequentially).
[130] Ralston, Exh. No. DMR-1T at 2-5.
[131] Deen, Exh. No. MCD-1T at 18:17-24; Deen, Exh. No. MCD-7 (PacifiCorp Response to ICNU DR 2.3).

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Bridger 2 unit.[132/] [redacted] This is consonant with the Company's Project Proposal, which states that the guaranteed performance increase of 417 btu/kWh "is justified by the experience of similar new technology turbine upgrades."[133/]

64 PacifiCorp traditionally estimates the heat rates in its GRID model based on the most recent 48-month period.[134/] Mr. Deen testified that:

> [U]nder PacifiCorp's method, customers do not see the full benefit of that improvement because using the date from the months back to July 2008 dilutes the improvement. Indeed, customers will not see the full improvement due to the turbine upgrade put in service during 2010 until 2015, all the while paying the costs through rates.[135/]

If customers must begin paying for the upgrade now, the net power cost impact improvements must also be reflected in rates. While PacifiCorp's use of a 48-month average heat rate may be generally appropriate to reflect the gradual decline of unit efficiency, it is not appropriate when a known and measurable change occurs. This change is sufficiently known and measurable that the Company's contractor was willing to be held financially responsible if a heat rate increase of at least 417 btu/kWh does not occur. By waiting to credit customers with this known benefit, PacifiCorp wishes to *include* regulatory lag in rates because it benefits the Company, despite a measurable, reliable change in costs.

132/ Deen, Exh. No. MCD-1T at 19:1-20:20.
133/ Exh. No. B-5 at Project Proposal, 8.
134/ Deen, Exh. No. MCD-1T at 19:21-22.
135/ Id. at 20:11-15.

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b. The Commission Should Reject PacifiCorp's Efforts to Not Account for the Full Net Power Cost Benefits of the Bridger 2 Unit Upgrade

65 PacifiCorp witness Greg Duvall argues that the Company's 48-month period for calculating heat rates should be retained because it is difficult to quantify what changes will occur.[136/] This is hardly credible, given that PacifiCorp must be financially compensated by its contractor if it is not achieving a heat rate increase of at least 417 btu/kWh.[137/]

66 PacifiCorp's prime example of the difficulty related to estimating heat rate changes is a scrubber installation at the Bridger unit 3 in 2011.[138/] This is important because scrubber installations are more difficult and complex upgrades to quantify. In contrast, Mr. Deen's recommendation is based on a similar turbine upgrade at Jim Bridger 1 that the Company agrees is comparable, and Mr. Deen used PacifiCorp's own numbers to estimate a heat rate improvement of [redacted] 500 BTU/kWh estimated improvement.[139/] Notably, Mr. Duvall does not contradict the Company's own [redacted] numbers for the Bridger 2 unit heat rate improvement, nor does he provide a different estimate. Indeed, if the Company is not experiencing at least a 417 btu/kWh increase, it should have produced evidence that it is being compensated by the contractor through liquidated damages.

67 Mr. Duvall also argues that a normalized four-year average should be used, rather than more recent information, because it will eventually include the Bridger 2 improvements over time, and a longer time period will better account for a broader range of operations.[140/] The normalized 48-month period is not appropriate here since it is known that the unit's operation

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136/ See Duvall, Exh. No. GND-7CT at 47:13-48:10.

137/ Exh. No. B-5 at Project Proposal, 8.

138/ Duvall, Exh. No. GND-7CT at 48:3-10.

139/ Deen, Exh. No. MCD-1CT at 19:1-20:20; Ralston, Exh. No. DMR-1T at 5:12-13.

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and output has changed.[141/] Without Mr. Deen's adjustment, there will be no efficiency improvements to the heat rate in this case and it will take until at least 2015 for customers to see the benefits of the upgrade for which they will likely be paying now. PacifiCorp, meanwhile, will either enjoy the benefits of the heat rate increase, or be compensated by the contractor if the upgrade does not reach its minimum, guaranteed heat rate improvement level. Alternatively, to remain fair and balanced, the Commission could exclude the costs of the Bridger 2 upgrade until the next rate case.

68 Mr. Duvall also asserts that Mr. Deen's recommendation is inconsistent with the position of former ICNU witness Mr. Falkenberg, who opposed accounting for reduced heat rates due to the installation of emissions controls in an Oregon case.[142/] The Company distorts Mr. Falkenberg's prior testimony. Mr. Falkenberg opposed changed heat rates and supported use of the 48 month approach in the Oregon case because the Company had incorrectly modeled heat rate changes, repeatedly corrected errors in its calculations of heat rate changes over the course of cases, and failed to consider all of the impacts of scrubber investments on unit performance.[143/] These changes were not reliably measurable. In contrast, Mr. Deen's recommendations are based on the uncontested fact that there will be a heat rate improvement at Jim Bridger 2, and it is based on a conservative estimate of efficiency improvements supported by observable evidence from a similar unit at the same plant, using the same justification that the Company itself included in its Project Proposal. There is no inconsistency.

140/ Duvall, Exh. No. GND-7CT at 49:1-7.
141/ Deen, Exh. No. MCD-1CT at 18:17-20:15.
142/ Duvall, Exh. No. GND-7CT at 48: 11-22.
143/ Re PacifiCorp, Oregon Docket No. UE 216, ICNU/100, Falkenberg/52:10-55:3 (May 12, 2010).

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69 Finally, the Company argues that Mr. Deen's adjustments should not be made because Mr. Deen did not recommend that reduced heat rates for the Bridger 3 unit be accounted for due to scrubber upgrades. As previously explained by Mr. Duvall in this case and Mr. Falkenberg in the Oregon case, scrubber upgrades are complex and include numerous offsetting factors that make them difficult to quantify.[144/] It would also be procedurally inappropriate for the Commission to consider the issue of scrubber upgrades at the Bridger 3 unit because PacifiCorp did not raise this issue in direct testimony and Boise did not have an opportunity to submit responsive testimony on the factual and policy reasons regarding whether they should be accounted for. In rejecting a similar Puget Sound Energy, Inc. ("PSE") effort to expand the effect of Mr. Deen's correction to thermal plant operations, the Commission explained:

> The Company's testimony on rebuttal concerning a broader set of changed operating conditions is too little, too late. If relevant to the determination of PSE's power costs, the information should have been brought to our attention in the Company's direct case . . . PSE's late and thinly supported presentation of updates to other generation characteristics is not convincing and does not provide adequate time for review.[145/]

Therefore, PacifiCorp has failed to provide any legitimate basis to reject Mr. Deen's recommended known and measurable heat rate improvement that uses the Company's own uncontroverted data. Mr. Deen's recommended adjustment [redacted] the minimum guaranteed by the contract and the company's own projection. The Commission should adopt this conservative adjustment.

144/ Duvall, Exh. No. GND-7CT at 48: 2-10; Docket No. UE 216, ICNU/100, Falkenberg/53:9-55:3.
145/ PSE v. WUTC, Docket Nos. UE-111048 and UG-111049, Order 08 at P. 263 (May 7, 2012).

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5. Bridger Coal Costs Should Be Reduced

70 Boise recommends a $4.3 million reduction to the Washington revenue requirement associated with the fuel costs for the Jim Bridger coal generation plant. Company Vice President Cindy A. Crane testifies that the Bridger Coal Company ("BCC") supplies nearly two-thirds of the Jim Bridger plant's coal requirements, and PacifiCorp itself owns a two-thirds majority interest in BCC.[146/] The remainder of Jim Bridger coal is purchased under contract from a non-affiliated market source, referred to as the "Black Butte Contract."[147/] The Black Butte Contract was obtained through a market solicitation and includes price escalations tied to third-party cost indices; therefore, it represents a fair and current market value each year.[148/] The price of BCC coal is significantly higher than coal procured at market cost under the Black Butte Contract, meaning that PacifiCorp is seeking to recover fuel costs for the Jim Bridger plant that are well above market rates. This is improper because as a condition of the merger between PacifiCorp and its corporate parent, MidAmerican, PacifiCorp committed to use the lower of actual or market pricing for costs charged by corporate affiliates such as BCC.[149/]

71 This agreement was contained within Washington Commitment 12, which provides: "MEHC and PacifiCorp agree to use asymmetrical pricing for affiliate charges or costs . . . if a readily identifiable market for the goods, services or assets exists, and if the transaction involves a cost of more than $500,000."[150/] Asymmetrical pricing has been defined by the

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146/ Crane, Exh. No. CAC-1CT at 4:8-9, 7:5-6.
147/ Id. at 7:6-8.
148/ Deen, Exh. No. MCD-1CT at 22:15-19.
149/ Re MEHC and PacifiCorp, Docket No. UE-051090, Order 08 at App. A, p. 16 (Mar. 10, 2006) (Commitment Wa. 12).
150/ Id.

Commission as the "lower of cost or market for transactions to" a utility from an affiliate.[151] It is uncontroverted that Black Butte coal is less expensive than BCC coal and that at least some additional excess production capacity for 2014 is available from the Black Butte mine.[152] It is uncontested that BCC coal represents an affiliate transaction, [redacted], and that Black Butte coal represents a fair, current market value for a product readily available to the Company. Therefore, PacifiCorp is bound, pursuant to its Merger Agreement 12, to use the Black Butte costs for BCC coal.

72 In order to properly adjust the BCC pricing that was included in the Company's filing, Mr. Deen accounted for "the differences in heat rates between the coal sources as well as the return on investment that the Company earns from the rate base treatment of BCC assets . . ."[153] Mr. Deen also accepts an additional adjustment noted in the Company's rebuttal testimony to account for the deferred tax impact on the Company's return on investment.[154] As a result of these adjustments, there is a [redacted] per ton difference between the actual cost of [redacted] per ton for BBC coal and the [redacted] per ton market cost of Black Butte coal. Adjusting the price of BBC coal in accordance with the Company's commitment to asymmetrical pricing will lower the revenue requirement by $4.3 million.

73 PacifiCorp witness Ms. Crane objects that "[f]or several decades the Commission has applied a cost-based approach instead of Washington Commitment 12 in approving the transfer price."[155] This argument about the Company's practices decades ago makes little sense,

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[151] Re Avista Corp., Docket No. U-060273, Order 03 at P. 11 (Feb. 28, 2007).
[152] Crane, Exh. No. CAC-1T at 8:10-12.
[153] Deen, Exh. No. MCD-1CT at 22:23-25.
[154] Crane, Exh. No. CAC-1CT at 10:1-5.
[155] Id. at 6:11-12 (emphasis added).

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given that Commitment 12 was made in 2006 in order to gain Commission approval of the MEHC merger. To the extent that PacifiCorp has failed to abide by its commitment since its 2006 merger, there is all the more reason for the Commission to require that the Company live up to its promises. As the Commission previously stated, asymmetrical pricing "means that the utility ratepayers *always* achieve the best price for transactions between" a utility and its affiliate.[156/] The Commission has previously rejected application of a simple cost-based standard in Wa. Natural Gas, finding that when market price was "substantially lower . . . ratepayers should not be required to support a company's purchases from an affiliate at a price greater than the company would pay for comparable supply on the open market."[157/] PacifiCorp's simplistic insistence upon a cost-based-only standard for BCC affiliate transactions is unfair, self-interested, and contrary to Commission precedent. The Commission should reduce the revenue requirement in this case by $4.3 million and require the Company to live up to its merger commitments.

E. WCA Allocation Factors Should Not Be Adjusted

74 The Commission should not accept the Company's proposal to selectively change some WCA methodologies without a comprehensive review of the allocation method. PacifiCorp has proposed changing the calculation of the Control Area Generation West ("CAGW") allocation factor to increase the level of generation costs allocated to Washington under the WCA.[158/] PacifiCorp's proposed change would adjust the CAGW allocation factor

156/ Docket No. U-060273, Order 03 at P. 19 (emphasis added).

157/ WUTC. v. Wash. Nat'l Gas Co., Docket Nos. UG-911236 and UG-911270, Third Suppl. Order, 1992 Wash. UTC LEXIS 96 at *11.

158/ Deen, Exh. No. MCD-1T at 5:15-20. The CAGW allocation factor assigns weighted ratios to generation costs for demand and energy. See White, Exh. No. KAW-1CT at 10:14-12:14.

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from the 75/25 ratio agreed to by all parties when the WCA was adopted in 2006[159/] to a 38/62 factor that would increase the level of generation costs allocated to Washington customers by $0.8 million.[160/] This change is inappropriate because it: 1) permits the Company to selectively modify the WCA without the benefit of a comprehensive Commission review; and 2) replaces a CAGW allocation factor with a load factor from a controversial cost of service study that has not been approved by the Commission.

75 Despite the efforts of parties during a year-long collaborative process, the parties have been unable to reach consensus on a comprehensive replacement for the WCA. Boise believes the WCA has worked well and should continue to be utilized by the Washington Commission. PacifiCorp filed its case using a number of selective changes to the WCA that conflict with the Commission's Order accepting the WCA. In this case, the Company has abandoned the 75/25 allocation factor that the parties were able to agree to in 2006, and unilaterally replaced it with the 38/62 factor drawn from its cost of service study.[161/] However, while the parties to this case used the proposed cost of service study for the purpose of settling rate design and rate spread issues, the parties explicitly did not accept the cost of service study as accurate or appropriate.[162/] In fact, in relying on the cost of service study for the limited purpose of reaching a negotiated settlement, each party explicitly reserved the "ability to litigate cost of service principles, applications and consequences in any future PacifiCorp rate proceeding," and

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[159/] This allocation factor was proposed by Mr. Falkenberg, an expert witness for ICNU. In rebuttal, PacifiCorp agreed to the adjustment. See WUTC v. PacifiCorp, UE-061546, Wrigley, Exh. No. PMW-6T at 4:11-15.

[160/] Deen, Exh. No. MCD-1CT at 5:18-20.

[161/] While many issues related to the adoption of the WCA were contested, PacifiCorp, Staff, Public Counsel, and the Industrial Customers of Northwest Utilities ("ICNU") all supported the 75/25 CAGW allocation factor adjustment to the original WCA, which the Commission adopted in 2006.

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PacifiCorp is required by the Settlement Agreement to replace the cost of service study in its next rate case.[163/] Thus, even if it were appropriate for PacifiCorp to unilaterally pick and choose elements of the WCA that it would like to modify in order to increase its allocation of costs to Washington customers, it would not be appropriate to replace an allocation factor that was carefully developed, supported by testimony, and endorsed by the Commission with a load factor that has not been accepted and that must be replaced by the next general rate case.

76 As with PacifiCorp's proposed change to QF situs methodology and the DC Intertie, the Company has proposed discreet, selective, and unsupported changes to the WCA that should not be accepted in the absence of a full review of the WCA by the Commission. Given that no such review has taken place, and given that Staff has begun to participate in the multistate process that is attempting to develop an allocation methodology that might be acceptable to all of PacifiCorp's jurisdictions, these harmful, unsupported changes should not be adopted now.

F. No PCAM Should be Adopted At This Time

77 PacifiCorp has not demonstrated a need for a PCAM, because it has not shown that it faces unusual or unacceptable variation in power costs. To the extent that any PCAM were to be adopted, the Commission should reject the one-sided mechanism proposed by PacifiCorp because it is unfair to consumers and fails to follow the basic guidance the Commission has given the Company for PCAMs.

162/ Partial Settlement Regarding Cost of Service, Rate Spread, and Rate Design at P. 18 (August 21, 2013) ("Partial Settlement).

163/ Joint Testimony in Support of Partial Settlement, Exh. No. JT-1T at 3:2-7; 6:8-9.

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1. PacifiCorp Has Not Demonstrated the Need for PCAM

78 The Commission has previously clarified that the purpose of a PCAM is to "recognize variability in the cost of operating *existing* power supply resources as a result of abnormal weather conditions that are out of a utility's control."[164/] Such a mechanism may also capture abnormal or unprecedented volatility in energy markets, but must be tailored to address short-run cost changes due to extraordinary or unusual events.[165/] PacifiCorp has not demonstrated that it has suffered from extraordinary or unusual events, nor has it demonstrated that it is likely to. Instead, the Company relies on two justifications for requesting a PCAM: 1) it has under-recovered NPC relative to the NPC embedded in rates between 2007 and 2011, and 2) its increased reliance on wind and natural gas generation, in compliance with Washington state policy, has increased its power cost variability.

79 Neither of these arguments justifies adoption of a PCAM. Actual NPC always varies from normalized NPC for many reasons, including weather, load, market prices and resource performance.[166/] These events are not abnormal, unusual, or extraordinary. In its Order 03, rejecting PacifiCorp's last PCAM proposal, the Commission noted: "the record does not show that current power cost volatility is due to extraordinary events."[167/] The current record is likewise devoid of such evidence. To the extent that PacifiCorp might under-recover (or over-recover) its power costs between rate cases, in the absence of evidence of extraordinary or abnormal conditions, a PCAM is not an appropriate response.

164/ Docket Nos. UE-050684 and UE-050412, Order 03 at P. 91 (emphasis in original).
165/ Id. P. 92.
166/ Deen, Exh. No. MCD-1CT at 25:20-22.
167/ WUTC v. PacifiCorp, Docket Nos. UE-050684 and UE-050412, Order 03 at P. 92 (April 17, 2006).

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80 PacifiCorp claims that compliance with Washington State RFP requirements is increasing its power cost variability. This argument fails to support adoption of a PCAM for two reasons. First, wind integration costs can be reasonably forecasted on a normalized, annual basis, and, indeed, the Company's power cost forecast includes wind integration costs based on its 2012 Wind Integration Study.[168/] Based on this "extensive study," the Company states that it believes that it has modeled sufficient reserve levels to properly integrate its wind generation, and it has proposed integration costs approximately $3.13 per MWh of wind generation.[169/] If the Company did not believe that its proposal would recover wind integration costs, it should have proposed different normalized figures rather than a PCAM, which is intended for abnormal costs that, by definition, cannot be normalized.

81 In a similar situation, the Commission rejected proposals by PSE to modify that utility's power cost adjustment in a manner that would shift the risk of hydropower variability to customers. In that case, the Commission affirmed that a PCAM is intended to protect a company from extreme variations, such as occurred in the 2001-2002 energy crisis, or serious drought.[170/] The Commission noted that a PCAM should not account for normal fluctuations in hydropower.[171/] The evidence in this docket demonstrates that wind energy variability is similar to, and should be treated like, fluctuations in hydropower.[172/] In fact, the Company accepted one of Mr. Deen's adjustments that was based on this evidence.[173/] Wind variability, like hydro

[168/] Deen, Exh. No. MCD-1CT at 26:17-27:9.
[169/] Id. at 27.
[170/] Docket Nos. UE-060266 and UG-060267, Order 08 at P. 20.
[171/] Id.
[172/] Deen, Exh. No. MCD-1CT at 9:12-24.
[173/] Duvall, Exh. No. GND-7CT at 11:7-8.

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variability, should not be captured by a PCAM. The Commission has made clear that addressing such normal variations is not the function of a PCAM.

82 In addition, while PacifiCorp claims that its increasing reliance on wind generation is creating greater variability, the evidence in this case does not support this claim. On page 26 of his Responsive Testimony, Mr. Deen presents a chart that demonstrates that PacifiCorp's power cost variability actually decreased significantly over the period of 2007 through 2011, during which the Company claims that it has under-recovered power costs:

	2007	2008	2009	2010	2011
In Rates	$91,233	$92,542	$95,704	$109,062	$115,956
Actual NPC	$106,817	$111,496	$107,667	$110,475	$122,680
Difference	$15,584	$18,954	$11,963	$1,413	$6,724
% Variance	17%	20%	13%	1%	6%

83 As demonstrated by the chart, in recent years, PacifiCorp's power cost variability has dramatically dropped, despite the steady increase in the amount of wind generation utilized by the Company over this period. PacifiCorp has provided no evidence of increasing variability, nor of any abnormal nor extraordinary variations in power costs that justify adoption of a PCAM.

2. PacifiCorp's PCAM Ignores Commission Guidance and Does Not Share Risk

84 At the time it rejected PacifiCorp's last PCAM proposal, the Commission stated that the previous PCAM was deficient because "[t]he 90/10 sharing band and the absence of a deadband do not adequately balance risks and benefits between shareholders and ratepayers . . . ."[174/] The Commission explained in that Order that "[d]eadbands and sharing bands are useful mechanisms, not only to allocate risk, but to motivate management to effectively manage or even

[174/] Docket Nos. UE-050684 and UE-050412, Order 03 at P. 99.

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reduce power costs."[175] PacifiCorp's current proposal departs even further from the Commission's standards than did the last rejected power cost proposal. In this case, the Company has again proposed no deadband, and it removed even the 90/10 sharing band, which the Commission had already found insufficient to protect customers. In other words, after the Commission found that the Company was proposing to shift too much risk to ratepayers in PacifiCorp's last PCAM proposal, the Company returned with an even more lopsided mechanism that transfers *all* power cost risk to customers and eliminates management incentives to control or lower power costs.[176] In the absence of sharing bands and deadbands, the PCAM would recover all variation in power costs, including all wind or hydro variation, on a dollar-for-dollar basis, rather than addressing abnormal or extraordinary fluctuations.[177]

85 In addition, as noted above, the Commission has stated that a reduction in cost of capital should accompany adoption of a PCAM.[178] The Company does not include such an adjustment, despite its proposal to shift all power cost risk to customers. The PCAM proposed by PacifiCorp does not share risk between ratepayers and shareholders, and it ignores the very purpose of a PCAM – accounting for abnormal or extraordinary fluctuations in power costs. Therefore, it should be rejected.

3. Boise's Alternate PCAM Recommendations

86 Given that the Company has refused to propose a PCAM that is in any way consistent with past precedent, there is no reason for the Commission to attempt to rehabilitate PacifiCorp's PCAM to make it more fair and balanced. However, if the Commission is inclined

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175/ Id. at P. 96.
176/ See Deen, Exh. No. MCD-1CT at 25:5-8.
177/ Deen, TR. 551:22-24.

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to adopt a PCAM, then Boise recommends a mechanism similar to that adopted for the Company in Oregon in OPUC Docket No. UE-246. Such a mechanism would be consistent with Commission guidelines by including a deadband and sharing bands, in addition to an earnings test. Further, a properly structured PCAM should be revenue neutral over time and continue to provide the utility with an incentive to keep costs down, regardless of the size of the difference between forecast and actual NPC.

87 In his criticism of the PCAM adopted in Oregon, Mr. Duvall again misses the entire point of a PCAM. He states that "Boise's own testimony supports the Company's position that many of the variables that affect NPC are outside of the Company's control – including weather, loads, and market prices."[179/] Mr. Duvall ignores the Commission's own ruling that a PCAM is not *intended* to account for normal weather, loads, and market prices. The utility is well-paid for bearing the risks of normal variations of these factors through its ample return on equity, and this sharing of risk with customers gives the utility the proper incentive to react efficiently and intelligently to normal fluctuations in weather, loads, and market prices. Bearing this risk creates an incentive for management to effectively manage power costs in the face of factors it cannot control. The Company requests dollar-for-dollar true-ups of all costs, effectively eliminating the buffering function that is at the heart of the regulatory compact. A PCAM that does not include deadbands, sharing bands, or both, is by definition, not limited to addressing abnormal or extraordinary variations. Boise, while proposing an alternative, requests that a PCAM be rejected here.

178/ Docket Nos. UE-050684 and UE-050412, Order 03 at P. 91.
179/ Duvall, Exh. No. GND-7CT at 62:9-11.

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G. The Commission Should Approve the Partial Settlement Agreement on Rate Spread/Rate Design

88 Boise requests that the Commission approve the Partial Settlement Regarding Cost of Service, Rate Spread, and Rate Design ("Partial Settlement") entered into by PacifiCorp, Staff, Public Counsel, Boise, and The Energy Project. No party has opposed the Partial Settlement. The Partial Settlement applies the Company's cost of service study for the purposes of reaching a negotiated resolution of issues related to rate spread and rate design. By entering the settlement, no party has endorsed the Company's cost of service study.[180/]

89 The Partial Settlement stipulates that any revenue requirement increase determined in this case will be applied on a uniform percentage basis to all rate schedules, with the exception of street lighting, which will receive no increase, and parties agree that within each customer class, an equal percentage increase will be applied to both demand and energy rate components.[181/]

90 Boise believes that the Partial Settlement provides for a fair and reasonable treatment of these issues, and an equal percentage increase is just and comports to the rate spread proposal offered by Boise in its Responsive Testimony.[182/] The Commission has traditionally supported equal percentage increases for classes within 10% of parity, and the Partial Settlement conforms to this practice.[183/] For these reasons, the Commission should adopt the Partial Settlement.

180/ Partial Settlement at P.9, 18.
181/ Id. at P.9.
182/ Joint Testimony in Support of Settlement, Exh. No. JT-1T at 12:7-21.
183/ Id.

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IV. CONCLUSION

91 PacifiCorp's proposed rate request is unreasonable and unsupported. The Company inconsistently seeks to eliminate regulatory lag that benefits customers, while retaining regulatory lag that benefits shareholders. PacifiCorp's unsupported and one-sided adjustments to the WCA allocate additional costs to Washington customers without any commensurate benefits. While the Company attempts to pass risks to customers, and requests a PCAM that does not fairly allocate risk, it asks the Commission to grant it an ROE that is far above its cost of equity in today's financial marketplace. The record demonstrates that the Commission should, at a minimum, reduce PacifiCorp's rate filings by approximately $28.1 million based on Boise's proposed adjustments. Taking into account other parties' adjustments, PacifiCorp should receive little to no rate increase. Finally, the Commission should adopt the Partial Settlement of Cost of Service, Rate Spread, and Rate Design.

Dated this 1st day of October, 2013.

Respectfully submitted,

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