BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, d/b/a PACIFICORP, Respondent.	DOCKET UE-140762 and UE-140617 (*consolidated*)
In the Matter of the Petition of PACIFIC POWER & LIGHT COMPANY, For an Order Approving Deferral of Costs Related to Colstrip Outage.	DOCKET UE-131384 (*consolidated*)
In the Matter of the Petition of PACIFIC POWER & LIGHT COMPANY, For an Order Approving Deferral of Costs Related to Declining Hydro Generation.	Docket UE-140094 (*consolidated*)

INITIAL BRIEF OF PUBLIC COUNSEL

January 22, 2015

TABLE OF CONTENTS

I. INTRODUCTION 2

II. COST OF CAPITAL 3

A. Capital Structure. 3

1. Overview and Public Counsel recommendation. 3

2. Pacific Power's recommended equity ratio does not strike a reasonable balance between safety and economy. 6

B. Return on Equity (ROE). 8

1. Public Counsel recommends a reduction in Pacific Power's return on equity. 8

2. Pacific Power' cost of equity analysis contains critical flaws. 10

a. Discounted Cash Flow. 11

b. Capital Asset Pricing Model. 12

c. Risk Premium 13

d. Comparable Earnings. 14

e. Modification of Mr. Strunk's ROE analysis to correct flaws yields a return on equity result in the same range as Public Counsel's recommendation. 15

III. REVENUE REQUIREMENT 15

A. Overview and Summary. 15

1. Public Counsel revenue requirement recommendation. 15

2. Previously rejected Qualified Facilities costs should be removed from Pacific Power's revenue requirement. 16

B. Pacific Power Presents a Mismatched Amalgam of Time Periods for Determining Costs. 17

C. Major Plant Additions. 19

D. Depreciation Expense. 23

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
800 5th Ave., Suite 2000
Seattle, WA 98104-3188
(206) 464-7744

E. Post Test-Year Wage Increases. 23

F. Employee Levels 24

G. Pension Expense. 25

H. Other Post-Employment Benefits (OPEB) Expense. 27

I. IHS Global Insight Escalation Factors. 27

J. Liability Expense Adjustment 29

K. Interest Synchronization Adjustment 30

IV. OTHER ISSUES 31

A. Public Counsel's Deferred Accounting Requests Should Be Denied. 31

1. Low Hydro Deferral. 31

2. Merwin Fish Collector Project. 32

B. Power Cost Issues. 33

1. Pacific Power's Renewable Resource Tracking Mechanism should not be approved. 33

2. Commission Staff's PCA proposal for the Company should not be adopted at this time. 35

V. RATE SPREAD AND RATE DESIGN ISSUES 37

A. Class Cost of Service Study. 37

1. Pacific Power's use of a Peak & Average analysis is a departure from standard Washington cost of service methodology. 37

2. Boise White Paper's proposal to classify production-related plant as 100% demand-related is not reasonable. 39

B. Rate Spread. 41

1. Public Counsel supports Pacific Power's rate spread recommendation. 41

2. Commission Staff's rate spread recommendation allocates undue cost responsibility to residential customers. 41

C. Residential Customer Charge. 43

1. The Pacific Power residential customer charge should not be increased......... 43

2. Commission Staff's proposal for a $13.00 customer charge should be rejected. 45

3. Special customer charges would not benefit the majority of low-income customers.......... 46

VI. LOW INCOME ASSISTANCE AND CONNECTION FEE PROPOSALS 47

A. Pacific Power's Low Income Bill Assistance Program Proposal Is Reasonable..... 47

B. Pacific Power's Unreasonable Collection, Connection, and Reconnection Proposals Were Appropriately Withdrawn and Should Not Be Revisited. 47

VII. CUSTOMER COMMENTS.......... 48

VIII. CONCLUSION 50

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
800 5th Ave., Suite 2000
Seattle, WA 98104-3188
(206) 464-7744

TABLE OF AUTHORITIES

Tables

Table 1: Public Counsel Equity Cost Estimates 10

Table 2: Mr. Strunk's Cost of Equity Results With Hill Modifications 15

Table 3: Pacific Power's Multiple Time Periods 18

UTC Decisions

In re the Application of MidAmerican Energy Holdings Company & PacifiCorp, Docket UE-051090, Order 07 5

Wash. Util. & Transp. Comm'n v. PacifiCorp, Docket UE-100749, Order 06 (*Pacific Power 2010 GRC*) 42, 44

Wash. Util. & Transp. Comm'n v. PacifiCorp, Docket UE-111190, Order 07 47

Wash. Util. & Transp. Comm'n v. PacifiCorp, Docket UE-130043, Order 05 (*Pacific Power 2013 GRC*) .... passim

Wash. Util. & Transp. Comm'n v. Puget Sound Energy, Docket UE-090704/UG-090705, Order 11 (*PSE 2009 GRC*) .... passim

Wash. Util. & Transp. Comm'n v. Wash. Water Power, U-82-10/82-11, Second Supplemental Order 40

I. INTRODUCTION

1. The rate increase request before the Commission in this docket is Pacific Power's ninth request in a dozen years. Taking into account the amounts added to the request after the Company's initial filing, Pacific Power is now asking its approximately 130,000 customers in Washington to absorb an annual increase of $31.9 million annually in base rates. Additionally, the Company seeks $5.8 million through deferral requests that have been consolidated with the rate case. Together, these requests would result in a 13% increase in residential customer rates. Public Counsel respectfully requests that the Commission reject Pacific Power's request.

2. Pacific Power's case is premised in many respects on simply revisiting a number of key issues already raised and rejected in its 2013 General Rate Case (GRC). Given that Pacific Power's appeal of the Commission's 2013 GRC order[1] is currently pending, the Commission should summarily reject efforts to re-argue the same issues again in this docket. Pacific Power's recycling of issues that will ultimately be dealt with on appeal imposes an unnecessary expenditure of resources on the Commission and non-company parties.

3. Pacific Power's request for an increased return for its parent company investors is out of touch with the realities of the financial markets and the current national and Washington economies. The Company continues its efforts, dating back to the acquisition by MidAmerican Energy Holdings Company (MEHC), a Berkshire Hathaway company, to have ratepayers fund excessively high equity capitalization ratios created by the parent holding company for its own benefit and to the detriment of ratepayers. As it has in multiple prior cases, the Commission should again reject this unbalanced request.

[1] *Wash. Util. & Transp. Comm'n v. PacifiCorp,* Docket UE-130043, Order 05 (*Pacific Power 2013 GRC*).

4. Pacific Power also appears out of touch with the impact of its requests on its customers. Pacific Power's service territory, primarily in Yakima and Walla Walla counties, is characterized by disproportionately high levels of poverty compared to other parts of the state. Yet, not only does Pacific Power seek a double digit percentage increase in volumetric rates, the Company is requesting an 81% increases in its customer charge. The evidence shows that such an increase disproportionately harms low volume customers, and reduces the incentive for all customers to conserve energy. The customer charge increase is not good policy and Public Counsel's analysis shows that the current charge adequately covers the Company's direct costs.

5. Also, for the second case in a row, Pacific Power has requested dramatic increases in connection and reconnection charges, increases that disproportionately impact low-income customers. While the Company withdrew these requests in its rebuttal case after broad opposition from other parties, their inclusion in a second consecutive case is troubling.

6. Based on the evidence of Public Counsel's revenue requirement and cost of capital witnesses, it appears that, at most, Pacific Power should be allowed an increase of $1.1 million in this docket. If the non-overlapping recommendations of other parties are taken into account, the Commission could reasonably conclude that Pacific Power has not proven the need for any rate increase. The record in this case provides the Commission with an opportunity to provide welcome and long-awaited relief to Pacific Power's customers.

II. COST OF CAPITAL

A. Capital Structure.

1. Overview and Public Counsel recommendation.

7. The goal of regulatory rate setting, on the issue of capital structure, is to find a fair balance between safety and economy. Debt in the capital structure represents economy, since

debt costs are significantly lower than equity costs.[2] However, because debt repayment obligations are inflexible, excessive debt levels are unsafe (riskier) for companies. Equity capital, which allows more flexibility and does not mandate repayment terms, is safer for the company, but substantially more expensive – three times more expensive than debt.[3]

8. In Pacific Power's last General Rate Case in 2013, the Company requested approval of an equity ratio of 52.22%. The Commission rejected the request and established a capital structure for ratemaking purposes with an equity ratio of 49.1%. The Commission held that "in terms of balancing safety and economy, we again conclude that the Company's proposed capital structure contains too much equity, which tips the balance in favor of investor interests over those of ratepayers . . . . Finally, we conclude again in this case that . . . a 49.1 percent equity ratio best reflects what is appropriate for this Company. This capital structure has proven over several years to be well-balanced in terms of safety and economy."[4]

9. The Commission order in the 2013 GRC reviewed the history of Pacific Power's increasing equity ratios since it became a privately held subsidiary of MEHC. The parent has an incentive to enhance its returns, through its control of the subsidiary's equity ratio, by capitalizing the subsidiary with excessive levels of equity. As Order 05 noted, since the acquisition, PacifiCorp's equity ratio grew from 46% in 2005 to 52.4% in 2012, based on cash infusions from MEHC. In an earlier case, the Commission described the Company's growth in equity capitalization as "remarkable."[5]

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[2] Equity costs also include taxes on the returns which must be paid by the ratepayers.

[3] Revised Direct Testimony of Steven G. Hill, Exh. No. SGH-1CTr at 20; *see also Pacific Power 2013 GRC*, Order 05, ¶ 22 ("Equity investment typically is the highest cost source of capital [.]").

[4] *Pacific Power 2013 GRC*, Order 05, ¶¶ 40-41.

[5] *Pacific Power 2013 GRC,* Order 05, ¶ 37.

10. The Commission rejected PacifiCorp's attempts to burden customers with these excessive equity levels in the 2010, 2011, and 2013 rate cases, and should do so again here, consistent with long-standing precedent that a hypothetical capital structure may appropriately be used in Washington rate setting to establish a proper balance between safety and economy.[6]

11. Moreover, when MEHC acquired PacifiCorp, it committed that MEHC and PacifiCorp would "not advocate for a higher cost of capital as compared to what PacifiCorp's cost of capital would have been, using Commission standards, absent MEHC ownership."[7] The Company's persistent advocacy in favor of excessive equity ratios runs contrary to this commitment, which provides a further reason to deny the request.

12. Pacific Power has challenged the Commission's 2013 GRC order on appeal, arguing in part that the Commission erred in approving a hypothetical equity ratio of 49.1%. The appeal is still pending. Notwithstanding the holding in the 2013 rate order, Pacific Power has again requested in this proceeding that rates be based on an inflated equity ratio, over two percent higher than the level approved in the last case. Setting rates using the Commission's previously approved 49.1% will save Pacific Power's Washington ratepayers approximately $1.6 million every year the rates are in effect, as compared with PacifiCorp's requested 51.73% equity ratio.[8]

13. For the reasons set forth in this section, Public Counsel recommends that the Commission reject the Company's request and continue to use the previously approved equity ratio of 49.1% to set rates. Public Counsel also recommends that the capital structure include 0.02% preferred stock cost, 50.69% long term debt, and 0.13% short term debt.[9]

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[6] *Id.* ¶ 39.

[7] *Id.* ¶ 37. *citing, In re the Application of MidAmerican Energy Holdings Company & PacifiCorp*, Docket UE-051090, Order 07, Appendix A, Commitment 21.

[8] Hill, Exh. No. SGH-1CTr at 23:16-24:10 (describing calculation of the savings).

[9] Hill, Exh. No. SGH-1CTr at 32-33.

2. **Pacific Power's recommended equity ratio does not strike a reasonable balance between safety and economy.**

14. As a threshold matter, it is important to recall that the capital structure analyzed in this rate case is that of PacifiCorp, the immediate parent company of Pacific Power. Pacific Power is an operating division of PacifiCorp and has no stand-alone balance sheet or capital structure.[10] The Washington jurisdictional operations of Pacific Power represent a small part of PacifiCorp, approximately seven percent.[11] The thrust of Pacific Power's advocacy regarding capital structure is that if the Commission continues to use an equity ratio of 49.1% to set rates in this case, PacifiCorp's credit rating will be lowered.[12] The facts do not support this argument.

15. First, from 2006 to 2013, PacifiCorp's actual common equity ratio fluctuated between 49.2% and 53% without any change in PacifiCorp's healthy credit rating over that time period.[13] Also, while the equity ratio of the parent holding company, Berkshire Hathaway Energy (BHE), 37.62% as of March 2014, is substantially lower than that of PacifiCorp, and BHE has higher business risk, there is little difference between the current bond ratings of the two entities.[14] Indeed, in early 2014, Moody's raised PacifiCorp's credit rating to A3, the same rating as BHE.[15] This shows that companies with even higher business risk than PacifiCorp can be capitalized with equity ratios lower than 49.1% and continue to maintain satisfactory credit ratings, contrary the Company's assertions.

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[10] Hill, Exh. No. SGH-1CTr at 19; Exh. No. BNW-21CX; Williams, TR. 178:2-7; PacifiCorp has two other operating divisions: Rocky Mountain Power (electric utility operations in Utah, Wyoming, and Idaho) and PacifiCorp Energy (electric generation, commercial and training, and coal mining operations).

[11] *Id.* at 19:3-6; Williams, TR. 17:8-12.

[12] Direct Testimony of Bruce N. Williams, Exh. No. BNW-1T at 12:4 ("Certainly there would be downgrade in the credit ratings.").

[13] Hill, Exh. No. SGH-1CTr at 22-23, Table II (S&P A-, Fitch's BBB, Moody's Baa1); Williams, TR. 182:7-20; Exh. No. BNW-22CX.

[14] *Id.* at 21-22, Table I.

[15] *Id.* at 22, n.15.

16. Second, the Commission's previously approved equity ratio of 49.1% is well above the electric utility industry average. The overall average common equity ratio of electric-only utilities like Pacific Power is 46.9%. For the industry overall, including, combination electric and gas utilities, the equity ratio is 46.7%. The average common equity ratio of the companies in Company Witness Kurt. Strunk's sample group is 46.4%.[16] Given that both the 49.1% approved by the Commission and the 51.73% requested by Pacific Power are substantially above these averages, a Commission-ordered change between the two in this case is unlikely to change the relative risk of the Company enough to warrant any credit rating action. This is particularly true since Pacific Power represents only seven percent of PacifiCorp. When asked, Company Witness, Bruce N. Williams was unable to provide any example of a two percent change in the equity ratio of a small subsidiary of an electric holding company having any impact on the holding company credit rating.[17]

17. Mr. Williams argues, however, that using the lower hypothetical equity ratio will cause a ratings downgrade which would, in turn, increase the cost of debt which is passed through to customers in higher rates.[18] To support this point, Mr. Williams' suggests a somewhat perplexing theory. He assumes that because of the two percent difference in equity ratio that could be ordered in this current proceeding, that PacifiCorp's credit rating fell *in 2006,* as a result of Washington regulatory action in 2014 that is yet to occur. He further assumes that every debt issuance between 2006 and 2014 occurred at an increased cost due to the supposedly lower credit

[16] *Id.* at 20.

[17] *Id.* at 28:7-10; Williams, TR. 180:21-181:24 (referencing Exh. No. BNW-26CX).

[18] Mr. Williams estimates that the cost of debt will increase 61 basis points over the current level if an equity ratio of 49.1% is used. Hill, Exh. No. SGH-1CTr at 27:8.

rating.[19] As puzzling as this seems, Mr. Williams confirmed that this is, in fact, his theory.[20] It is simply not reasonable to believe, however, that investors or bond rating agencies would react in 2006 to an unknown event that would not occur until 2014. Moreover, as discussed, the real-world experience over the last eight years shows that even fluctuations greater than two percent in PacifiCorp's equity ratio had absolutely no effect on the Company's credit rating.[21]

B. Return on Equity (ROE).

1. Public Counsel recommends a reduction in Pacific Power's return on equity.

18. In Pacific Power's last general rate case in 2013, the Commission set Pacific Power's authorized cost of equity at 9.5%. In this case, based on a complete cost of equity analysis, Public Counsel expert witness, Stephen G. Hill recommends a reduction in ROE for the Company. Mr. Hill's analysis determines that a reasonable ROE for purposes of rate setting in this case is 8.9%.

19. Mr. Hill begins with a review of the current economic environment. Investor expectations regarding the strength of the U.S. economy, the direction of interest rates, and the level of inflation are key building blocks in the investment decision. Mr. Hill highlights a number of relevant current factors: (1) while the Fed has raised and lowered short-term interest rates, long-term rates have ranged from 3.5 to 5.0%, with a relatively steady downward trend;[22] (2) although the economy is recovering from the great recession, economic growth has been modest and the unemployment rate has fallen slowly;[23] (3) due to slow growth and because of

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[19] Williams, Exh. No. BNW-1T at 12:1-12.
[20] Exh. No. BNW-23CX, subpart b.
[21] Hill, Exh. No. SGH-1CTr at 23, Table II. Mr. Hill recommends a cost of debt of 5.19. *Id.* at 32:12-33:18; Exh. No. SGH-15r.
[22] *Id.* at 11:14-19.
[23] *Id.* at 12:7-15.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
800 5th Ave., Suite 2000
Seattle, WA 98104-3188
(206) 464-7744

caution at the Fed, higher bond yields have not materialized;[24] (4) recent long term Treasury bond yields, which are representative of long-term risk-free investment expectations, are approximately 3.3%; (5) the yield spread between Treasury bonds and corporate bonds has returned to normal levels following the financial crisis;[25] (6) current corporate interest rates remain at levels not seen since the 1960s;[26] (7) predictions have overstated projected interest rate increases premised on strong economic recovery that has yet to materialize;[27] (8) long-term interest rates are expected to move slightly higher in the future, depending on the pace of economic growth and inflation.[28]

20. Mr. Hill conducted his cost of equity analysis using four methodologies: Discounted Cash Flow (DCF), Capital Asset Pricing Model (CAPM), Modified Earnings-Price Ratio (MEPR), and Market-to-Book Ratio (MTB). They are briefly described as follows. The DCF model, which relies on the equivalence of the market price of the stock with the present value of the cash flows investors expect from the stock, assumes that the discount rate equals the cost of capital. Under the DCF, the total investor return, which equals the required return or cost of equity, is the sum of the dividend yield and the expected growth rate in the dividend.[29]

21. The CAPM states that the expected rate of return is determined by a risk-free rate of return plus a risk-adjusted market premium.[30] The Modified Earnings-Price Ratio (MEPR) is the expected earnings per share divided by the current market price used in combination with the

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[24] *Id.* at 13:1-12.
[25] *Id.* at 13:20-14:4.
[26] *Id.* at 16:3-4.
[27] *Id.* at 17:35-18:9
[28] *Id.* at 18:10-20.
[29] *Id.* at 34:6-18.
[30] *Id.* at 47:11-48:1.

expected return on common equity. This methodology is used as a corroborative tool.[31] The fourth methodology Mr. Hill employs is the Market-to-Book (MTB) ratio analysis. While based on DCF, which smooths data to determine investors' long-term sustainable expectations, Market-to-Book relies instead on point-in-time data projected one year and three-to-five years into the future.[32] This offers another corroborative check on the traditional DCF.

22. Mr. Hill's equity cost estimates using these four methods are shown below:

Table 1: Public Counsel Equity Cost Estimates[33]

Method	ROE Results
Discounted Cash Flow	8.89%
Capital Asset Pricing Model	7.77%
Modified Earnings Price Ratio	8.2% - 8.39%
Market-to-Book Ratio	8.57 %- 8.76%

23. Based on these results and other factors, Mr. Hill concludes that a reasonable range for Pacific Power's ROE is 8.5% to 9.5%, with a mid-point of 9.0%.[34] However, because the recommended (and current authorized) equity ratio of 49.1% is approximately two percent higher than the sample group, Mr. Hill reduces the ROE result 10 basis points below the mid-point to reflect lower risk. Accordingly, Public Counsel's final ROE recommendation for Pacific Power in this case is 8.9%.[35]

2. Pacific Power' cost of equity analysis contains critical flaws.

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[31] *Id.* at 50:10-51:5
[32] *Id.* at 54:22-55:9.
[33] *Id.* at 57, Table V.
[34] *Id.* at 57:1-16.
[35] *Id.* at 57-58.

24. Pacific Power cost of capital witness Kurt Strunk presented a cost of capital analysis using DCF, CAPM, Risk Premium, and Comparable Earnings methods. He presented an updated analysis in his rebuttal testimony. In both, he recommends an ROE of 10%. Mr. Hill identified a number of flaws in Mr. Strunk's analysis as discussed below.

a. Discounted Cash Flow.

25. Both of Mr. Strunk's DCF analyses overstate the current ROE. His primary DCF analysis uses a historical dividend yield methodology that overstates forward-looking yields. In addition, his primary DCF uses statistical outliers for growth rates. Mr. Hill shows that if these two items are corrected --- by using forward looking dividend yields published by Value Line and by using median growth rates which dampen the impact of outliers --- Mr. Strunk's primary DCF ROE result is 8.75%.[36]

26. Mr. Strunk's second "yield plus growth" DCF analysis contains a fundamental error; he relies on a dividend yield and a growth rate projection for two different sample groups. The dividend yield is obtained from Value Line which includes only U.S. companies. His growth rate, however, was drawn from Zacks Investment Research.[37] Zacks electric industry growth rate data includes growth rate projections from many South American and Asian companies, as well as unregulated independent power producers and infrastructure investors. These data, from countries such as China and Brazil, represent approximately one-third of the companies in the Zacks list.[38] The expected earnings growth rate for these foreign and unregulated operations is

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[36] Mr. Strunk's updated DCF analysis showed a decline in ROE from 9.23% in his initial testimony to 9.0% in his rebuttal. Direct Testimony of Kurt G. Strunk, Exh. No. KGS-18. He conceded on cross examination that these results are one indication that cost of capital has declined since the Company filed its case. Strunk, TR. 206:19-207:8.

[37] Strunk, TR. 201:1-4

[38] Strunk, TR. 201:5-204:10 (referencing Exh. No. KGS-44CX); Hill, Exh. No. SGH-1CTr at 66-67.

not representative of investor expectations for long-term growth for electric utilities in the U.S. As a result, the combination of the projected earnings growth for those companies with the dividend yield of the U.S. companies followed by Value Line does not produce a reliable DCF cost of equity estimate for PacifiCorp.

b. Capital Asset Pricing Model.

27. Mr. Strunk's CAPM ROE estimate of 9.67% is based on a surprisingly elevated market risk premium of 8.36%. This stands in stark contrast to long term historical risk premiums which fall in the range of 4% - 6%, according to over 85 years of data published by Morningstar (formerly Ibbotson Associates),[39] which is commonly relied on in cost of capital analysis. Mr. Hill points out that some academic financial analyses over the past 20 years are now tending to support the conclusion that investor expectations are likely to be somewhat below even the historical averages published by Morningstar. This also finds support in surveys of chief financial officers undertaken by Duke University and *CFO Magazine.*[40]

28. Mr. Strunk's unusually high market risk premium of 8.36% results from his use of a single-stage DCF that relies on projected earnings growth from only one source -- sell-side analysts. Sell-side analysts' projections have been questioned, however, on conflict of interest grounds, and for this reason a DCF analysis based solely on that single source is not reliable.[41]

29. Interestingly, Mr. Strunk also cites the Australian Energy Regulator (AER) for authority in support of his CAPM approach.[42] AER materials obtained by Public Counsel in discovery, however, show that the AER considered a variety of approaches to market risk premiums, which

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[39] These percentages represent the average difference between the return on "risky" common stock and the return on "safe" long-term Treasury bonds between 1926 and 2010.

[40] Hill, Exh. No. SGH-1CTr at 69-70.

[41] Hill, Exh. No. SGH-1CTr at 44:8-45:18.

[42] Strunk, Exh. No. KGS-1T at 16:7-10.

yielded estimates primarily in the 5% - 6.5% range (as compared to the Morningstar range of 4-6%).[43] The AER ultimately selected a market risk premium of 6.5%, almost 200 basis points below Mr. Strunk's 8.36% figure. If a risk premium of 6.5% is used in Mr. Strunk's CAPM analysis, in place of the 8.36%, the result is a CAPM ROE estimate of 8.32%.

c. Risk Premium.

30. Mr. Strunk also provides a Risk Premium analysis based on the historical difference between allowed utility returns and utility bond yields. Mr. Hill's testimony contains a detailed critique of this analysis, identifying the following flaws.

31. First, because the allowed returns are simply averaged over all the available decisions in a calendar year, there can be a mismatch between capital market data considered and the time of the decision. Second, allowed returns may overstate the actual cost of capital, particularly when market prices of electric utilities have been substantially above book value for the relative time period, as is the case for the time period studied by Mr. Strunk. Third, Mr. Strunk's analysis did not consider the relative risk of the utilities included in the data. As such, that data includes outliers (e.g. allowed returns for generation-only utilities) that skew the results.[44]

32. Lastly, Mr. Strunk's analysis posits a negative correlation between bond yields and risk premiums. Without this negative correlation, the results of his Risk Premium analysis would range from 9.0% to 9.4%.[45] Mr. Hill notes that the difference in rates of decline between allowed returns and bond yields is simply due to regulatory caution, rather than any numerical stochastic relationship between the two variables.[46] In addition to the methodological flaws

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[43] Hill, Exh. No. SGH-1CTr at 71. The AER did give significant consideration to a dividend growth approach to the risk premium that generated a range of 6.1% to 7.5%.

[44] *Id.* at 74-75.

[45] *Id.* at 74.

[46] *Id.* at 76-77.

discussed by Mr. Hill, there is published evidence in the financial literature that, contrary to Mr. Strunk's theory, as interest rates decline, so do expected risk premiums.[47] It is counterintuitive to suggest, as Mr. Strunk does, that if interest rates increase dramatically (signaling an unstable economic environment), equity investors would require a lower risk premium relative to bonds.

d. Comparable Earnings.

33. Mr. Strunk also provides a comparable earnings analysis based on the average historical return of a utility stock index and an index of the broad stock market (Dow Jones). The average return of the utility index was 9.73% and the average return for the Dow Jones Index over Mr. Strunk's study period was 16.31%.

34. Because the market price of utility stocks was well above book value during the time in which they earned, on average, 9.73%, the cost of equity capital was below that level. Mr. Strunk's data actually confirm the reasonableness of the current cost of equity estimated by Mr. Hill—8.50% to 9.50%.[48]

35. Finally, Mr. Strunk's comparable earnings analysis based on the Dow Jones Industrials is not germane to the current forward-looking cost of equity for electric utility operations. Mr. Strunk's analysis is not forward-looking and it is based on competitive industrial companies that are not similar in risk to PacifiCorp. Therefore, Mr. Strunk's Comparable Earnings analysis of the Dow Jones Index does not provide useful information for the Commission relative to an appropriate return on common equity to be applied to the Washington utility operations of PacifiCorp.

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[47] *Id.* at 77.
[48] *See* Hill, Exh. No. SGH-1CTr at 79:11-23.

e. **Modification of Mr. Strunk's ROE analysis to correct flaws yields a return on equity result in the same range as Public Counsel's recommendation.**

36. If the shortcomings of Mr. Strunk's cost of equity analysis are corrected, his cost of equity estimates would appear as shown in the table below:

Table 2: Mr. Strunk's Cost of Equity Results With Hill Modifications[49]

Method	Cost of Equity
Discounted Cash Flow	8.50%-8.75%
Yield + Growth DCF	8.58%
Capital Asset Pricing Model	8.32%
Risk Premium	9.0%-9.4%

If Mr. Hill's modifications are applied to Mr. Strunk's analysis, the results range from 8.32% to 9.4%, very similar to Mr. Hill's recommendation of 8.50% to 9.50%. These results corroborate Mr. Hill's point-specific ROE estimate for the Company of 8.9%.

III. REVENUE REQUIREMENT

A. Overview and Summary.

1. Public Counsel revenue requirement recommendation.

37. Public Counsel's revenue requirement testimony was presented by Donna Ramas and Regulatory Analyst Stefanie Johnson.[50] Public Counsel does not address all revenue requirement issues raised by the Pacific Power rate filing, instead focusing on several fundamental test year policy issues, on requested deferrals, selected significant adjustments, and the Company request for a renewable resource tracking mechanism. Failure to address a revenue requirement issue

[49] Hill, Exh. No. SGH-1CTr at 81 (Table VI in testimony).

[50] Ms. Johnson addressed Pacific Power's proposed dramatic increases to reconnection and other related charges. Pacific Power withdrew these proposals in its rebuttal case, as discussed below.

should not be treated as agreement with the Pacific Power recommendation unless expressly stated.

38. In its initial filing, Pacific Power requested a base rate increase of $27,201,268. The Company also requested an additional $4.94 million for certain deferrals. As of the time of hearing, Pacific Power has increased its overall revenue requirement request to $31,938,957 and its deferral requests to $5.9 million. Based on the adjustments proposed by Public Counsel witnesses, and applying the rate of return recommended by Mr. Hill to the Company's original filing, Public Counsel's proposed revenue requirement is $11,126,556 (without excluding QFs, see below).[51] This recommendation is a maximum, which would be subject to further reduction if other parties' non-overlapping adjustments are adopted, or the Pacific Power Qualified Facilities costs are rejected (see below).[52]

2. Previously rejected Qualified Facilities costs should be removed from Pacific Power's revenue requirement.

39. Public Counsel did not present testimony or analysis in this case regarding the correct allocation of certain "qualifying facility" (QF) costs between Washington and other PacifiCorp states. However, as Ms. Ramas notes in her testimony, the Commission rejected Pacific Power's efforts to include these costs in rates under its proposed allocation methodology in its 2013 GRC.[53] Pacific Power appealed that decision and the case is now pending before the

[51] Addressing the original Pacific Power request of $27.2 million, Ms. Ramas recommended a $16.07 million reduction, resulting in a maximum revenue requirement of $11.1 million (without excluding QFs). Revised Direct Testimony of Donna M. Ramas, Exh. No. DMR-1CTr at 3:20-4:2.

[52] Public Counsel's Total Adjustments are shown at Exh. No. DMR-3 at 3 (column "Total Public Counsel Adjustments, lines 28 and 51); Exh. No. DMR-2, line 16 (QF adjustment). Public Counsel's Normalized Results of Operations are shown at Exh. No. DMR 3 at 1, lines 1 and 2. Public Counsel recognizes that by the time of hearing, Pacific Power had adjustments and corrections to reflect an accumulated depreciation formula error, rate base items that were double counted in cash working capital, and a reduced property tax adjustment. These are not reflected in Ms. Ramas' revenue requirement exhibits, since they were made subsequent to her filing. Public Counsel does not object to those changes.

[53] *Pacific Power 2013 GRC*, Order 05, ¶¶ 110-114.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
800 5th Ave., Suite 2000
Seattle, WA 98104-3188
(206) 464-7744

Washington State Court of Appeals. Public Counsel has intervened in the appeal and filed a brief in support of the Commission's 2013 order on both the QF and capital structure issues. Despite the Commission's previous rejection of the Company request, in this case Pacific Power again seeks recovery of the QF costs under its proposed allocation methodology rather than the situs allocation methodology. Public Counsel recommends rejection of the request based on the reasoning and analysis of Order 05. Pacific Power has not sought or obtained a stay of that decision and it remains determinative of the QF issue, absent a reversal by the Court of Appeals.[54]

40. If the Commission again rejects Pacific Power's QF cost recovery proposal in this case, an additional $10 million reduction to Pacific Power's revenue requirement would result. Taking this reduction into account, Public Counsel's recommendation results in a maximum revenue requirement of $1,126,556.[55]

B. Pacific Power Presents a Mismatched Amalgam of Time Periods for Determining Costs.

41. As Ms. Ramas discusses in her testimony, the manner in which Pacific Power has presented its case raises concerns. Rate setting in Washington is done on the basis of a modified historical test year, with restating and pro forma adjustments.[56] Pacific Power claims to have presented its case on this basis, using a 12-month test year ending December 31, 2013.[57] As

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[54] Public Counsel supports and adopts the position of Commission Staff on this issue.

[55] Ramas, Exh. No. DMR 3, Schedule 1, l. 10.

[56] *Wash. Util. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-090704/UG-090705, Order 11, ¶ 23 (*PSE 2009 GRC*).

[57] Ramas, Exh. No. DMR-1CTr, n.5.

Ms. Ramas points out, however, the Company made numerous adjustments that resulted in the revenue requirement being based on a mix of time periods, as shown in the following table.[58]

Table 3: Pacific Power's Multiple Time Periods

Time Period Employed by Pacific Power	Revenue Requirement Item
End of period (December 31, 2013) instead of Average of Monthly Averages (AMA)	Test year plant in service, accumulated depreciation, and accumulated deferred income tax.
January 1, 2014 – March 31, 2015	Projected plant additions, accumulated depreciation, ADIT
Period ending March 31, 2016	Non-benefit labor costs (salaries, wages, incentive comp and payroll taxes)
Period ending March 31, 2016	Operations and Maintenance (O&M) and Administrative and General (A&G) using IHS Global Insight escalation factors.
Historic test year (ending December 31, 2013)	Revenues based on temperature normalized sales

42. As this shows, the Company's case is based on a mix of different time periods for different components of the revenue requirement. Selection and use of a consistent test period is important in order to achieve consistent matching between the three primary components of revenue requirement (investment, revenues, and costs), as required by the "matching principle." Failure to adhere to the matching principle distorts the relationships between the elements. For example, developing rates using revenues from sales in a strictly historical test period, matched against projected cost increases in future years for plant investment, O&M, and A&G costs is distortive, since revenues may increase in the future period to offset some costs.[59]

43. Although PacifiCorp states it is not proposing a future test year in this case, the Company case departs from Commission precedent and makes a number of adjustments that implement a

[58] Ramas, Exh. No. DMR-1CTr at 7-9.
[59] *PSE 2009 GRC*, Order 11, ¶ 27.

future test year approach, for some, but not all components of its case, as shown above. Not only is this problematic in terms of the matching principle, but it is not consistent with Washington's modified historic test year and related well-established ratemaking principles. While some other PacifiCorp states may use future test years, Washington does not do so.[60]

44. While Public Counsel does not support use of a future test year for ratemaking, Public Counsel has agreed previously with the use by Pacific Power of end-of-period rate base as a means of addressing Company concerns with regulatory lag. This was specifically recognized in the Commission's 2013 GRC order, and Public Counsel has again taken that position in this case.[61] Public Counsel's specific recommendations for appropriate time periods are addressed in the following sections.

C. Major Plant Additions.

45. Pacific Power's plant additions for purposes of this case have been a moving target. In its initial filing, Pacific Power proposed adding to plant in service all additions exceeding $250,000 (Washington-allocated basis) that it projected would be added to plant during the 15 month period from January 1, 2014, to March 31, 2015, all post-test year. This included 30 capital projects totaling $129.2 million on a total company basis, and $40.4 million on a Washington basis. The original proposed amount included projections, not actual known and measurable costs.[62]

46. Discovery by Public Counsel and other parties revealed significant variances between the predictions in the initial filing and the actual facts on the ground. Of the 30 post-test year projects, only 13 were placed in service by August 31, 2014. The actual amount for plant placed

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[60] *PSE 2009 GRC*, Order 11, ¶¶ 22-33.
[61] Ramas, Exh. No. DMR 1CTr at 11-12.
[62] *Id.* at 13.

in service as of August 31, 2014, was $76.3 million on a total company basis, rather than the $129.2 million proposed by Pacific Power.

47. For the 13 projects placed in service by August 31, 2014, there were significant variances between the projected costs incorporated in the initial filing and the actual costs for individual projects completed by the time of intervenor testimony. For example, projections for the Middleton-Toquerville 69kV Line rebuild, the Swift side net replacements, and the replacement of the Jim Bridger Unit 1 cooling tower exceeded actual costs by an aggregate total of approximately $3 million.[63]

48. Commission Staff and Public Counsel both recommended in testimony that Pacific Power's plant in service be limited to actual known and measurable costs for rate base placed in service.[64] Taking a more conservative approach than Staff, however, Public Counsel recommends that only plant in service and related costs as of August 31, 2014, be allowed. This reduces the Company's $129.2 million request by $52.9 million to a level of $76.3 million, or $16.8 million on a Washington basis. In its rebuttal testimony, Pacific Power did not acquiesce in this approach, although some revisions were made. Through discovery, however, Public Counsel determined that the rebuttal included incorrect information, including:

- An incorrect BPA amount related to the Alvey Series Cap Controls.[65]
- Inclusion of a $7.95 million transmission project Fry Sub Install 115kV Capacitor Bank no longer anticipated to be placed in service in the rate effective period.[66]

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[63] *Id.* at 14-15.

[64] Testimony of Betty A. Erdahl, Exh. No. BAE-1T at 8:4-8 (recommending Company rebuttal as cut-off date); Ramas, Exh. No. DMR-1CTr at 15:10-14.

[65] Natasha C. Siores, Exh. No. NCS-29CX, subpart a.

[66] Exh. No. NCS-30CX, subpart a.

- Incorrect amount for the U2 GSU Transformer upgrade.[67]
- Incorrect in-service date for $2.5 million Merwin Flow Controls project (corrected date of October 2015 removed it from Pacific Power's pro forma period ending March 2015).[68]
- Incorrect in-service date for $2.4 million Speelyai Hatchery Water Intake (corrected date of November 2015 removed it from Pacific Power's pro forma period ending March 2015).[69]
- Delayed in-service date for $1.2 million Merwin 3 TIV overhaul (plant will not be in service during rate effective period).[70]
- Incorrect amount overstating actual costs for Call Center ACD Replacement project.[71]

Pacific Power agreed that these errors should be corrected, and agreed to remove the items from its case prior to or at the hearing.[72]

49. By the time of the hearing, Pacific Power again modified its position, and agreed with the Staff recommendation that plant additions be limited to plant that was in service and known and measurable by the time of the Pacific Power rebuttal filing (November 14, 2014).[73] However, Staff's testimony did not quantify its recommendation or identify the specific items of plant to include. Pacific Power's change of position was reflected in its 1st Supplemental Response to

[67] Exh. No. NCS-27CX.
[68] Exh. No. NCS-28CX.
[69] *Id.*
[70] *Id.*
[71] Exh. No. NCS-27CX.
[72] *See,* Exh. No. NCS-18CX.
[73] Exh. No. RBD-10CX; Dalley, TR. 386:18-390:2.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
800 5th Ave., Suite 2000
Seattle, WA 98104-3188
(206) 464-7744

Public Counsel Data Request No. 130, provided on December 11, 2014, shortly before the hearing.[74]

50. Notwithstanding the Pacific Power/Staff agreement on plant additions, Public Counsel continues to recommend that Pacific Power plant in service, for purpose of rates, be limited to known and measurable costs for projects in service as of August 31, 2014. Public Counsel agrees with Staff conceptually that it is reasonable to include post-test year plant additions if they are known and measurable, but differs on what constitutes a reasonable time frame.

51. Public Counsel can agree to Pacific Power additions for a period extending eight months past the end of the test year. Allowing $76.2 million on a total Company basis ($16.8 million on a Washington basis) of post-test year plant additions is a substantial concession, offered in order to help address Company concerns regarding regulatory lag. At the same time, Public Counsel recommends limiting the additions to those which parties have had a chance to review adequately. As the Commission has noted, while allowing some amount of updated information is generally desirable in rate cases, Commission Staff and other non-company parties must also have an opportunity to review the data to ensure its reliability.[75] Public Counsel acknowledges that the Commission has preferred not to adopt a formulaic "bright line" to pro-forma plant additions. Public Counsel's is not requesting an inflexible rule for all cases, but is recommending a compromise based on the facts of this case, due to a concern about the significant number of changes and corrections to the Pacific Power plant additions in the later stages of the case.

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[74] Exh. No. RBD-10CX.
[75] *PSE 2009 GRC*, Order 11, ¶¶ 32-33.

52. On this issue, not only did Pacific Power's case materially change after the initial filing, but its rebuttal contained numerous errors and required further corrections, updates which were finalized only days before hearing. In general, the later in the case information is provided, the less opportunity there is to confirm it. Rather than allowing plant additions 10½ months after the end of the test year, Public Counsel believes a more reasonable compromise is to restrict additions to those before August 31, 2014, which helps ensure that the most reliable data is being used. Approving additions up to the time of rebuttal, and with even later revisions, reduces confidence in the reliability of the data.

D. Depreciation Expense.

53. During 2014, Pacific Power retired three plant items on its books exceeding $250,000. Due to Pacific Power's depreciation methodology, it is appropriate not to adjust plant in-service for post-test year retirements. However, test year depreciation expense should be adjusted, as Ms. Ramas explains, because the depreciation expense in the filing is based on test year plant which includes the subsequently retired items. Making this adjustment, to reflect the plant retirements, reduces test year expense on a Washington-allocated basis by $28,163.[76] Pacific Power has agreed to this adjustment.

E. Post Test-Year Wage Increases.

54. In addition to annualizing actual test year salary and wage increases, Pacific Power seeks to include post-test year increases through March 2016. These post-test year expenses include increases under union contracts, actual increases that have already occurred for non-union and exempt employees, as well as projected wage increases extending through March 2016 (27

[76] Ramas, Exh. No. DMR-1CTr at 17-19.

months beyond the end of the test-period). In effect, the Company proposes to base wage and salary levels on a future test year for the 12 months ending March 31, 2016. This creates a distortion of the alignment between revenue, investment, and expense, a violation of the matching principle. It is particularly unfair to include costs from such a distant future period, given the evidence in the record that PacifiCorp's employee count has been declining for the past 3½ years.[77] The declining number of employees is further discussed in the next section.

55. In the 2010, 2011, and 2013 Pacific Power general rate cases, the Commission allowed inclusion of post-test year salary and wage increases if they were known and measurable and occurred within 12 months of the end of the test year (in this case, that would be December 31, 2014).[78] Public Counsel believes this approach is more than reasonable, and should be adhered to again in this case. If these parameters are applied to Pacific Power's request in this case, limiting recovery to expenses through December 31, 2014, the result is a reduction of total labor costs of $682,614 on a Washington-allocated basis.[79]

F. Employee Levels.

56. Pacific Power's adjusted test year labor costs in this case are based on the average number of employees employed by the Company during the test year ending December 31, 2013. However, the full time equivalent (FTE) employee count for PacifiCorp declined significantly during the test year and declines have continued up until the time of the hearing in this case, with a one-month exception. During the test year, PacifiCorp's employee count declined by 115.5 employees. Six months later, by June 2014, the employee count had declined by another 27 FTEs, such that the actual employee level was 66.5 FTE lower, or 1.24% below the average

[77] Ramas, Exh. No. DMR-1CTr at 21; Doug K. Stuver, Exh. No. DKS-3CX at 2.
[78] Ramas, Exh. No. DMR-1CTr at 20:8-18.
[79] *Id.* at 21:10-23.

count for the test year upon which Pacific Power based its labor costs. Additional data provided to Public Counsel after the filing of Pacific Power rebuttal shows that FTE counts continued to decline every month after June 2014, until November, just one month before the hearing.[80]

57. These reductions should be recognized for two reasons. First, recognition is consistent with the Commission's (and Public Counsel's) adoption of an "end of period" (EOP or end of test year) analysis for rate base. Second, the changes are known and measurable. Both are a means to reflect the most recent cost level.

58. Pacific Power responds that the declines in work-force levels are temporary in nature. A decline that has continued for 3½ years, however, cannot on its face be defined as temporary under any normal definition of the term. A unidirectional trend continuing across multiple test years cannot be disregarded if rates are to be tied to known and measurable costs. The fact that FTE levels increased in one month does not disprove the long term trend, nor does it show that FTE levels are not objectively lower than the average test year figure.

59. Reflecting the 1.24% FTE reduction in the calculation of labor costs results in an additional $377,635 reduction to total labor cost, over and above the reduction discussed in the prior section (excluding costs after December 2014). In fact, this is a conservative adjustment, given that data provided by Pacific Power in discovery shows that FTE levels continued to fall after June 2014. Using the June FTE level also mitigates Pacific Power's concern that the November numbers showed an increase.

G. Pension Expense.

60. Pacific Power's pension cost has declined significantly in 2014 since the amount recorded in the Company's books for the 2013 test year, by an amount of $16.8 million. The

[80] Exh. Nos. DKS-3CX and DKS-4CX.

reduction is a known and measurable change that reflects the impacts of the actuarial assumptions that were selected at the end of the test year.[81]

61. The 2013 test year pension expense amount is $39.1 million, which includes administrative costs and the costs associated with the Local 57 multi-year pension plan. In discovery, Public Counsel requested the Company to provide the most recent projections for the 2014 pension expense provided by Pacific Power's actuarial firm,[82] the impact of the 2013 actual experience, and the impact of the new actuarial assumptions adopted in December 2013 for the 2014 plan year. Pacific Power was then asked to provide the 2014 pension expense on a similar basis to the 2013 expense. The response shows that the 2014 expense, including the Local 57 pension plan, is $16.8 million lower than the 2013 expense, calculated on a similar basis.

62. Because the actuarial assumptions for 2014 were adopted in December 2013, they are now known and measurable. Likewise, the results of the 2013 pension plan experience are now known and measurable. The most recent actuarial report by Towers Watson for Pacific Power provides the four factors causing the decline in expense, all of which are known and measurable. These were: (1) a greater than expected return on fair value of plan assets improved the funding position; (2) a greater than expected return on the market value of the plan assets reduced the pension cost; (3) contributions during 2013 reduced cost and improved the funded position; and (4) the discount rate increased 75 basis points.[83]

63. For the foregoing reasons, Public Counsel recommends that Pacific Power's pension expense be reduced by $16.8 million on a Company basis. After removing the portion allocated

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[81] Ramas, Exh. No. DMR-1CTr at 24-27.

[82] The actuarial report prepared by Towers Watson prepared for Pacific Power has been provided in response to Bench Request No. 4. It was provided in discovery to Public Counsel and other parties.

[83] Ramas, Exh. No. DMR-1CTr at 26.

to capital and non-utility, the impact is a reduction of $11.7 million on a Company basis, and $761,547 on a Washington-jurisdictional basis.[84]

64. Recognizing the known and measurable post-test year changes to pension expense is also appropriate because it provides consistency with Public Counsel's recommendation to recognize post-test year changes to salaries and wages, and post-test year material plant additions, as discussed elsewhere in the brief.

H. Other Post-Employment Benefits (OPEB) Expense.

65. Similar to the pension expense just discussed, Public Counsel recommends using the most recent expense for OPEB. OPEB costs declined between the 2013 test year and 2014, from $2.7 million to $485,000, a reduction of over $2.1 million. As with the 2014 pension expense, the 2014 OPEB expense is based upon the 2014 actuarial assumptions selected at the end of 2013, and upon the actual 2013 plan experience. As such, the amount provided for 2014 is based on known and measurable changes.[85]

66. Based on this information, Public Counsel recommends that OPEB expense should be reduced by $2.21 million. After removal of amounts allocated to capital and non-utility, the reduction is $1.5 million on a total Company basis, and $100,686 on a Washington-jurisdictional basis.[86]

I. IHS Global Insight Escalation Factors.

67. Pacific Power's requested revenue requirement for non-labor and non-power Operations and Maintenance (O&M) and Administrative and General (A&G) is not based on historical test-year data. Instead, the Company escalates the test-year data through the application of IHS

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[84] *Id.* at 27 (referencing Schedule 9).
[85] *Id.* at 28.
[86] *Id.* at 28:14-20 (referencing Schedule 10).

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
800 5th Ave., Suite 2000
Seattle, WA 98104-3188
(206) 464-7744

Global Insight escalation factors ranging from 2.03% to 9.91%, depending on the account. The final result is that test year O&M and A&G expenses are essentially restated to be based on formulaically escalated levels for the 12 month period ending March 31, 2016.

68. Critically, Pacific Power has not performed any analysis or study, nor has it commissioned any third party analysis or study, to demonstrate that the O&M and A&G expenses for PacifiCorp have historically been increasing at similar rates to the Global Insight factors.[87] Accordingly, no such supportive analysis has been submitted for the record in this case.

69. While PacifiCorp argues that it uses Global Insight Factors in other states, it conceded in discovery and at hearing, that the other states in question use a future test year. The use of the escalation factors have not been approved in Washington, or in Idaho, the other PacifiCorp jurisdiction that does not use a future test year.[88] Using this type of future projection formula for periods well beyond the historic test period, on a piecemeal basis for select items of cost, is not appropriate. Rates in Washington are based on actual historical test year costs and pro-forma known and measurable adjustments, not on estimates and projections.[89] Absent the adoption of a future test year in Washington, with necessary protections and parameters, use of escalation factors in this manner is not reasonable.

70. Public Counsel recommends that Pacific Power's proposed application of the IHS Global Insight Factors to escalate its expenses be rejected. Removal of the escalated costs results in a reduction in non-labor/non-power cost O&M and A&G expense of $1,440,294 million on a Washington-allocated basis.

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[87] Dalley, TR. 383:21-385:14

[88] Exh. Nos. RBD-7CX and RBD-8CX; Dalley, TR. 382:3-384:20.

[89] *PSE 2009 GRC*, Order 11, ¶ 26.

J. Liability Expense Adjustment.

71. Pacific Power bases its adjusted test year liability expense on a six-year average of accruals booked by the Company. The Company's $47 million expense for 2012 was very substantially higher than other years, however, skewing the average. Even after the Company voluntarily reduced the amount by $16.2 million, the remaining (net) 2012 expense was $30.8 million, over three times the next highest expense factored in by the Company of $8.4 million. Public Counsel recommends reducing the 2012 expense by $20 million for several reasons.

72. First, the $47 million figure is sufficiently disproportionate to any annual expense in the six-year period as to be reasonably treated as non-recurring at that level. While it is understood that these costs are generally variable, and thus appropriate for averaging, such an unusually high number skews the average so much that the average is not fairly representative of a "normalized" level of ongoing expense for which ratepayers should be responsible. This is well illustrated by the fact that, using the net costs, the 2012 liability expense by itself is approximately $5 million more than all the remaining five years of expense combined. As a result, the $9.4 million six-year average is greater than any of the remaining year's individual totals, further evidence of a skewing effect.

73. As Ms. Ramas' testimony explains in more detail, the recommended adjustment of $20 million reduces the net 2012 level to approximately $10 million, still more than any of the remaining years. This reduces the average by approximately $3.33 million. Applying Ms. Ramas' adjustment results in a reduction to test-year expense of $228,467.[90]

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[90] Ramas, Exh. No. DMR-1CTr at 33:1-12.

74. As additional support for this adjustment, Ms. Ramas' confidential testimony reviews the details of specific 2012 claims that involved certain fires, an oil spill, personal injury, and other claims. Her testimony explains how responses to Public Counsel discovery indicate that there is a specific factual basis for not assigning cost responsibility to Washington ratepayers for some of the claims.[91] In addition, as addressed during cross-examination, liability has not yet been established for two of the claims accrued on the Company books. Pacific Power is nevertheless asking that it be allowed to charge ratepayers for these unresolved claims which are by definition not known and measurable because liability is not yet determined.[92] At the same time, Pacific Power has, as a matter of discretion, not including another liability expenses claim (the Wood Hollow fire claim) because it is the subject of "ongoing litigation which makes the total costs attributable to this fire not known and measurable at this time."[93] The Company has not provided a satisfactory rationale as to why the additional claims, also still in dispute, were not likewise removed from the liability expense adjustment.

K. Interest Synchronization Adjustment.

75. The interest synchronization adjustment allows the adjusted rate base and the weighted cost of debt to coincide with the income tax calculation. Revisions to rate base, or weighted cost of capital, affect test year income tax expense. Because Public Counsel recommends a different rate base and weighted cost of debt than Pacific Power, the income tax deduction, and resulting test year income tax expense differ from the Company filing. Ms. Ramas explains the necessary

[91] *Id.* at 34:10-21-35:1-2 (referencing confidential information)
[92] Exh. No. NCS-25CX; Stuver, TR. 481:24-483:11.
[93] Exh. No. NCS-26CX; Stuver, TR. 481:3-20.

adjustment to reflect Public Counsel's position in her testimony, and reflects the adjustment in her Schedule 13.[94]

IV. OTHER ISSUES

A. Public Counsel's Deferred Accounting Requests Should Be Denied.

1. Low Hydro Deferral.

76. In addition to the general revenue request in this case, Pacific Power is also requesting in Docket UE-140094 recovery of increased power costs allegedly resulting from declines in hydro generation due to abnormally dry hydro conditions. The deferrals cover the period January 2014 through December 2014. Public Counsel recommends rejection of this request.

77. The request is in essence another effort to seek additional recovery of variable power costs premised on the assumption that power costs are not adequately covered in the amount allowed for power costs already included in the rates. As discussed above, in the 2013 GRC the Commission rejected Pacific Power's request for a power cost recovery mechanism (PCAM) to address power cost variability, in part because of insufficient evidence of variability. Despite this, Pacific Power now seeks authority to recover for trued up deferrals of power costs based on variations in weather conditions.[95] The authority cited for the request is the Commission's approval of a 2008 settlement provision allowing recovery for some deferred hydro costs. The fact that the "give and take" of settlement in that case resulted in partial recovery of these costs does not establish a binding precedent for all future dockets. The Commission decision does not discuss the issue in depth or announce any guidance on the question. The Commission's last

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[94] Ramas, Exh. No. DMR-1CTr at 33 and Schedule 10.

[95] The 2013/2014 water year was not abnormally dry. *See* Direct Testimony of Bradley G. Mullins, Exh. No. BGM-1CT at 67:8-9.

GRC order, addressing power cost variability and recovery in the context of the 2013 PCAM proposal is far more germane to this point.[96]

78. Like the RRTM discussed below, rather than respond to the clear direction of the Commission on power cost variability in the 2013 GRC, the Company is pursuing a piecemeal, end-around approach to power costs, hoping to find success by returning to the Commission with the same request in smaller pieces and different garb. The request for recovery of the hydro deferral should be rejected.

2. Merwin Fish Collector Project.

79. The Merwin Fish Collector Project (Merwin Project) was placed into service in March 2014, and is included in rate base in this case.[97] Pacific Power sought to include the Merwin Project in rate base in its last GRC as a post-test year addition. The Commission rejected the request on the grounds that the project was not used and useful, and its costs were not known and measurable.[98] Rather than accept the Commission's ruling, Pacific Power pursued alternative avenues to recover Merwin costs prior to its next GRC (this case) through either a special tariff, or a deferral of the costs for future recovery.[99] These requests amount to little more than an effort to circumvent the Commission's ruling in the last GRC. In addition, even absent the Commission's 2013 rate order, the cost recovery sought in between rate cases for Merwin violates the general restriction on single-issue ratemaking. Pacific Power has established no basis for an exception to this doctrine, and Public Counsel does not agree that it is fair or reasonable to single out the Merwin Project for special deferral treatment between rate cases.

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[96] Ramas, Exh. No. DMR-1CTr at 42-44.
[97] Ramas, Exh. No. DMR-1CTr at 45.
[98] *Pacific Power 2013 GRC*, Order 05, ¶ 203.
[99] Advice No. 14-03 (April 14, 2014); Alternative Petition for Deferred Accounting, Docket UE-140617.

80. Pacific Power is not left without recourse. The Company has included Merwin Project costs in the revenue requirement in this case, effective March 2014, and Public Counsel supports this inclusion. While the majority of Merwin Project costs did not go into service until three months after the test year, Public Counsel has agreed with the inclusion of all major plant additions post-test year that have been actually placed in service and are known and measurable as of August 31, 2014. This allows for the reasonable and sufficient recovery of Merwin Project costs. The deferral request, however, should not be allowed.

B. Power Cost Issues.

1. Pacific Power's Renewable Resource Tracking Mechanism should not be approved.

81. As part of the instant rate filing, Pacific Power is requesting an accounting mechanism it terms a Renewable Resource Tracking Mechanism (RRTM). The RRTM is proposed as a means to address variability in net power costs related to wind resources in the Company's resource portfolio. The RRTM would track variations in some power costs from the amounts recovered rates, but would not address all power costs.[100]

82. As a practical matter, the RRTM is simply an incomplete or partial version of a PCAM already rejected by this Commission. The RRTM is similar, albeit narrower, than the proposal unsuccessfully presented in the last GRC. Pacific Power relies here on the same arguments as the last GRC, in which Mr. Duvall identified, *inter alia*, the increase in new wind resources, the Energy Independence Act, and intermittency of renewables as factors supporting the power cost recovery mechanism. The Commission rejected Pacific Power's 2013 PCAM proposal because "the Company failed to demonstrate sufficient power cost variability to warrant approval" and

[100] Ramas, Exh. No. DMR-1CTr at 36, 37 (citing Duvall).

because the PCAM "fail[ed] to include design elements the Commission previously has directed PacifiCorp to include in any PCAM proposal."[101] These defects have not been remedied in the new proposal.

83. As it is true for several other aspects of its case, the Company disregards the clear directives of the Commission's last order, and simply recycles a new version of its previous proposal. The RRTM does not conform to the design elements for a PCAM required by the Commission. The mere repetition of a request does not remedy this defect.

84. In addition to the design issues, the RRTM is flawed because the operation of the RRTM, as proposed in the original filing, could result in Pacific Power recovering amounts from its customers that exceed the Company's actual net power costs. Ms. Ramas' testimony provides an example, based on a review of Company Witness, Greg N. Duvall's testimony and variability data. Ms. Ramas presents a table comparing the under-recovery of net power costs (NPC) in Washington on a Washington basis and the Washington-allocated variance in wind value identified by Mr. Duvall. The results indicate that the amount of wind variance claimed by the Company exceeds the total net power cost for Washington by $20 million for the three-year period 2010-2012.[102] Pacific Power does not dispute the existence of the problem, or the accuracy of Ms. Ramas' calculations, but in rebuttal only proposes to place a cap on recoveries.[103] This makeshift remedy, however, simply papers over the underlying flaws of the mechanism.

85. Rather than present a complete PCAM mechanism, incorporating the Commission design parameters to address all of the Company power costs in a balanced manner, Pacific Power has

[101] *Pacific Power 2013 GRC*, Order 05, ¶ 9 (alteration in original).
[102] Ramas, Exh. No. DMR-1CTr at 39-40.
[103] Rebuttal Testimony of Gregory N. Duvall, Exh. No, GND-4T at 4:21-5:1.

voluntarily chosen to an unbalanced and incomplete approach. The methodology proposed could result in an improper shift of power cost risk to customers, or even in over-recovery above actual costs. The RRTM should be rejected. The Commission should not approve a piecemeal approach to power cost issues, and should again encourage Pacific Power to pursue established mechanisms to address cost recovery concerns, assuming the Company can establish that volatility or other conditions warrant adoption of a power cost adjustment (PCA).

2. Commission Staff's PCA proposal for the Company should not be adopted at this time.

86. As noted, Pacific Power did not present its own comprehensive PCA proposal in this case, despite the Commission's multiple invitations to do so. The Commission Staff, however, has included a PCAM proposal in its testimony.[104] While Public Counsel agrees conceptually with Staff's proposal, which appropriately incorporates the parameters established by the Commission, there are several factors which militate against adoption of a PCA at this time for Pacific Power.

87. It is useful to recall that a PCA is not per se a required element of ratemaking. Washington PCAs for Avista and PSE were adopted a decade ago in an environment of particular power cost volatility that does not exist today.[105] Pacific Power's power costs are already incorporated in the Company's rates, based on the Company's own modeling and best projections. Under this approach, Pacific Power has a strong incentive to manage its power costs between rate cases so that actual costs are as close as possible to those built in to rates. Until its

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[104] Testimony of David C. Gomez, Exh. No. DCG-1CT at 18-24.
[105] *Pacific Power 2013 GRC*, Order 05, ¶ 168.

next rate case, Pacific Power is allowed to keep 100% of any difference between lower actual power costs and the projected levels incorporated in rates.

88. A PCA is fundamentally a benefit to the utility, intended to improve and accelerate the recovery of power costs that depart significantly from the level it is already recovering. As such, the PCA shifts risk away from the utility and on to customers. While Washington's PCA design parameters help create a balanced approach to this risk shift, and retains some incentive for the utility to manage costs, a PCA is nonetheless an overall benefit to the utility. Pacific Power has chosen not to pursue this benefit in this or in past cases using the approved parameters, and now opposes the Staff's proposal. Given Pacific Power's own reluctance and outright opposition, there is no reason for the Commission to confer this additional benefit on the Company on its own motion.

89. PCAs are also intended to address assertions of regulatory lag, allowing utilities to recover unusually high power costs that occur between rate cases, particularly an issue when rate cases are some period of time apart.[106] Pacific Power, however, has filed general rate cases virtually continuously for the past decade.[107] Pacific Power's frequent GRC filings have allowed it to regularly update its power cost baseline on effectively an annual basis. This substantially reduces Pacific Power's practical need for a PCA to reflect changing power costs. Pacific Power has made no commitment for any stay out period or reduced rate case frequency if a PCA is adopted.

[106] Energy rate cases were not an annual occurrence at the time when PCAs were first adopted in Washington.

[107] Pacific Power has filed a general rate case every year since 2008, with the exception of 2012. The instant docket is Pacific Power's ninth rate request since 2003. The dockets are UE-032065, UE-050684, UE-061546, UE-080220, UE-090205, UE-100749, UE-111190, and UE-130043.

90. Adoption of a PCA also has cost of capital implications for Pacific Power. Mr. David Parcell, Staff's cost of capital witness, recommended an ROE at the bottom end of his range to reflect the possible implementation of a PCAM in this case.[108] Accordingly, any adoption of a PCA mechanism for Pacific Power in this case must be reflected in a reduction in cost of capital due to the PCA-related reduction of risk for the Company.

V. RATE SPREAD AND RATE DESIGN ISSUES

A. Class Cost of Service Study.

1. Pacific Power's use of a Peak & Average analysis is a departure from standard Washington cost of service methodology.

91. In this case, consistent with prior practice, Pacific Power has utilized a traditional embedded, or fully allocated, cost of service study for class cost of service purposes.[109] Public Counsel reviewed the Company class cost of service study (CCOSS) presented by Company witness, Ms. Joelle R. Steward and found the study to be in all regards mathematically accurate.[110]

92. In her analysis, Ms. Steward used a method known as "Peak & Average" (P&A) to assign generation and transmission-related plant and expenses. Under this approach, generation and transmission plant is classified as partially demand-related, and partially energy-related.[111] The Peak & Average method is distinct conceptually and mathematically from the Peak Credit methodology utilized by all utilities in Washington for the last 20 years or more. The Peak Credit methodology combines certain aspects of traditional embedded cost methods with those

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[108] Testimony of David C. Parcell, Exh. No. DCP-1T at 39; Parcell, TR. 290:17-291:23 (describing the PCAM as a "new factor" that would "help determine where within the range to set PacifiCorp's cost of equity."). Adoption of an RRTM would raise the same issue.

[109] Direct Testimony of Glenn A. Watkins, Exh. No. GAW-1T at 2.

[110] *Id.* at 5.

[111] *Id.* at 6.

used in forward-looking marginal cost studies. Peak & Average on the other hand is strictly an embedded (historical) cost methodology.

93. While Public Counsel as a general matter continues to support the use of the Peak Credit methodology in place for Washington utilities, as a practical matter, Pacific Power's use of Peak & Average for this case makes little substantial difference in the outcome of the study. As discussed below, Public Counsel accepts the Pacific Power rate spread recommendation based on the Company CCOSS.

94. While Public Counsel witness Glenn Watkins observes that the Company's use of Peak & Average method is reasonable in this case, he does so with a major caveat on the following issue. In developing her system load factor, Ms. Steward uses the highest peak load for a single hour in 2013 (known as the 1-CP approach). This results in a load factor of 57 whereby generation and transmission plant is then classified as 57% energy-related and 43% demand-related, which raises concerns from a reasonableness and a stability perspective. In Pacific Power's last GRC, the Company used a materially lower demand ratio of 38%. Using the Peak Credit methodology, the Company's demand ratio would have been only 35% in the last case.[112]

95. For this case, as Mr. Watkins explains, Ms. Steward's selected load factor for CCOSS purposes significantly exceeds the projected loads used for planning purposes. If the Company's 2013 Integrated Resource Plan (IRP) load factor forecast is used, the results indicates that the demand component on a forward-looking basis would be approximately 28%.[113] For this reason, and because of the instability of relying on a single hour peak demand, Public Counsel recommends that if P&A is used, that the forward-looking load factor for the most recent IRP be

[112] *Id.* at 11, n.8.
[113] *Id.* at 12:5-11.

employed, or alternatively an average of multiple hours of highest peak loads within a single year, or multiple years' annual peak loads.[114]

2. Boise White Paper's proposal to classify production-related plant as 100% demand-related is not reasonable.

96. Boise White Paper, L.L.C.'s (Boise) witness, Mr. Robert R. Stephens has significant disagreements with the other witnesses in the case, particularly with respect to classification and allocation of production and transmission plant. For at least 30 years, electric utility CCOSS in Washington have classified production-related plant as partially energy-related and partially demand-related. Mr. Stephens recommends abandoning this practice and instead classifying such costs as 100% demand-related, suggesting that "production costs should be classified and allocated to the customer classes according to each class's demand during the peak months."[115]

97. Mr. Stephens' theory is contrary to the reality of how electric utilities are planned and operated. Because much of a utility's investment in generation assets is related to base load units to meet customers energy needs year round, a large percentage of fixed generation costs should reflect energy usage throughout the year, while some portion should be based on peak demands, to reflect the costs of plant used only to meet peak for a few hours per year.

98. Pacific Power's rate base is comprised largely of base load units which exhibit high fixed costs and low variable costs. Mr. Stephens seeks to assign the total generation and transmission rate base investment based on class contributions to load during only a few hours of the year, i.e. peak loads. Because the Residential class contributes more to system peak hours relative to annual energy use, Mr. Stephens' method results in a clear bias against low load factor customer

[114] *Id.* at 12:12-18.
[115] Responsive Testimony of Robert R. Stephens, Exh. No. RRS-1T at 6:17-18.

classes. His approach does not recognize that most of the Company's investment in generation rate base is used to generate energy throughout the year, not just at peak times. This is illustrated in Figure 1 in Mr. Watkin's Cross-Answering Testimony.[116]

99. Mr. Stephens' proposal to allocate production-related fixed costs on the basis of a single year's four highest hourly loads should be rejected. The Commission has recognized in the past that reliance on only a few hourly observations can result in unstable results from one case to another which are subject to anomalous weather conditions or other factors.[117]

100. Mr. Stephens also disagrees with Pacific Power's allocation of transmission plant on the same basis as production plant. The Company's approach, however, is based on sound rationale and long-standing Commission precedent. The rationale is that transmission plant is an extension of production facilities. Transmission facilities are the conduit to move energy from distant generation facilities, generally placed near resources (rivers, coal mines), to load centers. Transmission facilities are used virtually every hour throughout the year, not just to meet peak load. There is not a linear relationship between load and the cost of transmission. The Commission rejected this theory as long ago as 1982,[118] and should decline to adopt it here.

101. In summary, the Commission has consistently rejected proposals to classify production and transmission plant as 100% demand-related. It has also rejected proposals to allocate demand-related production and transmission-related costs to only a few peak hours in the year. Mr. Stephens' recommendations are not consistent with cost causation, do not reflect how plant

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[116] Cross-Answering Testimony of Glenn Watkins, Exh. No. GAW-6T at 8, Figure 1.

[117] *Id.* at 8:11-9:6.

[118] *Wash. Util. & Transp. Comm'n v. Wash. Water* Power, U-82-10/82-11, Second Supplemental Order at 37.

is planned or operated, and result in a bias against Residential and Small General Service customers.

B. Rate Spread.

1. Public Counsel supports Pacific Power's rate spread recommendation.

102. Public Counsel accepts the Pacific Power rate spread recommendation for base rate revenue allocation (rate spread).[119] The Company proposal reflects movement towards allocated costs under Ms. Steward's CCOSS. It also reflects the principle of gradualism in that the Residential class will sustain a somewhat larger increase than the overall system average (8.5% under the original request) and the Small General Service a smaller increase. The percentage increase would be scaled back proportionately if, as requested by Public Counsel and other parties, the overall increase is less than the amount requested by the Company.

2. Commission Staff's rate spread recommendation allocates undue cost responsibility to residential customers.

103. Pacific Power, Public Counsel, Wal-Mart, Inc., and Boise all recommend that any rate increase be allocated such that the Residential class contribution would be 112% of the system average increase. Staff witness Jeremy Twitchell, however, recommends that the Residential class contribute 150% of the system average percentage increase, a substantially more dramatic shift toward allocated cost of service. Public Counsel does not agree with this recommendation.

104. Mr. Twitchell's CCOSS indicates that the parity ratios for Residential, Schedule 48T (Dedicated Facilities), Small General Service, Agricultural Pumping, and Street Lighting are all

[119] At the Company's original revenue requirement of $27.2 million, this would result in the Residential class receiving an increase of 9.5% and the Small General class receiving 4.2%. At the Company's final revenue requirement number of $31.9 million, the Residential class increase would be 11.2%, and 13% if deferral requests are included. Joelle R. Steward, Exh. No. JRS-16 at 3.

within 10% of parity, with Residential at 92%. Given the imprecise nature of class cost of service studies, if a class is within 10% of parity, that has been viewed as sufficient.[120] Indeed, for this reason, in this case the Commission could simply adopt an across-the-board equal percentage increase for all classes. However, as noted above, Public Counsel is willing to accept the above average increase for Residential customers proposed by Pacific Power as reasonable step towards parity. Staff's recommendation is too extreme, however, and not consistent with the Commission's prior holdings that "an appropriate rate spread requires consideration of a number of factors and is not the result of pure arithmetic calculations."[121] The Commission has been clear that it will consider other factors including "principles of rate stability, gradualism, and the avoidance of rate shock."[122]

105. In the Pacific Power 2010 GRC, the Commission strongly rejected a similar proposal by Staff, even though it was markedly less dramatic that the 150% of average requested here:

> Staff's rate spread, now supported by the Company, proposes higher than average increases for certain schedules and lower than average increases for others with the intent to move each customer class closer to full parity. For example, Staff's rate spread would result in residential and industrial customers receiving a rate increase of 114 percent of the average increase. We conclude that this is unreasonable and ignores the other principles that guide a determination of rate spread. Using PacifiCorp's COSS, all major customer classes are within 97 to 107 percent of parity. We conclude that the principles of gradualism and rate stability do not warrant moving these customer classes even closer to actual parity in the current economic conditions.[123]

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[120] *Pacific. Power 2013 GRC,* Order 05, ¶ 244 (fact that all classes except street lighting were within 10% of parity provided support for agreement on equal percentage increase for all classes). This consideration is also reflected in the 2010 GRC order discussed below.

[121] *Wash. Util. & Transp. Comm'n v. PacifiCorp,* Docket UE-100749, Order 06, ¶ 315 (*Pacific Power 2010 GRC*).

[122] *Id.*

[123] *Id.* ¶ 316.

106. The consensus recommendations of four parties: Pacific Power, Public Counsel, Boise, and Walmart are reasonable and appropriate and represent a fair resolution of rate spread for this case.

C. Residential Customer Charge.

1. The Pacific Power residential customer charge should not be increased.

107. PacifiCorp proposes increasing its residential customer charge from $7.75 per month to $14.00 – an increase of 81%. Public Counsel opposes the request for several reasons.

108. Public Counsel witness Glenn Watkins conducted a direct customer cost analysis of the Pacific Power Residential customer charge. This method considers only those costs that vary as a result of connecting a new customer and is required to maintain a customer's account. These costs include capital costs (i.e., equity return), interest, and depreciation associated with the lines and meters. In addition, operations and maintenance costs are included for customer meters, records, and billing. Indirect corporate overheard is not included. Mr. Watkin's analysis shows that the Residential direct customer cost is in the range of $7.31 to $7.50, demonstrating that there is no need for any increase in the charge.[124]

109. Pacific Power customers have questioned why an increased customer charge is justified, given that meter reading costs have presumably fallen with the advent of automated meters.[125] Mr. Watkin's testimony provides an analysis comparing meter reading cost in 2009 and 2014. Meter reading costs have declined nearly 50% and customer records and collections expenses by 10%. In 2009, Mr. Watkins's direct cost analysis result was $8.09 for the customer charge, as

[124] Watkins, Exh. No. GAW-1T at 27. Mr. Watkin's direct cost analysis is set out in Exh. No. GAW-5.
[125] Parties were asked by the Commission to address the customers' questions in testimony. Commissioner Goltz, TR. 67:19-68:7.

compared to his range of $7.31 to $7.50 in this case, consistent with customer assumptions that costs are declining.[126]

110. Efficient competitive pricing theory also argues against Pacific Power's recommendation. As a general proposition, regulation of utility monopolies is designed to act as a surrogate for competition, including by setting rates that replicate charges that would result in an effectively competitive market place. While Pacific Power's investment in system infrastructure certainly results in short-run costs that are fixed in nature, efficient competitive prices are based upon long run marginal costs, which are entirely variable in nature. In addition, fair utility pricing incorporates the principle that pricing should reflect the benefits received, with those receiving more benefits paying more. For electricity usage, the most direct indicator of benefits received is the level of consumption. Accordingly, volumetric pricing is the fairest pricing mechanism.[127] Other capital intensive industries comparable to utilities, such as motor transportation, airline travel, and rail service, all recover their costs through volumetric pricing.[128] As Mr. Watkins' testimony details, this theory is borne out by experience in the competitive electric market in Texas, where customer charges remain low and most costs are recovered volumetrically.[129]

111. Public Counsel also opposes the request as running contrary to conservation policy. Increasing the customer charge creates a disincentive for customers to use less electricity, since they have less ability to reduce the bill through lower usage. The Commission has previously recognized this effect.[130] High fixed charges may actually create an incentive for increased

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[126] Watkins, Exh. No. GAW-1T at 30:5-15.
[127] *Id.* at 19-20.
[128] *Id.* at 21:8-13.
[129] *Id.* at 25:8-26:9.
[130] *Pacific Power 2010 GRC*, Order 06, ¶ 114.

usage, as the FERC experience with implementation of "straight fixed variable" rates indicates.[131]

2. Commission Staff's proposal for a $13.00 customer charge should be rejected.

112. Public Counsel opposes the Staff recommendation to increase the customer charge to $13.00. The arguments above regarding the Pacific Power proposal are also applicable to the Staff recommendation. However, there are additional issues raised by Staff's proposal.

113. As a threshold matter, Mr. Twitchell's recommendation is based on a faulty premise, that Pacific Power has declining energy sales. This appears inconsistent with the data as the Company's Washington retail energy sales have increased since 2010 (with a small drop in 2013).[132] This Washington trend is consistent with Pacific Power's IRP projections of a slight increase in total system sales by 2023.[133]

114. As a justification for the increased charge, Mr. Twitchell proposes to include the cost of line transformers for recovery in the fixed customer charge. The Commission rejected this approach as long ago as 1992 in a Puget Sound Energy case in which PSE and the Commission Staff supported an approach which classified only service drops and meters as customer-related. Transformers, substations, poles, towers and the like were classed as demand-related. Pacific Power classed its transformers in this case as 100% demand-related, consistent with the precedent. While he accepts this allocation, Mr. Twitchell nevertheless proposes to collect all the transformer costs within the customer charge.[134]

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[131] Watkins, Exh. No. GAW-1T at 21:23-23:11.
[132] Watkins, Exh. No. GAW-6T at 17, Table 2.
[133] *Id.* at 17:10-14.
[134] Watkins, Exh. No. GAW-6T at 18:3-20:6.

115. It is also important to recall that Staff's proposal is linked to approval of its three-tier rate design proposal.[135] Thus, if the Commission does not adopt the third-tier, there is no reason to consider Staff's increased customer charge. In any event, for the reasons above, Public Counsel opposes this dramatic customer charge increase whether or not the third-tier proposal is adopted.[136]

3. Special customer charges would not benefit the majority of low-income customers.

116. Both Pacific Power and Commission Staff effectively acknowledge the serious negative impact of their customer charge proposals by proposing smaller increase for some low-income customers. Pacific Power proposes to increase the basic charge by one dollar to $8.75 for customers on Schedule 17, the Low Income Bill Assistance Program (LIBA).[137] Staff does not include a special rate for low-income customers in its primary proposal, but does provide as an alternate recommendation that the charge for LIBA customers would only increase to $8.55. This would be offset by an increased charge to all other residential customers, making the total recommended charge $13.20.[138]

117. These proposals are moot from Public Counsel's perspective, since Public Counsel's analysis indicates that no increase is warranted. It is important to note, in addition, that these proposals would do nothing to help most low-income customers. The "discounted" customer charge would be available only to customers receiving Low Income Bill Assistance (LIBA). LIBA serves only approximately 5.6% of Pacific Power's current residential customers, while

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[135] Twitchell, TR. 614:22-615:8.

[136] Public Counsel does not take a position on the third tier proposal in this proceeding, but notes that Energy Project and Pacific Power have raised some issues that deserve consideration.

[137] Direct Testimony of Joelle Steward, Exh. No. JRS-1T at 26:17-20.

[138] Direct Testimony of Jeremy B. Twitchell, Exh. No. JBT-1T at 35:14-18.

U.S. Census Data shows that 23-38% of the service area's population lives at or below 150% Federal poverty level and is eligible for the program.[139] This proposal would do little to truly assist low-income customers.

VI. LOW INCOME ASSISTANCE AND CONNECTION FEE PROPOSALS

A. Pacific Power's Low Income Bill Assistance Program Proposal Is Reasonable.

118. Public Counsel supports the proposal by Pacific Power to implement increases to its Low Income Bill Assistance program.[140] The Company proposal appears consistent with the five-year plan for Pacific Power's LIBA initially approved by the Commission in Docket UE-111190.[141] Public Counsel notes that The Energy Project has reviewed and supports the proposal.[142] While the existence of the LIBA program is helpful, it is important to remember that it reaches only a fraction of eligible customers, as noted above.

B. Pacific Power's Unreasonable Collection, Connection, and Reconnection Proposals Were Appropriately Withdrawn and Should Not Be Revisited.

119. In its initial filing, Pacific Power proposed a number of changes that would have severely impacted customers, in particular low-income customers.[143] The Company proposed a 113% increase to its evening connection charges and 69% increase to its weekend charges.[144] For reconnection, Pacific Power proposed increasing daytime charges by 100%, evening charges by

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[139] Staff witness Mr. Roger Kouchi testified that he believes "it is likely that Pacific Power has many more low-income customers than it has identified[.] The U.S. Census Bureau's survey...shows that between 23 to 38% of the population in Pacific Power's service area...are designated as 150% of the Federal poverty level, and thus qualify for the Company's low-income programs." Testimony of Roger Kouchi, Exh. No. RK-1T at 9:5-6 and 10:10-13. *See also* Direct Testimony of Stefanie A. Johnson, Exh. No. SAJ-1T at 6.

[140] Direct Testimony of Joelle R. Steward, Exh. No. JRS-1T at 26-28.

[141] *Wash. Util. & Transp. Comm'n v. PacifiCorp,* Docket UE-111190, Order 07.

[142] *See*, Response Testimony of Charles M. Eberdt, Exh. No. CME-1T at 4.

[143] Direct Testimony of Barbara A. Coughlin, Exh. No. BAC-1T (Changes to Rule 11D at 4, Changes to Schedule 300 at 11).

[144] *Id.* at 8-9. A connection charge is assessed for service at a new location, or for restoration of service more than 20 days after a disconnection for non-payment.

250% (from $50 to $175) and weekend charges by 313% (from $75 to $310).[145] In addition, Pacific Power proposed to directly allocate collection costs to individual customers whose accounts are in arrears. In the face of opposition from Public Counsel, Commission Staff, and the Energy Project, Pacific Power withdrew these proposals in its rebuttal testimony.[146]

120. Pacific Power proposed similar extreme increases to its connection and reconnection charges in its 2013 GRC. Just as they did in this case, when the proposals were met with opposition from Public Counsel and other parties,[147] Pacific Power withdrew the requests prior to hearing. Public Counsel and other parties have expended scarce resources to address these repetitive but ill-conceived and poorly supported proposals that would have imposed serious hardship on the most vulnerable customers. Public Counsel requests that the Commission make clear in the final order that it will not entertain further requests to increase these charges in the next general rate case, unless Pacific Power is able to present materially different evidence and argument than that relied upon in the 2013 and 2014 cases.

VII. CUSTOMER COMMENTS

121. Pacific Power customers submitted a total of 119 comments to the Commission and to Public Counsel, both in writing and in person at two public hearings held in Yakima, Washington, on September 25, 2014, and in Walla Walla, Washington, on September 26, 2014. At the public hearings the Commission heard comments from customers expressing concern about the rate request. One customer, Ms. Barbara Clark, from Walla Walla, expressed concerns about a number of issues, including the Company's request to increase its return to investors:

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[145] *Id.* at 9. A reconnection charge is assessed for restoration of power within 20 days after disconnection.
[146] Rebuttal Testimony of Joelle R. Steward, Exh. No. JRS-13T at 51:5-52:2.
[147] *Pacific Power 2013 GRC*, Direct Testimony of Lea Daeschel, Exh. No. LD-1T; Direct Testimony of Charles M. Eberdt, Exh. No. CME-1T.

> With regard to the requested increase in rates, I have two concerns. The first . . . was a request that the commission approve approximately $5 million to increase the return on investment for the investors . . . when so many people are struggling, to increase their cost of living for the purpose of putting more money into the pockets of wealthy people, I believe is wrong and inappropriate at this time, and it's probably a significant part of the reason why so many people are struggling.[148]

Ms. Jan Brown wrote to the Commission via email due to concerns about the fuel consumption necessary to attend in person. In her comments, Ms. Brown mentioned that Yakima County has a disproportionate number of low-income individuals, and then continued:

> Everyone wants an electric system that safely delivers this essential utility, but it appears a large portion for the requested rate increase is purely about improving profits for Pacific Power's shareholders . . . . Pacific Power has been relentless over the past decade in seeking higher profit margins. It's time to put the brakes on and send them the strongest possible message that protection of the public under the law must be balanced against their corporate bottom line.[149]

Many more customers contacted the Commission in writing, including Pacific Power customer, Ms. Anona Schmeltzer, who wrote:

> The people of this area cannot afford another rate increase on their power bill again this year . . . . This community is suffering from an economy that has not recovered. People are lucky to have a job, and lot are only earning minimum wage. Some are working 2 or more jobs to make ends meet . . . . Please do not increase the rates. Give the area a chance to recover without adding an additional burden . . . . Everyone I spoke to about a rate increase was upset and depressed.[150]

The Yakima County Farm Bureau provided comments on behalf of its Yakima County members, representing the impact of the rate increase on farmers in PacifiCorp's Washington service territory:

> This increase translates into hundreds of thousands of dollars for those of us that rely on clean electrical power to run electrical motors on our farms that do everything from pumping irrigation water to milking out cows. These rate increases . . . are very disproportionate to agriculture and business. We have sent

[148] Clark, TR. 84:18-24, 85:11-16.
[149] Exh. No. BR-1 at 19.
[150] Exh. No. BR-1 at 12.

> you letters for the past several years opposing these increases . . . . We are again requesting that you do not grant any electrical rate increases this year.[151]

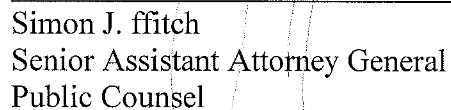
Public Counsel requests that the concerns expressed by customers be given serious consideration in the Commission's deliberations on this rate request.

VIII. CONCLUSION

122. For the foregoing reasons, Public Counsel respectfully requests that the Commission reject the Pacific Power rate request in this case, and establish just, fair, reasonable, and sufficient rates, based on Public Counsel's recommendations.

DATED this 22nd day of January, 2015.

ROBERT W. FERGUSON
Attorney General



Simon J. ffitch
Senior Assistant Attorney General
Public Counsel

[151] *Id.*