

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a PACIFIC POWER &
LIGHT COMPANY,

Respondent.

DOCKET UE-130043

PACIFICORP'S REPLY BRIEF

October 11, 2013

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I. INTRODUCTION

1 In this case, PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) demonstrated the need for a baseline revenue requirement increase of \$36.9 million.¹ The Company also proposed discrete and measured changes to its regulatory framework to address some of the issues left unresolved by the 2012 collaborative process, including refinements to the West Control Area inter-jurisdictional allocation methodology (WCA) and a proposed power cost adjustment mechanism (PCAM). As recognized by the Commission, the Company's goals in the collaborative process included trying to reduce the frequency of rate case filings and make future rate cases less complex and litigious.² PacifiCorp remains optimistic that the goals for the collaborative process can still be achieved by adoption of a reasonable revenue requirement baseline and implementation of changes to PacifiCorp's regulatory framework in this case, and through further exploration of the expedited rate filing (ERF) in the Commission's pending rulemaking.

II. COST OF CAPITAL

A. Capital Costs Increased During the Pendency of this Case.

2 At hearing, Dr. Hadaway testified that rapidly rising capital costs and currently questionable results from the discounted cash flow (DCF) model support the Commission's use of a risk premium approach in determining a reasonable return on equity (ROE) in this case. Dr. Hadaway testified that his risk premium model would produce a range of approximately 9.8 percent to 10.2 percent if updated for interest rates at the time of the hearing; in rebuttal, Dr. Hadaway's risk premium range was 9.6 percent to 10.0 percent. If the Commission also considers the top of Dr. Hadaway's DCF range at 9.6 percent, these results produce a reasonable ROE range of 9.6 percent to 10.2 percent; Dr. Hadaway's recommended ROE of 10.0 percent is appropriately within the top third of this range, recognizing current market conditions.

¹ Because of page limitations, this reply brief does not address every adjustment and argument addressed in the parties' opening briefs. The Company relies on its previous filings in this case for issues not addressed in this reply.

² *WUTC v PacifiCorp*, Docket UE-111190, Order 07 ¶ 46 (Mar. 30, 2012).

3 Staff and Boise White Paper, LLC (Boise) fail to recognize the impact of increasing interest rates on PacifiCorp’s cost of equity in the 2014 rate effective period. The three-month average single “A” utility bond yield was 3.92 percent when PacifiCorp filed this case and rose to 4.46 percent by the end of July 2013.³ The monthly average for July 2013 was 4.68 percent,⁴ and the daily rates immediately preceding the hearing were 4.87 percent and 4.80 percent.⁵

4 In its brief, Staff argues that capital costs actually *decreased* during this case.⁶ This claim conflicts with the testimony of all three cost of capital witnesses, each of whom confirmed at hearing that capital costs have increased.⁷ Boise claims that interest rates rose only “slightly” between the filing of Mr. Gorman’s testimony and the hearing.⁸ In fact, they increased by 73 basis points, or 18 percent.⁹ In Puget Sound Energy, Inc.’s (PSE) ERF case, Mr. Gorman testified that an interest rate reduction of 25 to 40 basis points over the course of a year was a “significant decline.”¹⁰ Boise also claimed that interest rate decreases since the “hearing and submission of briefs” were “sharp” and “significant.”¹¹ Boise’s claim to know about interest rate changes after “submission of briefs” is obviously erroneous, and Boise’s citations indicate only a 16 basis point drop in 10-year U.S. Treasuries¹² since hearing.

5 Boise claims that Dr. Hadaway’s recommendations should be discounted because the Federal Open Market Committee (FOMC) announced that it would not begin tapering bond purchases in September 2013.¹³ If the Commission considers this argument (which relies on information developed post-hearing), then the Commission should also review the remarks of Federal Reserve (Fed) Chair Bernanke making clear that the FOMC continues to plan to moderate and eventually end its bond purchasing in 2014 (the rate year), with general economic

³ Hadaway, Exh. No. SCH-1T 8, Table 1; Gorman, TR. 179:17 – 180:5.

⁴ Hadaway, TR. 148:5-8.

⁵ *Id.* 148:18-20.

⁶ Initial Brief on Behalf of Commission Staff (Staff Brief) ¶ 13.

⁷ Elgin, TR. 268:7-9; Gorman, TR. 245:16–246:9; Hadaway, TR. 270:15–271:3.

⁸ Confidential Post-Hearing Brief on Behalf of Boise White Paper, LLC (Boise Brief) ¶ 25.

⁹ Gorman, Exh. No. MPG-1T 4, Table 1; Hadaway, TR. 248:14-18.

¹⁰ *WUTC v. Puget Sound Energy*, Docket UE-121697 et al., Order 07 ¶ 50 (June 25, 2013).

¹¹ Boise Brief ¶ 25, page 13.

¹² *Id.* ¶ 16, n. 32.

¹³ *Id.* ¶ 25.

conditions setting the pace of tapering.¹⁴ The Commission should also consider the fact that utility bond yields remained consistently higher than before the Fed’s June 2013 announcement despite fluctuating in August and September 2013 as the market speculatively reacted to Fed policies (demonstrating Dr. Hadaway’s central point that Fed policies have artificially depressed interest rates). As of the date of this brief, Moody’s single “A” utility bond rate was 4.78 percent, within a few basis points of the 4.80 to 4.87 percent range at the time of the hearing.¹⁵ Finally, RRA data for third quarter 2013 shows an average ROE of 10.03 percent for vertically integrated utilities, reflecting an increase in average ROEs from the first two quarters of 2013 and producing a year-to-date average of 9.90 percent.¹⁶

6 Staff argues that bond yields were higher when the Commission decided PacifiCorp’s last litigated case in March 2011.¹⁷ But Staff compared July 2013 data to March 2011, instead of using the most recent interest data from August 2013, which narrows the difference by about 20 basis points.¹⁸ Further, there is no dispute that current interest rates are significantly higher now than when the Commission approved a 9.8 percent ROE for PacifiCorp in March 2012, for Avista Corporation (Avista) in December 2012, and for PSE in June 2013,¹⁹ which is observable market evidence that capital costs have increased.²⁰

B. Risk Premium Studies More Accurately Reflect Current Capital Costs.

7 Boise is critical of Dr. Hadaway’s reliance on the risk premium method, which Boise characterizes as based on “spot interest rates captured at the moment Dr. Hadaway developed his

¹⁴ www.federalreserve.gov/monetarypolicy/fomcpresconf20130918.htm

¹⁵ http://credittrends.moodys.com/sr/bond_yield.asp?status=1&script_name=/sr/bond_yield.asp

¹⁶ Regulatory Research Associates Regulatory Focus, Major Rate Case Decisions, January-September 2013 (Oct. 8, 2013). RRA data is proprietary, copyrighted material and should not be disseminated outside of this case.

¹⁷ Staff Brief ¶ 53.

¹⁸ Hadaway, TR. 141:16 – 142:9. In addition, comparing August 2013 interest rates with rates in October and November 2010 (the testimony dates in the 2010 case) reveals that current interest rates are even closer to the rates from the 2010 case. See Hadaway, Exh. No. SCH-1T 8, Table 1.

¹⁹ Hadaway, TR. 248:14-18; Gorman, Exh. No. MPG-28CX 4, Table 5; Hadaway, Exh. No. SCH-1T 8 Table 1.

²⁰ Staff attempts to distinguish the recent PSE and Avista cases claiming that those were settlements. Staff Brief ¶ 15. But in the PSE case, parties litigated the cost of capital, albeit based on a more limited record, and the Commission expressly reviewed the reasonableness of the stipulated ROE in the Avista case. See *WUTC v. Puget Sound Energy*, Docket UE-121697 et al., Order 07 ¶¶ 49-65 (June 25, 2013). See also *WUTC v. PacifiCorp*, Docket UE-050684, Order 04 ¶ 263 (Apr. 17, 2006) (relying on settled cases to assess reasonable ROE).

risk premium analysis.”²¹ To the contrary, Dr. Hadaway testified that he “would not encourage [the Commission] to use just the spot interest rate,” and he based his ROE recommendation (10.0%) on the Bloomberg forward curve for the 2014 rate period, not a spot interest rate.²² Dr. Hadaway recommended that the Commission rely on all three of the risk premium studies he provided to most accurately capture the current interest rate environment.²³

8 Staff argues that the Commission should discount recent market developments and rely on the DCF method, rather than risk premium studies, because equity markets are rational and account for investor expectations.²⁴ Staff’s argument ignores the fact that the equity market information used in Mr. Elgin’s DCF analysis does not capture current investor expectations because it pre-dates the dramatic market developments occurring since June 2013.²⁵

C. The Commission Should Approve the Company’s Actual Capital Structure.

9 Boise argues that the Commission should reject the Company’s recommended equity ratio of 52.22 percent (which Boise incorrectly states is “52%” or “52.51%”) and accept Boise’s recommended 49.1 percent equity ratio because the Commission has accepted that ratio in the last two cases and because it supports PacifiCorp’s current bond rating.²⁶ But the Company has shown that the evidence does not support Boise’s assertions. And PacifiCorp’s current bond rating is based on its actual—not hypothetical—capital structure.²⁷ The Company would be downgraded if it were actually capitalized at 49.1 percent equity.²⁸

10 Boise also claims that Moody’s, who Boise incorrectly refers to as a “creditor,” supports Boise’s recommended equity ratio and expects PacifiCorp to maintain an equity ratio of approximately 50 percent.²⁹ In fact, Moody’s May 2012 report was supportive of the Company’s actual equity ratio of approximately 52 percent, which is reflected in the Company’s filing in this

²¹ Boise Brief page 13.

²² Hadaway, TR. 232:18-19, 232: 24– 233:5.

²³ *Id.* 232:20 – 233:12; Hadaway, Exh. No. SCH-10T 23:16-23.

²⁴ Staff Brief ¶ 55.

²⁵ Hadaway, TR. 231:9-22, 240:13-18; Hadaway, Exh. No. SCH-1T 22:15-18.

²⁶ Boise Brief ¶ 28.

²⁷ Gorman, TR. 188:11-18; Williams, Exh. No. BNW-14T 14:13-21.

²⁸ Williams, TR. 260:24 – 261:4.

²⁹ Boise Brief ¶¶ 28-29.

case.³⁰ Boise's claim that Moody's is supportive of a hypothetical 49.1 percent equity ratio has no support in the record.

11 Staff argues that the Commission should not accept PacifiCorp's actual capital structure because it is set by MidAmerican Energy Holdings Company (MEHC), which is motivated to inflate the equity ratio to increase returns.³¹ Staff argues that by adopting its hypothetical capital structure the "Commission would enforce the commitment that MEHC and PacifiCorp have failed to satisfy that ratepayers would not be harmed by paying a higher cost of capital as a result of the sale."³² The Commission has already found that PacifiCorp and MEHC have satisfied this commitment, and that MEHC's ownership has lowered PacifiCorp's cost of capital.³³

12 Staff argues that the Commission should impute short-term debt because the Company occasionally carries short-term debt and the cost is low.³⁴ Staff ignores the fact that customers receive the benefits of short-term interest rates through the Company's variable rate pollution control revenue bonds, and ignores the risks associated with refinancing short-term debt.³⁵

III. NET POWER COSTS (NPC)

A. The WCA Should Include All Qualifying Facilities (QFs) Contracts.

13 Boise argues that PacifiCorp's request to include its QF contracts in west control area NPC effectively asks the Commission to delegate its ratemaking authority to Oregon and California.³⁶ This is incorrect. If the Commission approves the requested WCA modification, the Commission is clearly authorized to determine the reasonableness of the QF contracts.

14 Boise also argues that PacifiCorp is over-recovering the costs of Washington QF contracts and that if the Commission approves the Company's WCA modification, the Company will also over-recover costs of Oregon/California QF contracts.³⁷ The Company requests that QF

³⁰ Williams, Exh. No. BNW-5; Williams, Exh. No. BNW-1T 14:5-6 (equity ratio on March 31, 2012, was 51.7% and on June 30, 2012 it was 52.2%).

³¹ Staff Brief ¶¶ 19-20.

³² *Id.* n. 37.

³³ Williams, Exh. No. BNW-14T 11:4-6; *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 102 (Mar. 25, 2011).

³⁴ Staff Brief ¶¶ 29, 32.

³⁵ Williams, TR. 225:10-23; Gorman, TR. 226:21 – 227:19.

³⁶ Boise Brief ¶¶ 36, 40.

³⁷ *Id.* ¶ 41.

contracts receive the same treatment as all other generation resources under the WCA, and Boise did not challenge the allocation of any other generation resources.³⁸ Under the Company's proposal, Washington customers' share of Washington QF contract costs would decrease from 100 percent to 22.6 percent, offsetting the allocation of Oregon/California QF contracts to Washington.

15 Boise and Staff also claim that any risk of under-recovery of QF contract costs is a risk that PacifiCorp alone must bear.³⁹ But the Company has always retained the right to seek changes to inter-jurisdictional cost allocation methodologies to minimize cost recovery shortfalls. The inclusion of all west control area QF contracts in Washington rates is a reasonable modification to the WCA because it ensures that QF contracts are treated comparably to all other generation resources, QF contract prices are reasonable, and QF contracts provide benefits to Washington, including increasing the renewable resources serving Washington customers.⁴⁰

16 Staff attempts to distinguish how Washington and Oregon have implemented PURPA. Staff claims that Oregon allows standard contracts for QF contracts with nameplate capacities of up to 10 MW, "not 1 MW as this Commission has required."⁴¹ But Staff admits that the Commission has required standard contracts for PSE for QF contracts up to 5 MW and PacifiCorp's Schedule 37 applies to QF contracts up to 2 MW.⁴² Staff points to only one utility, Avista, that has a 1 MW cap, but Avista's Schedule 62 now has a 5 MW cap, just like PSE.⁴³

17 Staff argues that Oregon allows 15 years of fixed prices in standard contracts, but this Commission "has not been so prescriptive."⁴⁴ As Staff admits, the Commission has required PSE to provide standard contracts with 10 years of fixed prices, which is nearly as "prescriptive"

³⁸ Duvall, Exh. No. GND-1CT 5:17-21; Dalley, Exh. No. RBD-2.

³⁹ Boise Brief ¶ 44.

⁴⁰ Duvall, TR. 302:9-303:4; Duvall, Exh. No. GND-7CT 19:14-16; Duvall, Exh. No. GND-1CT 6:11-12.

⁴¹ Staff Brief ¶ 76.

⁴² *Id.* ¶ 73; Duvall, Exh. No. GND-7CT 18:17 – 19:4.

⁴³ Staff Brief ¶ 73; Duvall, Exh. No. GND-7CT 18:17 – 19:4; Avista's Schedule 62 is available at:

http://www.avistautilities.com/services/energypricing/wa/gas/Documents/WA_062%20-%202012%20Filing.pdf

⁴⁴ Staff Brief ¶ 77.

as Oregon.⁴⁵ The Commission's imposition of a 10-year fixed price contract for PSE, coupled with the Commission's support for longer QF contracts, also undercuts Staff's claim that Oregon's longer contracts cause customer harm.

18 Staff also claims that Washington avoided cost prices are less than Oregon and California so customers are paying more for these QF contracts.⁴⁶ The Company's most recent Washington QF contracts, however, are priced higher than the current average price for west control area QF contracts.⁴⁷ Staff points to the Company's response to Staff Data Request 293 and argues that if Oregon and California QF contracts were repriced at then-current Washington avoided cost prices, the Company's filed NPC would decrease by \$11.9 million.⁴⁸ On a Washington-allocated basis, the decrease is only \$2.6 million, reflecting a relatively small differential in avoided cost prices over the years between Washington and Oregon/California.

B. PacifiCorp's Rates Should Reflect the DC Intertie Because It Is Used and Useful.

19 Boise argues that the Company's modeling of the DC Intertie in GRID does not justify including the contract in rates,⁴⁹ ignoring the fact that the Company's improved modeling responds directly to the Commission's past order on the DC Intertie in Docket UE-100749.⁵⁰ In this case, the Company established that the DC Intertie facilitates the Company's actual transactions at the Nevada Oregon Border market hub, which are expected to continue in the rate year.⁵¹ While Boise and Staff criticize the alleged lack of energy benefits provided by the DC Intertie, both parties fail to account for the capacity reliability benefits of the agreement.⁵²

C. Coal Supply Costs from Bridger Coal Company (BCC) Are Reasonable.

20 Boise argues that Washington Commitment 12 governs the transactions between BCC

⁴⁵ *Id.* ¶ 74.

⁴⁶ *Id.* ¶ 81.

⁴⁷ Duvall, Exh. No. GND-1CT 7:1-10.

⁴⁸ Staff Brief ¶ 81. Staff treated this number as confidential. However, while the individual QF contract numbers are confidential, the total impact numbers are not.

⁴⁹ Boise Brief ¶ 47.

⁵⁰ *WUTC v. PacifiCorp*, Docket UE-100749, Order No. 06 ¶¶ 148-52 (Mar. 25, 2011).

⁵¹ Duvall, Exh. No. GND-7CT 44:1-6.

⁵² Staff Brief ¶ 91; Boise Brief ¶ 48; Duvall, Exh. No. GND-7CT 43:7-13.

and PacifiCorp.⁵³ Since the Commission’s adoption of this commitment in 2006, however, the Company filed six rate cases and the Commission never applied the lower of cost or market (LCM) standard to BCC coal in any of those cases. Washington Commitment 12 is inapplicable because of the unique regulatory treatment consolidating BCC with PacifiCorp for ratemaking purposes, which prevents cross-subsidization.⁵⁴

21 Boise relies on a Washington Natural Gas Company case, where the utility executed a gas purchase contract with an affiliate and attempted to recover the contract costs in rates.⁵⁵ The Commission found the contract price excessive and applied the LCM standard to the transaction. That case is clearly distinguishable because the Commission specifically found that there was a competitive market available to the utility to purchase alternative gas and the affiliate was not consolidated with the utility for ratemaking.⁵⁶ Here, there is no alternative market or supplier that could replace BCC coal and, for ratemaking purposes, BCC is not treated as an affiliate.⁵⁷

D. Boise’s Proposal to Impute Heat Rates at Jim Bridger is Meritless.

22 Boise argues that the Jim Bridger Unit 2 heat rate should be “increased” to account for the efficiency gains resulting from the unit’s turbine upgrade because this increase is known and measurable.⁵⁸ But contrary to Boise’s brief, Boise’s actual adjustment seeks to *decrease* the unit’s heat rate. Boise “proposed that the average heat rate for the Jim Bridger 1 unit be used to *estimate* the efficiency improvement of the Jim Bridger 2 unit.”⁵⁹ Using actual data from one unit to *estimate* the performance of another unit does not constitute a known and measurable adjustment. Moreover, Boise’s *estimate* was based on Jim Bridger Unit 1’s “operations before and after the upgrade.”⁶⁰ When Unit 1’s turbine was upgraded, the unit also underwent a maintenance overhaul, unlike Unit 2, so the units are not comparable.⁶¹ Finally, Boise’s

⁵³ Boise Brief ¶ 73.

⁵⁴ Crane, Exh. No. CAC-1CT 6:16-19.

⁵⁵ *WUTC v. Wash. Nat. Gas. Co.*, 137 P.U.R.4th 335, 338 (1992).

⁵⁶ *Id.* at 339-40.

⁵⁷ Crane, Exh. No. CAC-1CT 8:8-12, 6:16-19.

⁵⁸ Boise Brief ¶ 64.

⁵⁹ *Id.* ¶ 63. (emphasis added).

⁶⁰ *Id.*

⁶¹ Duvall, Exh. No. GND-7CT 49:8-16.

adjustment proposes to change the heat rate at both Units 1 and 2, but in its brief, Boise argues only for a heat rate change at Unit 2, apparently abandoning its Unit 1 heat rate adjustment.⁶² Boise's brief indicates that this is a \$600,000 adjustment, but that includes Unit 1.⁶³ Also, Boise's testimony indicated that the total adjustment was only \$500,000.⁶⁴

E. Boise's Adjustment for Market Caps Would Decrease the Accuracy of NPC.

23 Boise claims that with market caps, GRID models sales levels that are significantly below the level of actual sales.⁶⁵ Boise obfuscates the impact of removing market caps by combining sales at COB and Mid-C. When these hubs are examined individually, the removal of market caps results in GRID significantly overstating actual transactions—the elimination of market caps results in sales at the more illiquid COB hub that are 139 percent greater than the Company's 48-month historical average.⁶⁶ The reduction in Mid-C sales relative to historical averages occurs both with and without market caps and is the result of expiring contracts.⁶⁷

24 Boise also claims that the removal of market caps results in only a small increase in the modeled coal generation above historical levels.⁶⁸ Without market caps, coal generation increases by six percent, which further reduces the accuracy of the modeled NPC.⁶⁹ Boise also recommends an alternative proposal to replace the Company's market caps with a cap that is based on the highest of the four years of historical data rather than the four-year average.⁷⁰ This recommendation, however, suffers from the same flaws as Boise's primary recommendation.⁷¹

F. The Commission Should Adopt the Company's Proposed PCAM.

25 Boise argues that PacifiCorp did not justify its request for a PCAM because PacifiCorp's NPC variability is not due to abnormal or extraordinary events.⁷² Boise claims that when the

⁶² Boise Brief ¶ 60.

⁶³ *Id.* ¶ 11.

⁶⁴ Deen, Exh. No. MCD-1CT 21:1-8.

⁶⁵ Boise Brief ¶ 55.

⁶⁶ Duvall, Exh. No. GND-7CT 34:1-3; Deen, TR. 544:4–545:2; Deen, Exh. No. MCD-18CX 6:2-9, 12:18 – 13:4.

⁶⁷ Duvall, Exh. No. GND-7CT 34:8-12.

⁶⁸ Boise Brief ¶ 57.

⁶⁹ Duvall, Exh. No. GND-7CT 39:15 – 40:3; 40, Table 1.

⁷⁰ Boise Brief ¶ 59.

⁷¹ Duvall, Exh. No. GND-7CT 40:4-15.

⁷² Boise Brief ¶ 79.

Commission rejected PacifiCorp’s last PCAM proposal in 2005 (Docket UE-050684), the Commission concluded that PCAMs are justified only for NPC variability caused by unusual or extraordinary events.⁷³ Boise’s argument relies on the wrong order—the last case where the Commission addressed a PCAM for PacifiCorp was the Company’s 2006 rate case (Docket UE-061546), not the 2005 case.⁷⁴ In the 2006 rate case, the Commission concluded that the Company’s NPC variability justified a PCAM. In this case, the Company and Staff agree that the Company’s NPC variability is even greater now and continues to justify a PCAM.⁷⁵

26 Public Counsel argues that PacifiCorp’s variability has been decreasing since the 2006 case and therefore a PCAM is not warranted.⁷⁶ Lower market prices have reduced the scale of NPC variability, but the causes of variability remain present and are compounded by the addition of more wind and natural gas-fired generation.⁷⁷

27 Boise also argues that the Company’s increased reliance on wind does not support a PCAM because the Company’s NPC include integration costs based on the Company’s 2012 Wind Integration Study.⁷⁸ This argument is not on point because the primary issue is not whether the Company can accurately calculate *intra-hour* integration charges on a dollar-per-MWh basis, it is whether the Company can accurately forecast the actual *hourly and annual* wind generation more than a year in advance.⁷⁹ It is largely the variances in hourly and annual generation levels that cause the NPC variability.⁸⁰ Boise testified that forecasting wind generation “is very much a science still in development.”⁸¹

28 Boise also argues that if the Commission adopts a PCAM it should also reduce the Company’s cost of capital.⁸² However, there is no evidence in the record to support a specific

⁷³ *Id.*

⁷⁴ Boise also relies on a PSE case that pre-dates the Company’s 2006 rate case order. Boise Brief ¶ 81.

⁷⁵ *WUTC v. PacifiCorp*, Docket UE-061546, Order 08 ¶¶ 68, 71 (June 21, 2007); Gomez, Exh. No. DCG-6CX.

⁷⁶ Brief of Public Counsel ¶ 94.

⁷⁷ Duvall, Exh. No. GND-7CT 57:9-14.

⁷⁸ Boise Brief ¶ 80.

⁷⁹ Duvall, Exh. No. GND-7CT 60:11 – 61:7.

⁸⁰ Duvall, Exh. No. GND-1CT 42, Table 1.

⁸¹ Deen, Exh. No. MCD-1CT 9:4-6.

⁸² Boise Brief ¶ 85.

reduction if the Commission were to adopt a PCAM. In the Company’s 2006 rate case, the Commission observed that a Company’s return should *arguably* be reduced only if the PCAM results in a shift of risk due to the asymmetry of NPC variability.⁸³ Here, the Company’s NPC variability is symmetrical and therefore a PCAM will not shift risk onto customers because it is just as likely that actual NPC will be higher as it is that actual NPC will be lower.⁸⁴

29 In its brief, Staff argues that the symmetry of PacifiCorp’s NPC variability is irrelevant to the question of whether a proposed PCAM should include sharing and dead bands.⁸⁵ But Staff’s testimony ties the need for sharing and dead bands directly to the asymmetry of NPC variability: “the Company has failed to comply with the fundamental design requirement to reflect asymmetry of power cost distribution, because its PCAM proposal does not include deadbands and sharing bands.”⁸⁶

IV. OTHER DISPUTED ISSUES

A. The Commission Should Allow All of PacifiCorp’s Pro Forma Capital Additions.

30 Staff and Public Counsel argue against the inclusion in rate base of the Jim Bridger Unit 2 turbine upgrade and the Merwin Fish Collector largely because of the alleged administrative burden of continuously reviewing the projects’ costs as this case progressed.⁸⁷ First, the necessity for ongoing review during the pendency of the case was one of the reasons that PacifiCorp proposed pro forma additions for just five major capital projects, only two of which went into service after this case was filed. In contrast, in the case that Staff relies upon, Avista proposed inclusion of *all* capital projects in the pro forma period (numbering in the hundreds).⁸⁸ Second, any administrative burdens are outweighed by the need to address regulatory lag for PacifiCorp—a need recognized by Staff.⁸⁹

⁸³ *WUTC v. PacifiCorp*, Docket UE-061546, Order 08 ¶ 87 (June 21, 2007).

⁸⁴ Duvall, Exh. No. GND-1CT 48:1 – 49:2; Duvall, Exh. No. GND-7CT 52:11 – 53: 6.

⁸⁵ Staff Brief ¶ 96.

⁸⁶ Gomez, Exh. No. DCG-1CT 24:8-10.

⁸⁷ Staff Brief ¶ 147; Brief of Public Counsel ¶ 51.

⁸⁸ Staff Brief ¶ 147, n. 230; *WUTC v. Avista*, Dockets UE-090134 and UG-060518, Order 10 ¶ 78; *see also* McGuire, Exh. No. CRM-3CX 4:12-14 (over 230 projects in workpapers supporting Avista’s pro forma adjustment for capital additions in the 2009 case).

⁸⁹ Staff Brief ¶ 170.

31 Staff's ERF proposal is insufficient to address regulatory lag. Staff states that an ERF could be filed when the capital additions "are complete and the . . . costs are known and measurable."⁹⁰ But the turbine upgrade went into service in mid-May 2013 and the costs are known and measurable now, so there is no reason to delay recovery.⁹¹ For the Merwin Fish Collector—which is necessary to continue to provide low-cost and emission-free hydroelectric power under the Company's FERC license⁹²—about 99 percent of the project's costs will be known and measurable when the rate effective period begins December 11, 2013.⁹³ Under Staff's proposal, however, PacifiCorp must wait to file an ERF until after the project is placed in service in February 2014, then it would take at least four to six months to review the ERF.⁹⁴ Although more expedited than a general rate case, Staff's ERF proposal requires a longer and more complicated process than PacifiCorp's alternative proposal for a separate tariff rider.⁹⁵

B. The Commission Should Adopt PacifiCorp's Modifications to the WCA.

32 In contesting PacifiCorp's modifications to the WCA, the same fundamental assumption underlies the parties' positions—that PacifiCorp's changes would somehow "over-allocate" costs to Washington.⁹⁶ The evidence does not support this mistaken assumption.

33 PacifiCorp's proposal modifies the development of the control area generation west (CAGW) factor to be consistent with the cost of service study in Washington, resulting in an allocation of 22.63 percent of generation and transmission costs in the west control area to Washington.⁹⁷ Under the parties' proposals to maintain the status quo, the CAGW factor would

⁹⁰ *Id.* ¶ 154.

⁹¹ Griffith, Exh. No. WRG-1T 11:16-18 (the turbine upgrade was placed in service "a month before" Staff filed testimony on June 21, 2013).

⁹² *See* Tallman, TR. 328:15-24 (the Merwin and Swift fish collectors are the "linchpins to our success in achieving a 50-year hydro license on our Lewis River production projects[.]").

⁹³ *Id.* 323:8-10. Public Counsel states that it chose its cut-off date to distinguish between actual and forecast data, complaining that the Company did not update its response to Public Counsel's data request 70. Brief of Public Counsel ¶ 43. But Public Counsel received copies of the Company's responses to Staff data request 194, including updates (on March 29, May 7, May 30, and June 20), which, as noted by Mr. Tallman, asked for updated costs for the Merwin Fish Collector. *See* Tallman, TR. 321:12-22; 322:1-4; 323:2-10.

⁹⁴ Staff Brief ¶ 155.

⁹⁵ Griffith, Exh. No. WRG-1T 12:20 – 13:2; McDougal, Exh. No. SRM-6T 22:1-19.

⁹⁶ Staff Brief ¶ 116; Brief of Public Counsel ¶ 14; Boise Brief ¶ 74.

⁹⁷ McDougal, Exh. No. SRM-5 11.

be 0.02 percent lower.⁹⁸ Yet Staff's own exhibit shows that Washington customers received the benefits of 38.3 percent of the Company's investments in transmission, distribution, production, general, and mining plant in the west control area from 2007 through 2012.⁹⁹ Similarly, the system generation (SG) factor (8.04 percent under PacifiCorp's proposal and 0.23 percent lower under Staff's proposal) allocates generation and transmission plant that is not assignable to a particular control area.¹⁰⁰ Yet Washington customers received the benefits of 9.6 percent of the Company's total-company investments in transmission, distribution, production, general, and mining plant from 2007 through 2012.¹⁰¹ Contrary to the parties' fears, the evidence indicates that costs are currently being under-allocated to Washington. PacifiCorp's proposals are designed to more accurately reflect its cost to serve Washington customers.

34 The parties also repeatedly assert that PacifiCorp's changes are not supported by a comprehensive review (an assertion PacifiCorp disputes). Staff claims that its requested "report" will remedy this deficiency. But Staff's report "seeks only specific and narrow information regarding certain existing allocation factors and alternatives the Company may propose."¹⁰² Staff's proposed report is not the "comprehensive review" that it alleges was lacking.

C. The Company's Proposed Refinements to the Investor Supplied Working Capital (ISWC) Method are Consistent with the Commission-Approved Methodology, are Supported by Staff, and Should be Adopted.

35 In arguing for rejection of the Company's refinements to the ISWC method, Public Counsel relies on evidence that is not in the record and then misconstrues that evidence to reach the incorrect conclusion that the liabilities of pension and other post-retirement plans exceed plan assets by \$587 million as of December 31, 2012.¹⁰³ In its calculation, Public Counsel only

⁹⁸ See Staff Brief ¶ 116.

⁹⁹ Exh. No. B-2 at 4 (PacifiCorp's response to Bench Request 7 providing a corrected Exh. No. KAW-4 for Staff witness Kendra A. White); Exh. No. B-3 (Staff's response to Bench Request 7 accepting PacifiCorp's corrected Exh. No. KAW-4). Calculated by dividing total Washington plant additions by total plant additions for the west control area.

¹⁰⁰ McDougal, Exh. No. SRM-5 7; Staff Brief ¶ 117.

¹⁰¹ Exh. No. B-2 at 4 (total Washington plant additions divided by total-company plant additions).

¹⁰² Staff Brief ¶ 136.

¹⁰³ Brief of Public Counsel ¶ 85 (relying on PacifiCorp 2012 SEC Form 10K, which is not in the record).

captured the plans' funded status, which does not give an accurate picture of the pension and other post-retirement plans' total impact on working capital. Pension and other post-retirement benefits are reflected on the Company's balance sheet as: (a) a liability equal to the benefit obligation less the fair value of plan assets, also referred to as the funded status; and (b) regulatory assets representing amounts not yet recognized as expense under the accounting rules, which provide for delayed expense recognition of actuarial gains and losses, impacts of plan amendments, etc. To appropriately perform Public Counsel's calculation, the unrecognized amounts of \$795 million¹⁰⁴ must be netted against the \$587 million funded status. This results in positive working capital of \$208 million.¹⁰⁵

36 Public Counsel also inaccurately states that the facts do not support the Company's assertion that there is no deferred tax impact from the derivative asset and liabilities.¹⁰⁶ While Public Counsel correctly notes that the Company's 2012 SEC Form 10-K reports \$46 million of deferred income tax assets related to derivative contracts, Public Counsel fails to consider the offsetting \$46 million of deferred income tax liabilities related to the associated regulatory asset for the derivative contracts, resulting in no net deferred tax impact.¹⁰⁷

D. The Commission Should Adopt End-of-Period Rate Base for PacifiCorp.

37 Staff argues against the use of end-of-period rate base because it claims that PacifiCorp did not demonstrate that it is experiencing attrition or that use of end-of-period rate base is necessary to address regulatory lag.¹⁰⁸ To the contrary, Company's testimony demonstrating that the Company's ROE in Washington on a per-books basis for the years 2006 through 2012 averaged only 4.09 percent.¹⁰⁹ Staff's assertion that the Company's ROE data was not from the

¹⁰⁴ These unrecognized amounts are found on page 86 of the 2012 Form 10-K.

¹⁰⁵ It should also be noted that the pension numbers in the SEC Form 10-K include balances related to the Company's Supplemental Executive Retirement Plan, which are not included in Washington rates. Thus, the amounts from the Form 10-K will not tie to the amounts included in the Company's proposed ISWC refinements.

¹⁰⁶ Brief of Public Counsel ¶ 86.

¹⁰⁷ Public Counsel also claims that the Company did not explain why the ISWC calculation should include accounts holding non-cash balances. *Id.* ¶ 89. But the Company's rebuttal testimony specifically addressed how accounts appearing as non-cash affect the Company's working capital. Stuver, Exh. No. DKS-3T at 6:6-14.

¹⁰⁸ Staff Brief ¶¶ 168, 170.

¹⁰⁹ Griffith, Exh. No. WRG-1T 3, Table 1. Staff questions why the ROE reported in Mr. Reiten's testimony is different than the ROE in Mr. Griffith's testimony. The primary difference is that Mr. Reiten's testimony refers to

Company's Commission basis reports is patently untrue—as Staff's witness acknowledged during cross-examination.¹¹⁰ PacifiCorp demonstrated—and Public Counsel agreed—that the use of end-of-period rate base is an appropriate regulatory remedy. The Commission should adopt end of period rate base in this case as one tool to address attrition and regulatory lag.

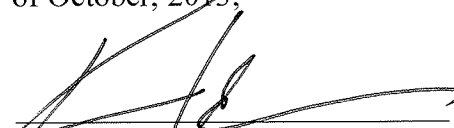
E. Public Counsel's Wage and Labor Expense Adjustment is Unsupported.

38 Public Counsel argues that PacifiCorp's top 25 highest paid employees receive above market-average pay, which the Commission should disallow.¹¹¹ Contrary to Public Counsel's claims, PacifiCorp demonstrated that market compensation encompasses a range of values and just because a particular employee receives compensation above the average level does not mean that employee's compensation is unreasonably high.¹¹² Indeed, PacifiCorp's top 25 highest paid employees are, in the aggregate, within approximately six percent of the market mid-point level, which demonstrates that they are not paid an unreasonable amount relative to market.¹¹³

V. CONCLUSION

39 In this case, PacifiCorp established that a revenue requirement increase of \$36.9 million is needed, along with adoption of the Company's proposed PCAM. The Company respectfully requests that the Commission approve the Company's rebuttal position, with a rate effective date on or before December 11, 2013.

Respectfully submitted this 11th day of October, 2013,


Katherine McDowell
Sarah Wallace
Attorneys for PacifiCorp

the test period ROE, which is based on the historical period ended June 2012, while Mr. Griffith refers to calendar year 2012. *See* McDougal, Exh. No. SRM-1T 2:12-19.

¹¹⁰ Reynolds, TR. 420:12-14 (“I’m not suggesting that those numbers are not in the commission basis reports at all.”).

¹¹¹ Brief of Public Counsel ¶ 72.

¹¹² Wilson, TR. 394:5-20, 381:13 – 382:4.

¹¹³ Wilson, Exh. No. EDW-5CCX.