BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	DOCKET NOS. UE-140762, UE-140617, UE-131384, and UE-140094 *(consolidated)*
v.	)	
PACIFIC POWER & LIGHT COMPANY,	)	
Respondent.	)	

POST-HEARING BRIEF

OF

BOISE WHITE PAPER, L.L.C.

January 22, 2015

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I. INTRODUCTION

1 Pursuant to WAC § 480-07-390 and Prehearing Conference Order 04, Boise White Paper, L.L.C. ("Boise") hereby submits this post-hearing brief requesting that the Washington Utilities and Transportation Commission ("WUTC" or the "Commission") significantly reduce Pacific Power & Light Company's ("Pacific Power," "PacifiCorp" or the "Company")[1/] proposed rate increase. The Company has not demonstrated that its costs justify either its initial request for an 8.5%, $27.2 million general rate increase, or its revised request for a 9.9%, $31.9 million general rate increase. Further, the Company has not carried its burden of proof justifying deferred accounting treatment related to the following consolidated dockets: 1) Colstrip Outage; 2) Declining Hydro; and 3) Merwin Fish Collector. Accordingly, Boise recommends that the Commission also reject the additional rate increases associated with these deferral requests, of roughly $6.8 million.

2 Considering the combined impact of the Company's requests in all four dockets, Pacific Power is yet again continuing its annual trend of double-digit rate increase requests aimed at customers in a rural, economically challenged region of Washington. The Commission expressed appropriate concern at the hearing over the impact of such increases upon Pacific Power's Washington customers. In all events, the evidence in this consolidated general rate case

1/ In these proceedings, the Commission repeatedly refers to the Company as "PacifiCorp." E.g., Order 01 at ¶¶ 1-2, 8-13; Order 03/01 at ¶¶ 1-6, 8-11, 14-17; Order 04 at ¶¶ 1, 2, 4, 8; Order 05 at ¶¶ 1-8. Likewise, counsel for the Company stated an appearance during the hearing on behalf of "PacifiCorp." McDowell & Wallace, TR. 148:1-4. Accordingly, Boise is uncertain as to why the Administrative Law Judge ("ALJ") in this case offered the following explanation in the Memorandum section of Order 07, note 1: "We take Boise White Paper's references to PacifiCorp to be references to Pacific Power & Light Company (Pacific Power), which is the operating company in Washington and the corporate entity before us seeking changes in its rates." Given the interchangeable use of Company terminology by the Commission, Pacific Power, and other parties, Boise offers this explanatory footnote to hopefully prevent any confusion or objection to "PacifiCorp" references herein, whether contained in witness testimony or in the Commission's prior orders and citations.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

("GRC") proceeding shows that the Commission should hold Pacific Power to established burden of proof standards, thereby justifying the rejection of most of the Company's proposed general rate increase, along with all three deferred accounting requests.

II. BACKGROUND

3 The refrain of virtually annual Company rate cases since the merger with MidAmerican Energy Holdings Company (now Berkshire Hathaway Energy, or "BHE") continues, unabated—and this despite the Commission's efforts to address Company concerns over alleged regulatory lag via special concessions in the 2013 GRC, including the use of end-of-period ("EOP") rate base.[2/] Worse, the pervasive theme in these proceedings has been the Company's attempt to bypass or just plain ignore Commission holdings reached barely a year ago in the 2013 GRC, including issues involving: 1) Western Control Area ("WCA") cost allocation methodology; 2) costs associated with out-of-state qualifying facilities ("QFs"); 3) pro-forma capital addition standards; and 4) net power cost ("NPC") recovery, specifically in regard to an appropriately designed power cost adjustment mechanism ("PCAM").

A. The Company's WCA and QF Proposals Were Recently Rejected

4 First, the issue of how to allocate costs among PacifiCorp's multiple jurisdictions continues to create yearly controversy. In the 2013 GRC, the Commission thoroughly analyzed numerous Company proposals to modify the WCA methodology that was proposed by the Company and accepted by the Commission in 2007.[3/] Ultimately, the Commission rejected the Company's proposed modifications, finding the WCA methodology to be "a comprehensive methodology with multiple factors," such that "any changes should be

[2/] WUTC v. PacifiCorp, Docket No. UE-130043, Order 05 at ¶ 184 (Dec. 4, 2013) ("2013 GRC Order 05").
[3/] Id. at ¶¶ 84-94; WUTC v. PacifiCorp, UE-061546 and UE-060817, Order No. 08 at ¶¶ 43-44 (June 21, 2007).

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

considered in the context of an overall review of that methodology."[4] Notwithstanding, Pacific Power now proposes to change a portion of the WCA cost allocation methodology via the proposed inclusion of out-of-state QF costs in Washington rates, including a primary proposal which was explicitly rejected in the 2013 GRC,[5] as well as two alternative proposals. This renewed request is particularly egregious, considering that the Commission *just* found the allocation of Oregon and California QF costs to be "tantamount to asking that we abandon the WCA methodology and adopt the Revised Protocol methodology for this purpose," and in spite of the fact that the Commission has determined for the past 11 years that the Revised Protocol could not legally be adopted under Washington law.[6]

B. The Commission Affirmed Capital Addition Standards that the Company Now Disregards

5 Similarly, the Commission thoroughly considered the proposed inclusion into rate base of a handful of pro-forma capital additions in the 2013 GRC.[7] Although approving all but one of the proposed additions, the Commission firmly rejected proposals to adopt a new, "bright line" standard when evaluating pro-forma capital projects, including the rejection of "bright line cutoff dates."[8] In disregard of these holdings, however, the Company exponentially increased the amount of proposed pro-forma capital additions in its initial filing, and offered little support for a full 30 proposed projects other than the "bright line" cost and completion criteria of projects with costs in excess of $250,000 and those with a "bright line cutoff date"—i.e., an expected in service date preceding March 31, 2015.[9]

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[4] 2013 GRC Order 05 at ¶ 92.
[5] Id. at ¶¶ 110-114.
[6] WUTC v. PacifiCorp, Docket Nos. UE-050684 and UE-050412, Order 04/03 at ¶¶ 52, 54 (April 17, 2006).
[7] 2013 GRC Order 05 at ¶¶ 186-209.
[8] Id. at ¶¶ 199-200.
[9] Siores, Exh. No. NCS-1T at 5:17-19.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

6 Moreover, in the 2013 GRC, the Commission strongly affirmed its detailed known and measurable cost standard in rejecting one of the Company's proposed additions, insisting upon "actual" cost amounts and "demand[ing] a high degree of analytical rigor" in those rare and exceptional circumstances when estimates are allowed.[10/] Nonetheless, as discussed later in this brief, evidence in the record plainly establishes that the Company's pro-forma project costs have lacked any legitimate sort of analytical rigor associated with cost estimation, never mind the "high degree" required by the Commission.

C. The Company Is Attempting to Bypass the Commission's PCAM Findings via the Renewable Resource Tracking Mechanism ("RRTM") and Deferral Requests

7 Finally, the Commission comprehensively analyzed the Company's proposed PCAM in the 2013 GRC,[11/] noting that "PacifiCorp argues that it 'needs a PCAM in Washington to address its substantial NPC variability, which is caused primarily by factors outside the Company's control.'"[12/] After finding that the "best evidence" in that case "show[ed] a *steady decline* in the variability of Washington allocated NPC from 2007 to 2011," as well as evidence showing "a further decline in 2012,"[13/] the Commission rejected the Company's proposed PCAM.

8 In the 2013 GRC, the Commission found that the Company's proposed PCAM lacked sharing bands and deadbands, "critically important elements that provide an incentive for the Company to manage carefully its power costs and that protect ratepayers in the event of extraordinary power cost excursions that are beyond the Company's ability to control."[14/] The

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10/ 2013 GRC Order 05 at ¶ 205 (quoting WUTC v. Puget Sound Energy, Inc. ("PSE"), Docket Nos. UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 26 (Apr. 2, 2010)).

11/ 2013 GRC Order 05 at ¶¶ 157-173.

12/ Id. at ¶ 157 (quoting PacifiCorp Initial Brief ¶ 100).

13/ Id. at ¶ 159 (emphasis added).

14/ Id. at ¶ 170.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Commission also stated that "[t]he Company's perfunctory response"—i.e., ignoring the necessity of PCAM deadbands or sharing bands "in every jurisdiction where PacifiCorp operates"—was "simply not acceptable," as the PCAM proposed by the Company would impermissibly "protect the Company from *any* risk of under-recovery."[15/]

9 Nevertheless, despite the Commission's strong stance on power cost recovery which includes requisite ratepayer safeguards in the 2013 GRC (including an explicitly stated concern regarding PacifiCorp's "loss of perspective on the Company's responsibility to manage its power costs"[16/]), the Company now proposes an RRTM and seeks approval for three separate deferred accounting requests which all attempt to establish dollar-for-dollar power cost recovery. Through the RRTM, Pacific Power ignores the Commission's recent holdings by presenting "a more limited" version of the last proposed PCAM, yet one still lacking requisite sharing or deadbands.[17/] Moreover, as explained in further detail within this brief, a properly designed PCAM could have mooted the power cost recovery issues in the Company's deferral requests—and, in any event, would have assured that customer interests were safeguarded through the operation of sharing bands and deadbands.

III. ARGUMENT

A. Pacific Power's Proposed Rate Increase Should Be Significantly Reduced

10 The Company's overall rate request is largely founded on two unpersuasive bases which ultimately justify significant reductions to Company proposals, if not a finding by the Commission that ratepayers are actually entitled to a rate decrease. First, the record contains compelling evidence establishing that Company claims regarding "chronic under-recovery" are

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15/ Id. at ¶¶ 171-72 (emphasis added).
16/ Id. at ¶ 170.
17/ Duvall, Exh. No. GND-1CT at 39:19-40:1.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

not valid. Second, much of the Company's proposed rate increase amount is associated with issues and recovery theories already considered in detail and rejected by the Commission in the 2013 GRC.

1. The Company Is Not Experiencing Chronic Under-Recovery in Washington

11 Pacific Power tells the Commission that it has not been able to reduce the frequency of general rate cases in Washington by alleging a distinction between Washington and other PacifiCorp jurisdictions; that is, jurisdictions wherein "the Company's cost control measures and the availability of alternative ratemaking mechanisms have allowed the Company to recover the costs to serve its customers."[18/] Company witness Mr. Bryce Dalley also claims that an additional factor "affecting the Company's chronic under-recovery" in Washington is the Commission's use of the WCA cost allocation methodology.[19/]

12 In sum, the Company has articulated three—and *only* three—factors alleged to be responsible for alleged chronic under-recovery in Washington: 1) Company cost control measures; 2) the availability of alternative ratemaking mechanisms; and 3) the Commission's use of WCA cost allocation methodology. After close examination of each of these three factors, the Commission should find that none justify a significant rate increase—especially on the very heels of the Company's recent rate increase in the 2013 GRC.

a. Failed Cost Control Measures Are Not an Under-Recovery Factor Justifying a Rate Increase

13 Pacific Power's inclusion of "the Company's cost control measures" as a factor in PacifiCorp's other jurisdictions which allow it to recover costs is a red herring, at best. Mr.

18/ Dalley, Exh. No. RBD-1T at 5:4-8.
19/ Id. at 6:5-11.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Dalley testifies to "aggressive cost control measures" in Washington.[20/] Accordingly, these "aggressive" internal cost control measures in Washington should allow the Company to recover costs to serve Washington customers, just as purportedly achieved in other PacifiCorp jurisdictions. If not, the only possible variable which could result in a different outcome in Washington would be the Company's own mismanagement of Washington operations. The Commission does not control the Company's internal cost control measures, so to include this as an actual "factor" preventing the Company from recovering its costs is simply "not persuasive of anything,"[21/] and certainly does not justify ratepayer subsidization of the Company's possible mismanagement.

b. Alternative Ratemaking Mechanisms Are Available to the Company

14 The fact that the Company has repeatedly refused to adopt an alternative ratemaking mechanism meeting basic Commission standards for ratepayer protection, a fact verified by the Commission at hearing,[22/] does not mean that such mechanisms are unavailable to Pacific Power. In the 2013 GRC, the Company was reminded that the Commission is "open to consider a properly designed PCAM proposal that incorporates the appropriate balance between the Company and ratepayers."[23/] But, rather than moving closer to the alternative ratemaking mechanism design elements required by the Commission, the Company has chosen to move *further away*, in the apparent hope that the Commission may eventually just relent to the increasingly ambitious Pacific Power requests.

20/ Dalley, Exh. No. RBD-1T at 5:9-10; accord id. at 4:12 ("The Company continues to proactively and aggressively control its costs.").

21/ Cf. Order 07 at ¶ 3.

22/ Commissioner Jones & Williams, TR. 304:2-306:2.

23/ 2013 GRC Order 05 at ¶ 173.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

15 Moreover, the Company's alleged distinction between the alternative ratemaking mechanisms available in Washington and other PacifiCorp jurisdictions does not withstand scrutiny. As explicitly pointed out by the Commission, the Company's repeated proposals in Washington for cost recovery mechanisms containing "neither dead bands nor sharing bands" is actually "in contrast to the power cost adjustment mechanisms approved in other PacifiCorp jurisdictions."[24]

16 Instead of proposing an appropriate alternative mechanism in these proceedings, however, the Company has essentially redoubled its resistance to ratepayer safeguards in Washington, subjecting the Commission to what amounts to a multi-pronged attack of cost recovery proposals in the form of the RRTM and several deferral requests, each proposing to allow the Company dollar-for-dollar recovery of power costs without any deadbands or sharing bands. In so doing, the Company is also opting to forego a range of internal cost management options which do more than simply pass cost uncertainty on to ratepayers, such as those noted at hearing by Mr. Gorman and later referenced by the Commission.[25] The Commission should reject Pacific Power's inaccurate claim that alternative ratemaking mechanisms are unavailable to the Company.

c. The Company Has Assumed the Risk of Under-Recovery by Choosing to Operate in Multiple Jurisdictions

17 Any alleged under-recovery associated with the Commission's use of WCA cost allocation methodology is a risk the Company assumed on behalf of shareholders when it chose to operate in Washington in addition to several other states. This fact was reaffirmed by the Commission in the 2013 GRC: "It remains significant today that in approving the WCA, a

[24] Id. at ¶ 170.
[25] Gorman, TR. 302:20-303:17; Commissioner Jones, TR. 305:19-22.

method different than the Revised Protocol on which PacifiCorp relies in its five other states for inter-jurisdictional cost allocation, the Commission recognized that the Company assumed any risk of under-recovery of costs due to states approving different methodologies ….”[26/]

2. Pacific Power's Proposed Rate Increases Involve Cost Recovery Requests and Issues Already Determined Against the Company

18 The Company is essentially relitigating a number of issues already addressed in detail by the Commission and ruled against the Company in the 2013 GRC. While the Company may arguably have window-dressed the forms of presentation so as to induce the Commission to not simply invoke its statutory right to reject recently determined issues out of hand,[27/] the substance is essentially unchanged on issues concerning WCA methodology, out-of-state QF cost recovery, pro-forma capital additions, and appropriate PCAM design. Accordingly, the Commission should reject the Company's argument that it is entitled to rate increases based on arguments which have already been thoroughly considered and rejected in 2013.

19 Of the approximate $38.7 million in rate increases which the Company seeks through its general rate request and deferred accounting requests in these consolidated proceedings, almost half of this amount, or $18.3 million, is attributable to these same rejected recovery issues. Specifically, the following approximate amounts correspond to issues decided in the 2013 GRC: 1) $10 million in out-of-state QF costs, contrary to both WCA and QF allocation determinations; 2) $1.5 million in pro-forma capital addition costs (excluding the Merwin Fish Collector); and 3) $6.8 million related to the three deferred accounting petitions, which effectively bypass protective safeguards that would be in place through a properly

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26/ 2013 GRC Order 05 at ¶ 81.

27/ RCW § 80.04.200; see also US W. Commc'ns, Inc. v. Utils. & Transp. Comm'n, 134 Wn.2d 74, 104-107 (1997).

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

designed PCAM.

3. Boise Witnesses Demonstrate the Significantly Overstated Nature of the Company's Rate Increase Requests

20 Boise witnesses Mr. Michael Gorman, Mr. Bradley Mullins, and Mr. Robert Stephens have testified to further, appropriate reductions to proposed Company rate increases, and modifications to rate allocation which are warranted by the evidence in the record. The remainder of this brief treats these witness recommendations in detail.

4. Summary of Boise's Recommendations

21 Boise recommends that the Commission reduce the requested general rate increase by approximately $28.6 million. In combination with Staff and Public Counsel's adjustments, the record demonstrates that Pacific Power may presently be operating at a level of revenue sufficiency and that the Company has not met its burden of proof justifying its requested rate increase. Boise's recommended revenue requirement adjustments are presented in summary form in the following table, which uses the same calculation methodology employed in Boise's responsive case, updated to incorporate the Company's rebuttal filing:

Boise Updated Integrated Washington Revenue Requirement Summary[28/]

Company Rebuttal Revenue Deficiency	**$ 31,938,957**
Boise Adjustments:	
Cost of Capital (Sponsored by Mr. Gorman)	(6,387,361)
Pro-forma Capital Additions	(3,934,296)
End of Period Rate Base	(513,389)
Operations and Maintenance Escalation	(1,504,537)
Energy Imbalance Market Costs	371,729
Net Power Costs	(16,626,964)
Total Adjustments	**(28,594,819)**
Adjusted Revenue Deficiency	**$ 3,344,138**

In addition to these recommendations concerning Pacific Power's general rate case request, Boise also recommends that the Commission reject each of the Company's deferred accounting requests, further reducing the overall rate increase impact of the consolidated docket requests by approximately $6.8 million.

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

22 Pacific Power bears the burden of proof to demonstrate that its proposed tariffs are just and reasonable.[29/] This burden includes "the burden of going forward with evidence and the burden of persuasion."[30/] The Company retains this burden throughout the proceeding and

[28/] Boise notes that, given the numerous errors discovered by the Company even after the rebuttal filing, and further revenue requirement adjustments made post-rebuttal (such as the exclusion of certain pro-forma projects), Boise expects further updates in the Company's compliance filing which would affect the calculations shown here.

[29/] RCW § 80.04.130(4); WAC § 480-07-540; WUTC v. Avista Corp. ("Avista"), Docket Nos. UE-100467 and UG-100468 (consolidated), Order 01 at ¶ 12 (Apr. 5, 2010).

[30/] WAC § 480-07-540.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

must establish that the rate change is just and reasonable.[31] Accordingly, Pacific Power also retains the burden of proof to demonstrate that its proposed changes to the WCA cost allocation methodology will produce just and reasonable rates.[32] Likewise, the Company bears the burden of proving that deferred accounting requests are justified based upon costs are that are both "extraordinary" and "due to factors beyond the Company's control."[33]

23 When setting rates, a utility is allowed an opportunity to recover its operating expenses and to earn a rate of return on its property that is used to provide service.[34] The amount of a utility's operating expenses included in rates is typically "based on actual operating expenses in a recent past period referred to as the 'test period' or 'test year.'"[35] The Commission also removes from rates all property not used and useful to serve Washington customers,[36] all non-recurring or one-time expenses, and other costs that a utility is unlikely to experience during the term of the proposed rates.[37] Costs that are abnormal, fluctuate, or are not accurately estimated in the test period must be normalized to achieve an expected cost level based on typical conditions.[38] Regardless of prudence, costs and expenses that do not benefit

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31/ WUTC v. Avista, Docket No. UG-041515, Order 06 at ¶¶ 22, 24 (Dec. 7, 2004); WUTC v. Pacific Power & Light Co., Cause No. U-84-65, Fourth Suppl. Order at 17 (Aug. 2, 1985).

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

33/ E.g., Docket No. UE-020417, Third Suppl. Order at ¶ 5 (Sept. 27, 2002); Docket Nos. UE-050684 and UE-050412, Order 04/03 at ¶ 305 (combining both standards in affirming that deferred accounting is "warranted in extraordinary *circumstances*") (emphasis added); see also WUTC v. PacifiCorp, Docket No. UE-100749, Order 10 at ¶ 21 & n.19 (Aug. 23, 2012) (quoting the 2002 order to explain the purpose of deferred accounting); Docket Nos. UE-020417 and UE-991832, Sixth/Eighth Suppl. Order at ¶ 29 (finding insufficient nexus between causation and cost to justify deferred accounting, even if the "extraordinary" nature of costs might "arguably" provide a rationale for deferral).

34/ People's Org. for Wash. Energy Resources v. WUTC, 104 Wn.2d 798, 808-11 (1985); Docket Nos. UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 19.

35/ People's Org. for Wash. Energy Resources, 104 Wn.2d at 810.

36/ RCW § 80.04.250; Docket Nos. UE-050684 and UE-050412, Order 04/03 at ¶¶ 48-70.

37/ WUTC v. Avista, Docket Nos. UE-991606 and UG-991607, Third Suppl. Order at ¶¶ 205-07 (Sept. 29, 2000).

38/ Id. at ¶ 34.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

ratepayers or were incurred to benefit shareholders are not recoverable.[39]

C. Pacific Power's Filed Cost of Capital Is Exaggerated, Not Supported by Credible Evidence, and Should Be Reduced

24 Pacific Power has requested an increase in its cost of capital that is simply unwarranted in light of the Company's actual capital costs. The Commission should recognize that capital costs remain low and that, in the current economy, utilities are viewed as favorable investment opportunities. In fact, current economic conditions make utilities like the Company extremely attractive investment opportunities because they appeal to investors looking for stable investments in a still recovering economic climate.[40]

25 Notwithstanding, in this case the Commission must determine whether the rate of return specific to Pacific Power in Washington is just and reasonable, focusing on the financial obligations incurred by the Company to provide retail service in this state.[41] As Mr. Gorman testified at hearing: "Customers in this jurisdiction shouldn't be asked to pay higher rates to support financial obligations outside of this jurisdiction."[42] Conversely, the Company's notion of "fairness" would require Washington ratepayers to subsidize PacifiCorp operations in other states.[43] As recommended by Mr. Gorman, however, "fairness" should be determined by the Commission, regulating in the interests of customers and utilities, and not merely according to PacifiCorp senior management.[44]

26 Based on the testimony of Mr. Gorman, Boise recommends that the Commission adopt a 9.3% return on equity ("ROE") for Pacific Power, which, based on the Company's

[39] U.S. West v. WUTC, 134 Wn.2d 74, 126-27 (1997); WUTC v. Avista, Docket Nos. UE-080416 and UG-080417 (consolidated), Order 08 at ¶ 29 (Dec. 29, 2008).
[40] Gorman, Exh. No. MPG-1Tr at 6:7-13.
[41] Gorman, TR. 320:2-9.
[42] Id. at 320:9-11.
[43] Williams, TR. 321:15-19.
[44] Gorman, TR. 324:18-22.

currently accepted capital structure, will result in a 7.20% rate of return ("ROR"). The Commission should maintain the capital structure that it has ordered in the past two rate cases, composed of 49.1% common equity, as evidence in this proceeding thoroughly establishes that the Company continues to enjoy strong ratings based upon this capital structure.

1. The Commission Should Reject Pacific Power's Proposed ROE and Adopt Boise's Recommendations

27 Mr. Gorman began his review by examining the market's assessment of utility performance generally. Mr. Gorman found that electric utilities' credit ratings have continued to improve and remain stable in outlook, with agencies embracing the need for utility capital by meeting demands "at near historical low capital market costs."[45] Utility stock performance has likewise been positive in recent market environments and, as a whole, ratings agencies consider the utility sector to be stable, low risk, and in high demand.[46] PacifiCorp itself is rated as "Stable" by both Standard & Poor's ("S&P") and Moody's, with unsecured corporate and senior secured bond ratings of "A-" and "A," and "A3 and "A1," respectively.[47]

28 In order to estimate the Company's market cost of equity for its Washington operations, Mr. Gorman relied upon the results of five financial models, including: 1) a Constant Growth Discounted Cash Flow ("DCF") model; 2) a Sustainable Growth DCF model; 3) a Multi-Stage Growth DCF model; 4) a Risk Premium model; and 5) a Capital Asset Pricing Model ("CAPM").[48] Similarly, if a few incorrect assumptions relied upon in Company witness Mr. Kurt Strunk's studies are corrected, his models also support an ROE of approximately

[45] Gorman, Exh. No. MPG-1Tr at 3:17-20.
[46] Id. at 6:9-13.
[47] Id. at 7:5-7.
[48] Id. at 21:20-22:3.

9.3%.[49]

29 Because PacifiCorp is a privately held company for which some market information is not readily available, it is necessary to use a proxy group to derive a number of inputs for financial modeling. Mr. Gorman used the proxy group developed by Mr. Strunk in this case, but properly excluded Avista, Duke, Pepco Holdings, and Wisconsin Energy based on significant merger and acquisition activity related to those four companies.[50]

a. DCF Model Recommendations

30 Mr. Gorman's Constant Growth DCF model was based upon a 13-week average of stock prices for the proxy group, meaning that the period is recent enough to reflect current market trends, but not so short as to be susceptible to short-term changes that do not reflect the stock's fundamental market value.[51] For the DCF model's dividend component, Mr. Gorman used PacifiCorp's most recent quarterly dividend, as reported by Value Line, annualized and adjusted for next year's growth.[52] For the Constant Growth model, Mr. Gorman used an average of professional analysts' growth rate estimates representing a consensus, derived from Zack's, SNL, and Reuters. The Constant Growth model suggested an average and a median return of 8.95% and 8.78%, respectively.[53]

31 Mr. Gorman's Sustainable Growth DCF recognizes the fact that earnings and dividend growth will track the growth in rate base funded by reinvested earnings. Thus, the Sustainable Growth DCF uses a long-term earnings retention growth rate to help gauge whether the consensus three- to-five-year growth rate can be sustained over a long term. The Sustainable

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[49] Id. at 51:12-15.
[50] Id. at 22:8-12.
[51] Id. at 24:8-11.
[52] Id. at 24:16-18.
[53] Id. at 26:7-8.

Growth Model produced average and median DCF results of 8.61% and 8.35%, respectively.[54]

32 Because utility construction cycles tend to produce periods of increased investment, which eventually must level out and cannot exceed the long-term growth of the economy generally, Mr. Gorman developed a Multi-Stage Growth DCF that recognizes the recent capital intensive period, but adjusts, generously, to reflect a long-term growth equal to the projected growth of the United States Growth Domestic Product ("U.S. GDP") growth rate.[55] The Multi-Stage Growth model produces an average and median DCF return on equity of 8.52% and 8.68%, respectively.[56] Mr. Gorman averaged the results of his three DCF models, which indicated an ROE in the range of 8.52% to 8.95%.[57] To be conservative, Mr. Gorman recommends a reasonable DCF return for the Company of 8.95%, rounded to 9.00%.[58]

b. Recommended Risk Premium and CAPM Analyses

33 Mr. Gorman also performed a risk premium analysis, which was based upon the 13-week average yield spreads between Treasury bonds and "A" rated and "Baa" rated utility bonds.[59] This study demonstrated that the market considers the utility industry to be a desirable, low-risk investment, and confirmed Mr. Gorman's assessment that utilities continue to have strong access to capital in the market.[60] The risk premium analysis, weighted conservatively to recognize the greater market interest rate risk created by the current Federal Reserve stimulus policy, produced a low-end ROE of 9.12% and a high-end estimate of 9.95%.[61] The midpoint of

[54] Id. at 28:12-13.
[55] Id. at 29:19-30:6.
[56] Id. at 33:21-22.
[57] Id. at 34:1.
[58] Id. at 34:2-3.
[59] Id. at 37:11-20.
[60] Id. at 38:3-5.
[61] Id. at 39:12-40:2.

these estimates suggests an equity risk premium ROE of about 9.54%, rounded to 9.6%.[62]

34 Finally, Mr. Gorman also utilized a CAPM model. This was based on a market risk premium range of 6.2% to 7.1%, a risk free (30-year Treasury bill) rate of 4.30%, and a beta of .73. The CAPM model estimates an ROE for PacifiCorp of 8.83% to 9.49%, with a midpoint at about 9.2%.[63]

35 Taking each of these models into account, Mr. Gorman developed a range of reasonableness of 9.00% to 9.60%, based on the results of the DCF, risk premium, and CAPM studies. At the midpoint of this range, Mr. Gorman recommends an ROE of 9.30%.

2. Mr. Strunk's Recommendations Are Based on Inflated and Inaccurate Analyses

36 Mr. Strunk makes a plethora of improper assumptions in the development of his equity return models. Notwithstanding, if corrected, Mr. Strunk's models corroborate Mr. Gorman's finding that a 9.3% ROE is appropriate for the Company in current market conditions. To this end, once Mr. Strunk's models are adjusted to reflect current market data and then properly applied, his own analyses would support an ROE in the range of 8.5% to 9.6%.[64]

a. Company DCF Model Flaws

37 First, Mr. Strunk's DCF return estimate fails to capture the central tendency of his proxy group by using a 9.23% average that overly weights high growth rate estimates. In order to properly account for the existence of both high-end *and* low-end estimates, Mr. Gorman recommends the use of the median proxy group result of 8.95% (rounded to 9.0%).[65]

[62] Id. at 40:4.
[63] Id. at 45:7-9.
[64] Id. at 51:12-14.
[65] Id. at 55:13-23.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

38 Another significant flaw is embedded in Mr. Strunk's DCF study. Mr. Strunk develops his constant growth DCF model using an average growth rate of 5.24%—far higher than the U.S. GDP growth rate of 4.7%.[66/] Quite simply, Mr. Strunk's overstatement of the long-term national GDP outlook by more than 50 basis points supports his intention to rely on an unreasonable estimate of the indefinite growth rate component of a constant growth DCF model. Likewise, Mr. Strunk's use of a 5.8%, three- to five-year growth rate in his Yield Plus Growth analysis is also not a reasonable estimate of a long-term sustainable growth rate as required by DCF methodology.[67/] By overstating the long-term growth outlook, Mr. Strunk overstates a reasonable DCF estimate of the Company's cost of equity.

39 Mr. Strunk's Yield Plus Growth model suffers from numerous other flaws, including: 1) an unspecified time period; 2) an "Industry" growth rate outlook based on uncertain companies; 3) stale dividend yield data; and 4) a proxy group not demonstrated to be of comparable investment risk to the Company.[68/] While each flaw renders the analysis unreliable, the lack of demonstrated comparability in investment risk to PacifiCorp makes any reliance upon Mr. Strunk's analysis especially unreasonable. Absent such risk comparability, the Commission should not use the Yield Plus Growth analysis to produce a reasonable estimate of the Company's marketed required return.[69/]

40 Nevertheless, Mr. Gorman has demonstrated that revisions to Mr. Strunk's Yield Plus Growth analysis can be made in order to produce a more reliable and up-to-date estimate. Following a series of appropriate adjustments detailed in Mr. Gorman's testimony, a return range

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[66/] Id. at 56:4-7.
[67/] Id. at 63:21-24.
[68/] Id. at 63:18-64:9.
[69/] Id. at 64:23-65:3

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

of 9.19% to 8.62% can be derived, with a midpoint of 8.9%.[70] Mr. Gorman cautions, however, that this more reasonable range of estimates is still inappropriate for application to the Company, considering the failure of Pacific Power to produce any showing that the industry DCF return is a comparable risk proxy index.[71]

b. Company Risk Premium Model Flaws

41 Inflated figures in Mr. Strunk's DCF study also lead to unreasonable results in his CAPM analysis. Specifically, the market risk premium of 8.36% used in the CAPM analysis is a product of Mr. Strunk's inflated DCF market return estimate of approximately 12.1%—itself unreasonable because it is based upon Mr. Strunk's irrationally high market long-term growth outlook of 9.74%.[72] To accept Mr. Strunk's figures here, the Commission would have to accept a wonderland scenario in which the securities market could be expected to grow at a rate that is more than double the long-term growth rate of the overall U.S. economy.[73] Conversely, by applying a market risk premium estimate of 7.1% (at the high end of Mr. Gorman's recommended range), Mr. Strunk's CAPM return estimate could be adjusted to produce a range with a midpoint of 9.2%.[74]

42 As to Mr. Strunk's risk premium analysis, Mr. Gorman recommends that the Commission reject it altogether. In addition to development over a relatively short time period,[75] Mr. Strunk's risk premium methodology is inherently flawed because it is premised upon an inverse interest rate and equity risk premium regression assumption that is entirely

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[70] Id. at 64:10-22.
[71] Id. at 64:23-65:3.
[72] Id. at 56:20-57:6.
[73] Id. at 57:17-21.
[74] Id. at 58:1-6.
[75] Id. at 59:9-10.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

inconsistent with accepted academic literature. While Mr. Strunk bases his regression analysis on the premise that changes in nominal interest rates can—by themselves—explain changes in equity risk premiums, the academy posits that such changes are based on perceived changes in total investment risk of equity securities versus bond securities.[76/] Worse still, Mr. Strunk relies upon unreliable projected yields for the current interest rates factored into his analysis.[77/] When modified, however, Mr. Strunk's risk premium model produces a more reasonable return range of 8.5% to 9.6%, yielding a midpoint of about 9.1%.[78/]

c. Flaws in the Company Comparable Earnings Analyses

43 Fundamentally, Mr. Strunk's comparable earnings analysis is flawed in a conceptual sense because it fails to measure the return demanded by investors in order to assume the risk of an investment opportunity. Accordingly, it is nearly impossible to measure a fair rate of return that would allow for utility plant investment relative to other investments of comparable risk.[79/] Moreover, the comparable earnings analysis should be rejected given its propensity for misleading results, due to the common accounting differences between companies that render comparisons unreliable, at best.[80/] As a result, the Commission should place no reliance on this specific analysis.

44 Similarly, Mr. Strunk's reliance on a report of 2013 rate case decisions, producing an average allowed ROE of 10.02%, is unfounded. Despite acknowledging that certain ROE authorizations included in this average were based upon *statutorily* mandated return levels and

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[76/] Id. at 59:4-8; see also id. at 59:20-61:2 (providing additional detail as to the shortcomings of Mr. Strunk's analysis in light of academic literature).

[77/] Id. at 59:14-19.

[78/] Id. at 61:3-10.

[79/] Id. at 61:22-62:1; see also id. at 62:6-18 (supplying an illustration and further explanation of these conceptual flaws).

[80/] Id. at 62:19-63:6.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

novel methodology, Mr. Strunk neglected to exclude these from the average.[81] Excluding the Virginia statute cases alone would have reduced the 2013 ROE average to 9.8%; moreover, the comparable average over the first half of 2014 was still lower, at 9.72%.[82] This industry trend of lower ROE authorizations is poised to continue for the foreseeable future, given the low capital market costs over the past several years—thereby justifying a lower authorized ROE level from the Commission.[83] For example, the Wyoming Public Service Commission ("Wyoming PSC") reduced Rocky Mountain Power's ROE to 9.5%.[84]

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

45 The capital structure used in setting Company rates should contain a reasonable balance of debt and equity in order to minimize costs and maintain financial integrity.[85] Common equity is the most expensive source of capital, meaning that a capital structure utilizing excessive common equity will unduly inflate the cost of capital.[86] On the other hand, debt capitalization decreases costs up until the point that financial risk caused by over-leveraging prevents the Company from accessing low cost capital.[87]

a. The Commission Should Approve the Current Company Capital Structure

46 Pacific Power requests the Commission to allow it to set rates using a capital structure of 51.73% common equity.[88] This requested level does not optimize costs and is unnecessary. In the last three rate cases, the Commission has assigned the Company a

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[81] Strunk, Exh. No. KGS-38CX (Company Responses to Boise Data Requests ("DR") 17.1 and 17.8).
[82] Gorman, Exh. No. MPG-1Tr at 65:22-25.
[83] Id. at 66:1-12.
[84] Re Application of Rocky Mountain Power for Approval of a General rate Increase, Wyoming PSC Docket No. 20000-446-ER-14, Order at ¶ 172-173 (Dec. 30, 2014) ("Wyoming PSC Order").
[85] Gorman, Exh. No. MPG-1Tr at 20:9-14; Docket No. UE-100749, Order 06 at ¶ 21 (Mar. 25, 2011).
[86] Gorman, Exh. No. MPG-1Tr at 20:4-8, 11-14.
[87] Id. at 20:10-11.
[88] Williams, Exh. No. BNW-1T at 2:1-3.

hypothetical capital structure of 49.1% common equity, 50.6% long-term debt, and 0.3% preferred stock.[89/] The Commission should continue to use this capital structure for the Company because it: 1) supports PacifiCorp's current bond rating; 2) is consistent with the industry average, the proxy group in this case, and the Company's duty to optimize its capital structure to minimize costs; and 3) is especially appropriate, given indications that the Company's equity ratio will decline in the future based on PacifiCorp's dividend policy.[90/]

47 As Mr. Gorman notes, this capital structure has been used to set Washington rates for several years, and the record demonstrates that PacifiCorp already has *less* debt than comparable companies with even higher credit ratings—meaning that the capital structure used to set the Company's rates in Washington will support its credit rating and continue to maintain the Company's access to low cost capital.[91/] In fact, S&P has cautioned that recent purchasing by Company parent Berkshire Hathaway Energy ("BHE") could stretch its credit measures if BHE relies more on debt, prompting S&P to anticipate a BHE policy of balanced debt and equity "needed to support [BHE's] current rating."[92/] Accordingly, PacifiCorp's present and foreseeable policy of paying dividends up to parent BHE, as verified by the Company itself,[93/] is a virtual guarantor that PacifiCorp will continue to lower its equity ratio in order to support BHE's acquisition financing and credit rating.[94/]

48 At hearing, Mr. Gorman testified that the Company's dividend payment policy has not been seen as a concern in published credit and debt reporting; in fact, despite significant

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89/ 2013 GRC Order 05 at ¶¶ 33, 39.
90/ Gorman, Exh. No. MPG-1Tr at 16:39-17:8, 9:6-10:16.
91/ Id. at 17:9-25.
92/ Id. at 12:19-23.
93/ Id. at 10:1-4 (including PacifiCorp's plan to continue dividend payments to BHE through at least 2016).
94/ Id. at 12:24-28.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

declines in PacifiCorp's equity ratio and continuing movement toward the hypothetical structure set by the Commission, the Company maintains a stable bond rating outlook.[95/] Indeed, the Company conceded that the Commission was "exactly right" at hearing in stating, "similar to what Mr. Gorman was saying, [] the equity ratio is being managed toward, around, 50 percent."[96/] Further, Pacific Power agreed with the observation made by the Commission that, even though Company equity has varied for the better part of a decade, an A minus credit rating has been a constant since the BHE merger in 2006.[97/]

b. The Company's Adjusted Hypothetical Structure Is Unreasonable

49 The Commission should reject as unreasonable the Company's alternate proposal for a continuation of the hypothetical capital structure including a 10.28% ROE and a 7.99% ROR.[98/] To begin, the premise that increased return levels are necessary to maintain Company ratings under the present hypothetical capital structure is unfounded; the Company already has less debt and more equity than comparable utilities with the same or even greater credit agency rating.[99/] Moreover, at hearing the Commission noted the lack of apparent symmetry between an ROE adjustment mechanism and a hypothetical capital structure, observing that the Commission has never adjusted the ROE despite establishing capital structures with excess equity in the past.[100/] The only precedent offered by the Company in response was an allusion to a Texas case which ultimately was found to be inapposite, concerning a generic broad order aimed at all the

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95/ Gorman, TR. 312:3-13; see also Williams, TR. 315:15-18 (agreeing that ratings agencies "are well aware of our dividend and our financing plans and expectations").
96/ Commissioner Goltz & Williams, TR. 327:15-22.
97/ Williams, TR. 310:13-19.
98/ Strunk, Exh. No. KGS-1T at 21:10-19; Williams, Exh. No. BNW-1T at 12:13-16.
99/ Gorman, Exh. No. MPG-1Tr at 14:12-25.
100/ Commissioner Jones, TR. 314:1-18.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

distribution utilities in Texas.[101/]

50 Additionally, the methodologies used by Mr. Strunk to derive a proposed equity "adder" of 28 basis points do not withstand scrutiny. As Mr. Gorman points out, it is not credible to suggest that, if a hypothetical capital structure is used, the Company's ROE should be higher than Mr. Strunk's proxy group; in fact, the proxy group's equity ratio is already *lower* than PacifiCorp's actual ratio, and almost identical to the 49.1% ratio of the hypothetical capital structure.[102/] Further, the calculation of the 28 point "adder" is flawed because, to the extent an adjustment to the CAPM return is even needed, Mr. Strunk fails to reflect the Company's higher proposed equity ratio compared to the proxy group.[103/] Hence, Mr. Strunk's equity return "adder" should actually be a *reduction* of 28 basis points for PacifiCorp, relative to the proxy group.[104/]

4. Mr. Gorman's Proposed ROR Will Support the Company's Financial Integrity and Access to Capital

51 After determining an appropriate cost of equity and recommending continued application of the Company's currently authorized capital structure, Mr. Gorman compared the resultant 7.20% ROR to S&P's benchmark financial ratios using S&P's new credit metric ranges.[105/] This cross check confirms that Mr. Gorman's overall recommended ROR will support an investment grade bond rating for PacifiCorp.[106/] S&P evaluates a utility's credit rating based on three primary financial ratio benchmarks, including two core benchmarks: 1)

101/ Strunk, TR. 314:22-315:1, 358:24-359:13.
102/ Gorman, Exh. No. MPG-1Tr at 15:26-16:6.
103/ Id. at 16:15-25, 52:10-23.
104/ Id. at 16:25-28, 52:24-53:9.
105/ Gorman, Exh. No. MPG-1Tr at 47:5-7. This overall ROR was calculated using the Company's as-filed cost of debt at 5.19%. See Williams, Exh. No. BNW-1T at 2, Table 1. This is a ten basis point reduction from the Company's cost of debt in the last rate case, demonstrating the benefits of the ongoing low capital cost environment. See 2013 GRC Order 05 at ¶ 71.
106/ Gorman, Exh. No. MPG-1Tr at 50:11-51:3.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"); and 2) Funds From Operations ("FFO") to Total Debt.[107] After including off-balance sheet debt equivalents related to operating leases, power purchase agreements, and their associated interest and depreciation expenses, Mr. Gorman found that the Company's debt ratio was approximately 51.8%, its EBITDA ratio was 3.2x, and its FFO to total debt coverage would be 22%.[108] Each of these credit metrics are supportive of PacifiCorp's current investment grade utility bond rating.[109]

D. The Company's Proposed Revenue Requirement Should Be Significantly Reduced

52 Based upon the testimony of Mr. Bradley Mullins, Boise recommends the following adjustments related to general revenue requirement issues: 1) pro-forma capital additions; 2) EOP rate base; 3) non-labor operations and maintenance ("O&M") escalation; and 4) pro-forma energy imbalance market ("EIM") costs. The combined effect of these recommended adjustments on a Washington-allocated basis is a $5.58 million reduction to Pacific Power's alleged revenue deficiency.[110]

1. Pacific Power Has Not Satisfied Commission Standards for the Inclusion of Pro-forma Capital Addition Costs

53 In the Company's last rate case, the Commission firmly rejected an invitation to adopt a new, "'consistent and practical' 'bright line' standard when evaluating what is 'known and measurable' or 'used and useful'" in the context of proposed pro-forma capital additions.[111]

107/ Id. at 48:3-7.

108/ Id. at 50:11-21. Mr. Gorman notes that equity must be grossed up for income tax meaning that the revenue requirement cost of equity at 10% is actually 16%, whereas interest coverage on debt (currently around 5%) is, conversely, tax deductible. See id. at 20:5-7.

109/ Id. at 51:1-3.

110/ Supra at p. 11, Washington basis.

111/ 2013 Order 05 at ¶ 199.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

While recognizing the "certainty" that could be achieved through such an approach,[112] the Commission chose to reaffirm its long-standing, case-by-case approach to allowing pro-forma capital additions.[113]

54 Notwithstanding, Pacific Power proposes to include a large array of pro-forma capital additions in rates, based almost entirely upon "bright line" cost and cutoff date criteria. Originally, the Company proposed to include some 30 pro-forma capital additions in rates (a *sixfold* increase from 2013), essentially because these projects met the following two "bright line" standards: 1) estimated costs exceeding $250,000; and 2) a projected in-service date before March 31, 2015.[114] Indeed, the Company did not even attempt to demonstrate the "used and useful" standard for 25 of the 30 projects in testimony—the only "support" for these projects in the entire record comprising a single exhibit paragraph, each, in which Company witness Ms. Siores merely "identified and described" them, using information dating back to December 2013.[115] Even now, the Company continues to rely on a "cutoff date" as the principle criterion for inclusion of those capital additions still proposed for inclusion in rate base,[116] while failing to enter any actual evidence into the record which might further support the used and useful nature of those projects which were summarily "identified and described" in Ms. Siores' original exhibit.[117] This approach does not demonstrate that these capital additions satisfy the used and useful standard; thus, Pacific Power has not met its burden of proof on this issue.

112/ Id.
113/ Id. at ¶¶ 198-200.
114/ Siores, Exh. No. NCS-1T at 5:17-19.
115/ Id. at 6:1-8; Exh. No. NCS-3 at 8.4.4-9.
116/ Dalley, Exh. No. RBD-10CX at 3 (the Company's 1st Suppl. Response to PC DR 130, proposing to remove "costs associated with any projects that were not in service by November 14, 2014").
117/ Siores, Exh. No. NCS-16 at 2-5 (the Company's Response to PC DR 53 and Attachment PC 53-1, comprising only a list of discovery attachments allegedly supporting pro-forma capital additions).

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

55 Additionally, the record establishes an incredible number of Company errors and revisions to capital addition cost estimates in this case, as documented by several parties and continuing even beyond the Company's rebuttal filing.[118/] Thus, affirming again the known and measurable definition provided in the Company's last general rate case, the Commission should reject the Company's proposed capital additions, continuing to "demand a high degree of analytical rigor" in order for a utility to satisfy the "known and measurable test."[119/]

56 As to the five proposed capital additions not primarily sponsored by Ms. Siores, Boise does not contest the inclusion of Merwin Fish Collector costs in rate base.[120/] Moreover, in response to parties' responsive testimony, the Company itself has removed the Selah and Fry Substation Projects from consideration due to projected in service dates.[121/]

57 Boise continues to recommend, however, that the Commission reject for this rate case the remaining two projects, the Union Gap Substation Upgrade and the Jim Bridger Unit 1 Cooling Tower Replacement Project. As Mr. Mullins has explained, the Union Gap Substation Upgrade has been divided into three distinct phases, the first of which the Company describes as a preliminary step to make room for the final two phases to be completed in 2015—rendering the first phase not "used and useful" when considered independently.[122/] Also, Company witness Mr. Vail testified on rebuttal that even this first sequence of work had not yet been completed

[118/] E.g., Mullins, Exh. No. BGM-1CTr at 11:10-15, 12:9-13:9; Ramas, Exh. No. DMR-1CTr at 14:12-15:6; Erdahl, Exh. No. BAE-1T at 8:5-7; Siores, Exh. No. NCS-18CX at 2, 5-7; compare Siores, Exh. No. NCS-3 at 8.4.2, with Siores Exh. No. NCS-11 at 8.4.2 (attesting to revisions on all capital addition costs, including very significant changes).

[119/] 2013 Order 05 at ¶ 205 (quoting Docket Nos. UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 26).

[120/] Mullins, Exh. No. BGM-8T at 5:16-19.

[121/] Dalley, Exh. No. RBD-10CX at 5 (the Company's 1st Suppl. Response to PC DR 130, Attachment PC 130-1).

[122/] Mullins, Exh. No. BGM-1CTr at 14:1-8.

due to a pending transformer relocation.[123] Hence, based upon filed testimony, this means that, as of the date of the Company's rebuttal filing on November 14, 2014,[124] the first Union Gap phase was not yet "used and useful." Finally, as noted in Mr. Mullins's testimony,[125] reported costs associated with the Jim Bridger Unit 1 Cooling Tower Replacement Project have varied so significantly as to be irreconcilable with a reasonable application of the Commission's demand for "a high degree of analytical rigor" in order to satisfy the "known and measurable test."[126]

58 Boise supports the inclusion of *demonstrably prudent* capital additions in rates, in order for the Company to provide safe and reliable electric service. As Mr. Mullins points out, however, Pacific Power bears the burden of proof in this general rate proceeding to demonstrate the reasonableness of proposed changes that would increase rates.[127] Boise maintains that, excepting Merwin Fish Collector costs which are not contested, the Company has failed to carry its burden as to the Commission's known and measurable and used and useful standards related to the capital additions still proposed in this case. As Mr. Dalley testified, we should expect a 2015 general rate case. This is the time to consider all of these projects not presently satisfying Commission standards. The Commission should, therefore, reduce the Company's proposed Washington revenue requirement by approximately $1.5 million for these projects.

2. The Commission Should Not Allow the Use of EOP Rate Base Balances

59 Pacific Power's proposed use of end-of-period balances should be rejected for two primary reasons: 1) it violates the matching principle by using averages for revenue items,

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[123] Vail, Exh. No. RAV-2T at 5:12-19 ("The relocation of this transformer *will* be completed ….") (emphasis added).
[124] Hill, TR. 240:18, 242:22 (affirming statement of Pacific Power counsel as to the rebuttal filing date).
[125] Mullins, Exh. No. BGM-1CTr at 12:12-13:9.
[126] 2013 Order 05 at ¶ 205 (quoting Docket Nos. UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 26).
[127] Mullins, Exh. No. BGM-8T at 6:3-4 (citing WAC § 480-07-540).

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

but year-end balances for rate base items;[128] and 2) it is an extraordinary methodology that should not be used as a permanent replacement for traditional, average of monthly average ("AMA") rate base balances.[129] The AMA method is the established standard in this state: "in normal economic times average rate base is more realistic and projects more accurately the cost of plant that produces the revenue under investigation."[130]

60 As an exception to its general standard, the Commission specially authorized the use of EOP rate base in the 2013 GRC. This was done in an effort to address regulatory lag impacts, after the Commission had first noted the "current pattern of almost continuous rate cases" involving the Company, and after quoting the Commission's prior statement that such a "situation does not well serve the public interest and we encourage the development of thoughtful solutions."[131] Despite the Commission's efforts, however, Pacific Power filed this current rate proceeding within five months of receiving the extraordinary allowance of EOP treatment for its rate base. Plainly, the special grant of EOP methodology has not broken Pacific Power's continuous pattern of rate filings. Thus, no matter how commendable the Commission's original intentions, the public interest will not be served by allowing the Company to increase rates via the continued use of EOP rate base, since no concession has been made in return—i.e., a breaking of the pattern of continual rate cases. In fact, during the hearing Pacific Power admitted that it will file a 2015 GRC, regardless of the outcome of this case.

61 Finally, the Company itself effectively concedes that the EOP method is no longer warranted, given testimony concerning greater economic activity in the state and

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[128] Mullins, Exh. No. BGM-1CTr at 16:20-23.
[129] Mullins, Exh. No. BGM-8T at 9:15-10:2.
[130] WUTC v. Wash. Nat. Gas Co., Cause No. U-80-111, 1981 Wash. UTC LEXIS 7, *10 (Sept. 24, 1981).
[131] 2013 Order 05 at ¶ 181 (quoting WUTC v. PSE, Dockets UE-111048 and UG-111049 (consolidated), Order 08 at ¶ 507 (May 7, 2012)).

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

increased Company load forecasts.[132/] Hence, Boise strongly recommends that the Commission require Pacific Power to return to the standard use of AMA rate base in this proceeding, reducing the proposed Washington revenue requirement by $0.5 million.

3. The Commission Should Reject the Proposed Non-labor O&M Escalation

62 The Company's application of non-labor O&M escalation factors do not conform to the Commission's known and measurable standard. The escalation costs proposed by the Company represent only an estimate and projection which,[133/] as affirmed in the Company's last rate case when mere cost estimates and projections associated with the Merwin Fish Collector were rejected by the Commission, "do not satisfy the known and measurable standard."[134/] To this end, the Wyoming PSC, notwithstanding its use of a future test period,[135/] has also recently rejected the Company's proposed escalation factor after noting questions that had been raised about the factor's accuracy.[136/] Hence, Boise joins both Staff and Public Counsel in recommending that the Commission reject the Company's proposed O&M escalation adjustments, resulting in a reduction to the proposed Washington revenue requirement of $1.5 million.

4. Pro-forma EIM Costs Should Be Included in Revenue Requirement

63 Despite Pacific Power's failure to include either EIM costs or benefits in pre-filed testimony, the record contains a detailed accounting of actual capital costs incurred by the Company related to the now-operating EIM between PacifiCorp and the California Independent

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132/ Mullins, Exh. No. BGM-8T at 10:15-18 (quoting Duvall, Exh. No. GND-1CT at 17:1-2).
133/ Mullins, Exh. No. BGM-1CTr at 18:17-18.
134/ 2013 Order 05 at ¶ 205.
135/ Wyoming PSC Order at ¶ 45.
136/ Id. at ¶ 174.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

System Operator ("CAISO" or "Cal-ISO").[137/] Indeed, Company witness Mr. Gregory Duvall concedes that "EIM costs for the rate period are generally ascertainable," while the Wyoming PSC, which has already issued a final order on the same Company issues, has noted that EIM costs "are not in dispute."[138/] Therefore, in contrast to the continually revised and erroneous cost projections associated with other pro-forma capital additions proposed for rate base inclusion in this case—which do not meet the known and measurable cost standard—EIM costs *do* satisfy Commission standards as to both known and measurable costs and used and useful operation. Accordingly, Boise recommends that the Commission adjust the Company's Washington revenue requirement by $371,729 to account for EIM costs.[139/]

E. Company Net Power Costs Are Overstated and Unreasonable

64 Boise recommends an overall reduction to the Company's proposed Washington revenue requirement of $16.7 million, based on overstated and unreasonable NPC figures. Specifically, the Commission should reduce NPC associated with: 1) out-of-state QF resources; 2) EIM power cost benefits, including dispatch and reserve diversity savings; 3) network integration and transmission ("NT") service; 4) inter-hour integration costs; and 5) the Chehalis outage rate.

1. QF Situs Allocation Should Remain in Effect

65 Pacific Power seeks to increase its Washington allocated costs by approximately $10 million through the inclusion of the full costs of Oregon and California QFs in Washington rates. This issue has been litigated repeatedly and is currently under appeal. The Public Utility Regulatory Policy Act of 1978 ("PURPA") mandates that utilities must purchase energy from

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137/ Mullins, Exh. No. BGM-8T at 12:3-5; Exh. No. BGM-10 (Company Response to Boise DR 13.2).
138/ Duvall, Exh. No. GND-4T at 30:21; Wyoming PSC Order at ¶ 184.
139/ Mullins, Exh. No. BGM-8T at 12:6-10.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

QFs located in their states; however, the Commission has noted the significant leeway afforded to each state in implementing PURPA in order to set avoided cost rates at higher or lower levels to reflect each state's renewable energy policies.[140/]

66 In 2006, the Commission said, "[w]e cannot delegate our statutory responsibilities for determining prudence and protecting the interests of Washington ratepayers to other states . . . ."[141/] By requesting that the Commission accept and allocate to Washington customers the financial effects of the decisions and methodologies adopted by the regulatory authorities in Oregon and California to implement PURPA, Pacific Power asks the Commission to make just such a delegation. In addition, it effectively asks the Commission to sanction an over-recovery of the costs associated with out-of-state QFs at the expense of Washington ratepayers.

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

67 PURPA provides that each state must individually adopt policies controlling contracts between utilities and QFs. As a practical matter, the Commission has already established that the inclusion of Oregon and California QF contracts result in NPC which "are significantly higher than would be the case if they were priced at Washington avoided cost rates."[142/] As currently adopted, the WCA methodology provides that QF resources should be situs assigned, meaning that each state's ratepayers are responsible for paying the costs incurred through their own QF policies.[143/] This methodology prevents Washington consumers from being harmed by QF contract policies adopted in other states—policies over which Washington's

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[140/] Mullins, Exh. No. BGM-1CTr at 27:1-3 (citing 2013 GRC Order 05 at ¶ 102).
[141/] Docket Nos. UE-050684 and UE-050412, Order 04/03 at ¶ 55.
[142/] Mullins, Exh. No. BGM-1CTr at 24:10-12 (quoting 2013 GRC Order 05 at ¶ 113).
[143/] 2013 GRC Order 05 at ¶ 98; Mullins, Exh. No. BGM-1CTr at 24:12-14.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

ratepayers have no influence, and implicating serious jurisdictional issues concerning the Commission's authority to include out-of-state contract costs in Washington rates.[144/]

b. The Commission Should Not Approve Any of the Company's Proposals on the Basis that They Provide for Over-Recovery of Washington QF Costs

68 None of the Company's three QF proposals are reasonable because each will exacerbate the fact that the Company currently over-recovers the costs of Washington QFs, with Pacific Power now asking the Commission to extend this over-recovery to Oregon and California QFs. Under Washington's WCA allocation methodology, the costs of QFs are situs assigned by state.[145/] This means that Washington ratepayers pay the full cost of these Washington resources. Notwithstanding, PacifiCorp is also allocating the costs of Washington's QFs to each of the other five states it serves.[146/] Thus, although it appears the Company is already over-recovering some of the costs of Washington QFs, it is now attempting to leverage its multi-jurisdictional status to over-recover as much as an additional $10 million from Washington ratepayers.

69 Specifically, Mr. Duvall states that "the 2010 Protocol, which is the current inter-jurisdictional allocation methodology used in PacifiCorp's other five state jurisdictions, allocates the costs of QF PPAs across PacifiCorp's system."[147/] This means that, because Washington—as the only state that has not adopted some version of the 2010 Protocol—represents about 7% of the Company's operations,[148/] 93% of the costs of the Oregon and California QF Contracts are already being recovered from other states. Nevertheless, under its main proposal, the Company

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144/ Mullins, Exh. No. BGM-1CTr at 25:5-10.

145/ 2013 GRC Order 05 at ¶ 98.

146/ Duvall, Exh. No. GND-1CT at 10:5-7.

147/ Id. Boise asks the Commission to take notice of the difficulty, if not prejudice, which would result if Boise were held to a standard disfavoring the use of the term "PacifiCorp," while Company witnesses like Mr. Duvall freely use the term in testimony. See supra note 1; Order 07, n.1.

148/ Williams, TR. 178:8-12.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

now seeks to allocate to Washington more than 7% of these same QF contracts, based on the fact that Washington represents a 23% share of the WCA,[149/] thereby providing it with the opportunity to recover approximately 116% of the cost of those QF resources. If the Commission were to implement such an allocation method, the Company would over-recover the cost of these contracts. The Commission should decline to allow this over-recovery at the expense of Washington customers.

70 Further, in neither direct nor rebuttal testimony does the Company ever ascribe a specific amount by which it is under-recovering the costs of the Oregon and California QF contracts. Rather, in order to justify Company over-recovery, Mr. Duvall couples the bold assertion that the Commission is willfully violating federal law—i.e., "re-pricing the out-of-state QF PPAs at current spot market prices is inconsistent with PURPA's requirement"—with ambiguous and carefully phrased allusions to what is supposedly "fair" or "accurate" concerning QF cost allocation.[150/] Likewise, despite testifying repeatedly as to the alleged "chronic" under-recovery suffered by the Company for years in Washington,[151/] Mr. Dalley correctly avoids making any claim that QF costs are related to such under-recovery, resorting instead to the same vague phrasing as Mr. Duvall employs, e.g., what purportedly "increases the accuracy" associated with QF cost recovery.[152/]

71 To the extent the Company were to make any showing of under-recovery of Oregon and California QF costs because of different allocation methodologies in its various jurisdictions, the Company has accepted and must bear that risk. As the Commission affirmed in

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149/ Mullins, TR. 722:9-11.
150/ Duvall, Exh. No. GND-4T at 14:13-14, 2:11-14, 15:3-4, 27:7-8; Exh. No. GND-1CT at 8:18-20, 10:12-14.
151/ E.g., Dalley, Exh. No. RBD-1T at 6:5-14; Exh. No. RBD-3T at 8:1-4.
152/ Dalley, Exh. No. RBD-1T at 3:5-8.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

the Company's last rate case in "recogniz[ing] that the Company assumed any risk of under-recovery of costs due to states approving different methodologies":

> The Company claims that it is entitled to full recovery of its prudently incurred costs systemwide and should not bear the risk that state decisions about cost recovery will not, in combination, ensure this entitlement .… In fact, the Company created and accepted the risk that divergent allocation decisions among the states might result in under-recovery when it chose to merge 20 years ago.[153/]

Thus, while the Company has not demonstrated that it is under-recovering QF costs, it would have no entitlement to such recovery even if it could be proven. Conversely, as Mr. Mullins has noted, another state could establish avoided cost rates that are lower than market prices, and Washington ratepayers would be foreclosed from receiving the benefit of those rates.[154/] Pacific Power has failed to demonstrate why the Commission should change decades-long precedent in favor of passing on Oregon and California QF costs.

c. The Company's Alternative Approaches to the WCA Methodology Should Not Be Accepted

72 As a threshold matter, Mr. Mullins has explained that either of the Company's alternate out-of-state QF pricing approaches—the "load decrement" or "Washington re-pricing" approach—should be rejected, simply because Pacific Power has failed to meet the explicit burden prescribed by the Commission in the 2013 GRC concerning any proposed changes to the WCA methodology.[155/] In the 2013 GRC, having previously undertaken a thorough, ten paragraph discussion entitled "Should the Commission accept proposed revisions to the

153/ 2013 GRC Order 05 at ¶ 81 (quoting Docket Nos. UE-050684 and UE-050412, Order 04/03 at ¶ 56).
154/ Mullins, Exh. No. BGM-1CTr at 27:3-6.
155/ Id. at 27:17-28:10.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

WCA,"[156] the Commission concluded:

> Unless the Company … demonstrates that any change proposed more closely aligns the allocation of costs based on causation, we see no reason disturb it. For the Commission to endorse any unilateral change … the party advocating the change must make a detailed and persuasive showing that the proposed change is appropriate.[157]

73 Notwithstanding, Mr. Mullins notes that Mr. Duvall has failed to adequately address the alignment of cost allocation under either alternative QF proposal, nor has the Company represented any single alternative as the most equitable methodology for cost allocation.[158] Moreover, in rebuttal testimony, Mr. Duvall addressed these concerns merely by the ambiguous allegation that the load decrement approach was "consistent with cost causation" because Washington ratepayers "are not paying their fair share."[159] Accordingly, the Commission should reject both alternatives due to the Company's failure to make a "detailed and persuasive showing" that cost causation under either alternative is superior to the WCA methodology.

74 Additionally, Mr. Mullins has demonstrated that flaws in both alternative methodologies justify their rejection. For instance, under the "load decrement" approach, Washington ratepayers would bear more WCA transmission system costs; yet, QF resources in other states do not cause those other states to utilize a smaller portion of the transmission system, nor do they cause Washington to utilize a greater transmission system portion.[160]

75 As to the "Washington re-pricing" approach, the Company's proposal to simply

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[156] 2013 GRC Order 05 at ¶¶ 84-93.
[157] Id. at ¶ 94.
[158] Mullins, Exh. No. BGM-1CTr at 27:21-28:6.
[159] Duvall, Exh. No. GND-4T at 27:3-10.
[160] Mullins, Exh. No. BGM-1CTr at 29:9-13.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

re-price out-of-state QF contracts according to Washington avoided costs requires Washington ratepayers to bear the costs of other states' renewable energy policies, an outcome which is completely opposite to the Commission's holding in the 2013 GRC.[161/] The Commission held it proper to assign costs to Washington ratepayers attributable to out-of-state QF power based on market prices.[162/] Thus, a "re-pricing" approach increasing such costs to *any* level over market prices assigns at least a portion of out-of-state energy policy costs to Washington ratepayers—and polices which were "determined by *their* policy makers," not the Commission. Further, the Washington Commission has not made a prudency finding for Oregon and California resources.

2. EIM Power Cost Benefits Are Appropriate to Include in NPC

76 Mr. Mullins testifies to EIM benefits using the 2013 Energy and Environmental Economics, Inc. ("E3") study specifically commissioned by PacifiCorp and Cal-ISO to examine EIM benefits, and relied upon by the Company as evidence that its decision to join the EIM was prudent.[163/] As Mr. Mullins points out, using the 2013 E3 study as a starting point to derive EIM benefits should not be controversial—the Company relies upon the 2012 Wind Integration Study to capture Wind Integration costs in its Generation Regulation Initiative Decision ("GRID") model.[164/] Through his overall analysis of EIM benefits, Mr. Mullins finds that it would be appropriate to reduce Company NPC by approximately $5 million on a Washington allocated basis.[165/]

161/ Id. at 30:1-6; see 2013 GRC Order 05 at ¶ 111 ("Absent a regionally negotiated alternative arrangement, Oregon's and California's energy polices should be paid for by the taxpayers and ratepayers of those states, as determined by their policy makers.").

162/ 2013 GRC order 05 at ¶ 98.

163/ Mullins, Exh. No. BGM-1CTr at 32:14-16, 5-6.

164/ Id. at 32:9-12.

165/ Id. at 31:19-32:2 (estimating $5.1 million in responsive testimony); Mullins, TR. 707:5-8 (adjusting slightly to about $5 million at hearing).

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

77 Boise recommends that the Commission follow the example of the Wyoming PSC by including both the costs and benefits of the EIM in Company rates.[166] While Mr. Duvall has claimed that "it is impossible at this point to accurately project the amount of offsetting benefits in the rate period,"[167] the Wyoming PSC rejected such reasoning, finding: 1) "the E3 Report … is a reasonable starting point, one that was adjusted by Mullins,"; 2) the Company "didn't offer a better starting point"; and 3) the Company "provided little comfort that it would be able to calculate benefits as the EIM progresses."[168] The same three facts are equally relevant in this proceeding—here, Mr. Mullins has adjusted estimated EIM benefits from the E3 report with the most recently available Company data, while Pacific Power has offered neither an alternative nor any reassuring promise that ratepayers will actually receive EIM rate benefits in the foreseeable future.

78 The Wyoming PSC found in its December 2014 Order that "ratepayers have a legitimate concern that the determination of benefits could be subject to *considerable delay*" if matters were left to the Company's discretion.[169] Ultimately, the Wyoming PSC attempted to balance Company and ratepayer interests by establishing a $2.6 million, Wyoming-allocated benefit "resulting from Mullins' revised version of the E3 approach," while also "account[ing] for some of Duvall's criticisms."[170] Given the nearly identical factual circumstances here, e.g., the same PacifiCorp-CAISO EIM, Boise urges the Commission to find a fair and reasonable EIM benefit amount of $5 million, on a Washington basis.

166/ Wyoming PSC Order at ¶ 184.
167/ Duvall, Exh. No. GND-4T at 30:22-23.
168/ Wyoming PSC Order at ¶ 184.
169/ Id. (emphasis added).
170/ Id.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

a. Interregional EIM Dispatch Savings

79 By supplementing projected EIM benefits in the E3 study with recent data supplied by the Company, and then allocating results in proportion to WCA and East Control Area ("ECA") loads, Mr. Mullins recommends an approximate $913,257 reduction to Washington NPC due to interregional dispatch savings.[171/] More specifically, Mr. Mullins was able to narrow the range of potential interchange capabilities presented in the E3 report via the Company's October 2014 clarification establishing a southbound transfer capability of 432 Megawatts ("MW") between PacifiCorp and Cal-ISO.[172/] Likewise, Mr. Mullins was able to narrow the range of hydro contributions to flexibility reserves to 25%, using the Company's own assumptions in the GRID model.[173/] As these two factors, EIM transfer capability and hydro contribution to flexibility reserves, were the two key variables presented in the E3 study,[174/] Mr. Mullins was able to accurately estimate interregional EIM dispatch savings via the final steps of inflation adjustment and WCA/ECA cost allocation.[175/]

80 The Commission should attach no weight to the argument of the Company against the inclusion of interregional dispatch benefits, based on the allegation of Mr. Duvall that the E3 study's evaluation of benefits is based upon a five-minute dynamic transfer capability which is not presently available between the CAISO and PacifiCorp at the California-Oregon Intertie ("COI").[176/] Mr. Duvall conceded during cross-examination that he based his testimony on this issue merely upon his own judgment, without having any first-hand knowledge of how the

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171/ Mullins, Exh. No. BGM-1CTr at 35:13-38:3.

172/ Id. at 36:10-19 (quoting Exh. No. BGM-6 at 27:13-22 (PacifiCorp Application for Deferred Accounting and Prudence Determination Associated with the Energy Imbalance market and Direct Testimony of Stefan A. Bird)).

173/ Id. at 37:3-11.

174/ Id. at 36:3-4.

175/ Id. at 37:14-38:3.

176/ Duvall, Exh. No. GND-4T at 36:20-37:6.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

CAISO will actually manage the transfer capability on the COI.[177] Accordingly, the Commission should afford no more reliance upon Mr. Duvall's expertise on the matter of EIM dynamic transfer treatment than a reasonably prudent person would afford a ship captain, testing unfamiliar straits without the help of available navigational aids.

b. Intra-regional EIM Dispatch Savings

81 Intra-regional dispatch savings are now being achieved through increased operating efficiency, obtained via automated dispatch optimization resulting from the Company's use of the Cal-ISO Security Constrained Economic Dispatch ("SCED") model.[178] Narrowing again the range of potential benefits estimated in the E3 study through actual Company data (i.e., market cap values), Mr. Mullins has been able to calculate an approximate reduction to Washington NPC of $2.9 million due to intra-regional EIM dispatch savings.[179] Using market cap values is appropriate because, as Mr. Mullins explains, the present shift to automated dispatch optimization via the Cal-ISO SCED has, effectively, taken the place of previously calculated savings derived through the association of market caps with the GRID model.[180] In the alternative, Mr. Mullins has proposed the use of a market cap methodology employed by the Oregon Public Utility Commission and discussed by Mr. Duvall in this case, resulting in a Company reduction to Washington NPC of about $1.0 million.[181]

c. EIM Reserve Diversity Savings

82 By having a more diverse set of resources upon which to hold reserves, the EIM now produces load following reserve savings associated with aggregating the PacifiCorp and

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177/ Duvall, TR. 424:24-425:2; 425:22-426:7.
178/ Mullins, Exh. No. BGM-1CTr at 38:6-12.
179/ Id. at 38:15-40:6.
180/ Id. at 39:8-20.
181/ Id. at 40:6-10.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Cal-ISO "systems' load, wind, and solar variability and forecast errors."[182/] In order to accurately calculate these benefits, Mr. Mullins was again able use the information supplied by the E3 report to calculate the level of benefits expected during the test period using the Company's GRID model.[183/] Then, consistent with the E3 study's attribution of reserve savings between the Company and the CAISO, Mr. Mullins derived a pro-rated reserve savings figure of 98 MW.[184/] After modeling the 98 MW of reserve savings in GRID model results, a conservatively estimated reduction of $492,724 is appropriate to the Company's Washington NPC.[185/] Finally, Mr. Duvall's admittedly uninformed testimony concerning CAISO's treatment of EIM dynamic and static transfers does not constitute a reasonable objection against Mr. Mullins' calculation.[186/]

d. Within-hour EIM Dispatch Benefits

83 According to the E3 study, within-hour EIM dispatch benefits were not included in the E3 report, meaning that the shift to five-minute balancing under the EIM renders an assessment of non-overlapping, within-hour EIM benefits appropriate.[187/] To this end, Mr. Mullins used the Company's 2012 Wind Integration Study data—which calculated a 30% decline to the WCA regulation reserve requirement via a shift to 30-minute balancing—to model

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[182/] Id. at 40:14-19 (quoting Exh. No. BGM-5 at 7 (E3 Study: PacifiCorp-ISO Energy Imbalance Market Benefits)).

[183/] Id. at 41:3-14.

[184/] Id. at 41:18-42:4. The difference noted at hearing, between the 78 MW figure stated by Mr. Mullins before the Wyoming PSC and the 98 MW included in Mr. Mullins' responsive testimony, is explained by cross-referencing the values calculated in BGM-1CTr at 42, Table 6, to the values in BGM-5 at 26 (the E3 study). The 78 MW figure was the EIM reserve diversity savings calculated by Mr. Duvall in the Wyoming GRC. Mr. Mullins corrected Mr. Duvall's calculation in this proceeding to tie in the values presented on page 26 of the E3 Study.

[185/] Mullins, Exh. No. BGM-1CTr at 42:7-10.

[186/] Duvall, TR. 424:24-425:2.

[187/] Id. at 43:7-15.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

a 30% regulation reserves reduction in the Company's GRID.[188/] This very conservative modeling (i.e., reflecting just 30-minute balancing although actual balancing through the EIM is now at five-minute intervals) results in a $702,450 reduction to Washington allocated NPC.[189/]

3. The Commission Should Adopt Boise's Recommended NT Service Adjustment

84 The Company agrees with Boise that a reduction to NPC related to NT Service from the Bonneville Power Administration ("BPA") is appropriate; however, the parties do not agree as to the size of the actual adjustment.[190/] In cross-answering testimony, Mr. Mullins recalculated the impact of his original NT Service adjustment to a presently recommended $1.28 million reduction to Company NPC on a WCA basis, or $294,513 as allocated to Washington.[191/] This recalculated figure was derived by lining up historical data with corresponding days of the week in the test period—a specific response by Mr. Mullins to concerns expressed by Pacific Power in several Company-issued data requests.[192/] Accordingly, Boise recommends that the Commission adopt Mr. Mullins' $294,513 NT Service reduction to Washington NPC.

4. The Company Should Not Be Allowed to Double-Count Inter-hour Integration Costs

85 The Company is double-counting inter-hour wind and load integration costs through two separate NPC charge items. Boise recommends that the Commission remove these duplicative charges as proposed by Mr. Mullins, thereby, reducing the Company's NPC by $1.1 million on a WCA basis, with $253,827 allocated to Washington.[193/]

188/ Id. at 43:5-7, 19.
189/ Id. at 43:19-22.
190/ Duvall, Exh. No. GND-4T at 64:2-7.
191/ Mullins, Exh. No. BGM-8T at 13:17-19.
192/ Id. at 13:13-17, 12:16-18.
193/ Mullins, Exh. No. BGM-1CTr at 47:11-13.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

86 First, the Company has proposed a new, hourly wind shaping methodology that increases WCA power costs by $646,614.[194] The result, which Boise does not oppose, is a dynamic wind profile introducing representative inter-hour integration costs into the GRID model.[195] But, as Mr. Mullins has explained, the inclusion of such costs *within* the GRID model renders inappropriate the continued inclusion of inter-hour integration costs as a separate charge, *outside* of the GRID model.[196] Hence, the $693,190 presently included by the Company as a WCA NPC inter-hour integration charge outside of the GRID model should be removed.[197]

87 Similarly, the Company's new, $406,345 "inter-hour load integration" WCA charge double-counts GRID modeling costs which are already present and should, therefore, be removed from Company NPC as well.[198] Specifically, the GRID model already creates additional system costs representing the inter-hour cost of integrating load.[199] This new inter-hour load integration charge, which did not appear in the Company's 2013 rate case, was simply inserted into the Company's initial filing without any testimony supporting it, either as to its purpose or calculation.[200] While Mr. Duvall argues that this charge was indirectly in the cost of wind integration in the 2011 GRC, he does not dispute that this new item was not included in the final power cost study approved by the Commission in the Company's 2013 rate case.[201] Hence, not only is this new charge duplicative—it also violates the Commission's rule against the unsupported inclusion of methodological changes in a general rate proceeding.[202]

194/ Id. at 46:20-21.
195/ Id. at 49:2-4.
196/ Id. at 49:4-5.
197/ Id. at 46:22-23.
198/ Id. at 47:3-9.
199/ Id. at 49:21-22.
200/ Id. at 50:1, 49:9-10.
201/ Duvall, Exh. No. GND-4T at 51:2-4.
202/ Mullins, Exh. No. BGM-1CTr at 49:8-12 (citing WAC § 480-07-510(3)(e)(i)).

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

5. The Chehalis Outage Should Be Excluded from Outage Rate Calculations in the GRID Model

88 Boise recommends that the Commission exclude the 2013 Chehalis outage from GRID model outage rate calculations because the outage: 1) is not representative of normal plant operations in the rate period; and 2) resulted from imprudent operation.[203/] Mr. Mullins has testified that removing the Chehalis outage will result in a $129,491 Washington-allocated reduction to Company NPC.[204/]

89 The Commission has stated "that the purpose of establishing an annual outage rate is to represent expected outage levels during the rate year."[205/] The 2013 Chehalis outage cannot be reasonably characterized to represent an "expected outage," as even Mr. Ralston concedes that the Chehalis outage resulted from a generator which "failed catastrophically, destroying the transformer."[206/] Words like "catastrophically" and "destroying," especially in the context of recent failures occurring at the same plant (including at least one more of the "catastrophic" variety),[207/] are not words which should describe normal or "expected" costs appropriately borne by ratepayers—lest the Commission find itself in the proscribed business of insuring the value of uneconomic utility operations.[208/] In addition, the Company suggests that it has corrected the problem associated with incorrectly designed transformer bushings,[209/] which has been the cause

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203/ Id. at 50:13-15. In an effort to prevent unnecessary confidential designations, Boise is not designating as confidential any information which has been made publicly available by the Company since Mr. Mullins filed his responsive testimony. For instance, while through an abundance of caution Mr. Mullins originally designated as confidential the statement that "evidence supports a conclusion that this outage was the result of imprudent operations," Company witness Mr. Dana Ralston has restated and discussed Mr. Mullins' statement publicly in rebuttal testimony. E.g., Ralston, Exh. No. DMR-2T at 1:23-2:1, 8:8-10.

204/ Mullins, Exh. No. BGM-1CTr at 50:16-18.

205/ Docket No. UE-100749, Order 06 at ¶ 141.

206/ Ralston, Exh. No. DMR-2T at 2:20-22.

207/ Id. at 3:4, 9.

208/ Market St. R. Co. v. Railroad Comm'n of California, 324 U.S. 548, 567 (1945).

209/ Ralston, Exh. No. DMR-2T at 6:20-7:3.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

of repeated, catastrophic outages at the Chehalis plant.[210/] Accordingly, a catastrophic outage like the one occurring in 2013 should not occur in the rate period.

90 More specifically, Mr. Ralston's rebuttal testimony effectively concedes that the catastrophic 2013 generator failure was caused by imprudent operations, in that the Company did not improve data availability associated with plant monitoring equipment prior to the outage, but did so only after a third-party identified the risk and solution.[211/] Mr. Ralston was reminded that the root cause analysis issued after "the 2013 outage included recommendations regarding the monitoring equipment," and he acknowledged that these "recommendations were improvements to data availability."[212/] Although Mr. Ralston then denied that the Company was imprudent, he ultimately admitted that the Company did not have the recommended monitoring equipment referenced by Boise in place in order to prevent the 2013 catastrophe: "The Company implemented the recommendations *after* the report was issued."[213/] Boise continues to maintain that the Company was imprudent for not identifying or timely implementing these recommended improvements *itself*, despite the experience of multiple and catastrophic outage at Chehalis in the recent past.

F. The Company's Proposed RRTM Is Conceptually and Structurally Flawed and Should Be Rejected

91 Conceptually, the Company has failed to demonstrate that the RRTM is justified based on "extraordinary" variability in renewable portfolio standard ("RPS") resource output which could potentially justify a power cost recovery mechanism—or even that it is possible to

[210/] Id. at 2:20-22; 3:9-10, 18.
[211/] Id. at 6:1-19.
[212/] Id. at 6:1-7.
[213/] Id. at 6:17-19 (emphasis added).

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

accurately "carve-out" actual costs and benefits associated with RPS resources.[214] Structurally, the mechanism is flawed in that market price changes would be captured in the RRTM that are unrelated to RPS compliance. Moreover, the proposed RRTM lacks ratepayer safeguards such as sharing bands and deadbands, which the Commission has consistently required in a PCAM.[215]

92 For these reasons, Boise recommends that the Commission reject the proposed RRTM. Additionally, while agreeing with certain features of Staff's PCAM proposed as an alternative to the RRTM, Boise recommends that the Commission not approve such extraordinary rate relief because the Company failed to request a comprehensive PCAM mechanism in its initial filing.

1. Conceptual Flaws in the RRTM

93 As Mr. Mullins has demonstrated, the annual variability of RPS resource output has remained relatively stable in recent years, with the relative standard deviation of wind output at only about 6%.[216] This modest variability cannot be reasonably described as "extraordinary," or worthy of a special cost recovery mechanism, especially in light of the fact that the Company's hydro output over the same recent time period has actually been more than twice as variable on an annual basis, with a relative standard deviation of 14%.[217]

94 A second, incurable flaw in the conceptualization of the RRTM concerns the impossibility of accurately carving out RPS power costs. In short, costs associated with varying levels of RPS output are the product of complex and offsetting balancing interactions between

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[214] Mullins, Exh. No. BGM-1CTr at 53:19-54:3.
[215] Id. at 54:6-8.
[216] Id. at 54:12-55:3.
[217] Id. at 55:4-56-5.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

many resource types in the Company's portfolio.[218] In fact, the Company itself has long conceded the impossibility of independently isolating NPC attributable solely to RPS resources.[219] Thus, given both the quite *ordinary* variability of RPS resource output and the Company-acknowledged impossibility of accurately isolating NPC attributable to RPS resources, Boise recommends that the Commission reject the proposed RRTM.

2. Structural Flaws in the RRTM

95 In operation, Mr. Mullins has demonstrated that the RRTM would unreasonably allow the Company a dollar-for dollar recovery attributable to inaccurate market price forecasting, even if RPS output forecasts were absolutely perfect.[220] Plainly, this is well beyond the alleged purview of an RRTM touted as a "limited" mechanism simply recovering RPS costs.[221] Mr. Duvall's justification for the inclusion of market variability in RRTM calculation—i.e., because "market prices, like wind generation, are outside the Company's control"[222]—is both an object lesson in the conceptual impossibility of accurately isolating RPS costs, as well as an admission which undermines any claim that the RRTM is truly a "limited" mechanism, somehow worthy of simple dollar-for-dollar recovery for an isolated subset of NPC.

3. Approval of Staff's Alternative PCAM Would Be Premature

96 The alternative PCAM proposed by Staff witness Mr. David Gomez is a notable improvement over the Company's RRTM; for instance, Mr. Gomez has recommended the application of asymmetrical sharing percentages also supported by Mr. Mullins.[223]

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[218] Id. at 56:6-19.
[219] Id. at 56:22-57:8 (quoting In re PacifiCorp, Request for a General Rate Revision, OPUC Docket No. UE 246, PacifiCorp's Post-Hearing Brief at 36 (Nov. 7, 2002)).
[220] Id. at 58:10-59:14.
[221] Duvall, Exh. No. GND-1CT at 39:20-40:2.
[222] Duvall, Exh. No. GND-4T at 56:10-12.
[223] Mullins, Exh. No. BGM-8T at 17:22.

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333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

Nevertheless, Boise recommends that the Commission refrain from implementing such an alternative mechanism in this case, given the late appearance of Staff's PCAM and the need for all parties—including the Company itself, which did not propose the mechanism—to have a full opportunity to thoroughly analyze the mechanics of such a comprehensive and important proposal.

G. Deferred Accounting Treatment Is Not Appropriate for Any of the Company's Deferral Requests

97 Boise recommends that the Commission reject all three of the Company's deferral requests as unsupportable, not extraordinary, and certainly not unexpected, thereby, reducing the overall proposed revenue requirement increase in these proceedings by approximately $6.8 million. In short, the Commission should protect ratepayer interests in requiring the Company to recover these costs at the appropriate time. As Mr. Mullins testifies, had the Company proposed a PCAM in prior rate cases with requisite customer safeguards, costs associated with both the Colstrip Outage and Declining Hydro deferral requests would have been appropriately subject to deadbands and sharing bands, thereby ensuring that any NPC amounts ultimately received by the Company were fair and reasonable.[224/] Conversely, the Company's attempt to achieve dollar-for-dollar recovery through the present deferral requests is a blatant attempt to bypass the Commission's PCAM requirements and an abuse of deferral accounting.[225/]

98 Additionally, none of the Company's deferral requests satisfy Commission standards necessary to justify deferred accounting in the first place—<u>i.e.</u>, the demonstration that

[224/] Mullins, Exh. No. BGM-1CTr at 61:11-17.
[225/] <u>Id.</u> at 61:17-19.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

costs are both "extraordinary" and "due to factors beyond the Company's control."[226/] Here again, the Company is boldly laying down a gauntlet to test the Commission's willingness to hold to its own standards and its recently stated concern "about limiting the use of deferred accounting of investment costs between rate cases."[227/] Finally, as explained by Mr. Mullins and as noted in detail below, none of the three deferral requests merit deferred accounting treatment based upon further factual circumstances relative to each deferral petition.

1. The Company Should Not Collect Any Costs Related to the Colstrip Outage

99 Pacific Power has not demonstrated that costs related to the Colstrip Outage deferral request are either "extraordinary" or "due to factors beyond the Company's control," as required for any deferred accounting petition. First, there is nothing extraordinary about the fact that, as the Company argues in its petition for deferred accounting, it currently lacks a mechanism to recover fluctuations to NPC;[228/] rather, the Company is wholly responsible for such circumstances, given its consistent rejection of an appropriately designed PCAM. As a practical matter, the Company has failed to either quantify replacement power costs or even to demonstrate that the nebulous costs referenced qualify as extraordinary.[229/] The Company admits that it "*cannot* identify specific power transactions that occurred or failed to occur as a result of the Colstrip Unit 4 outage."[230/]

226/ E.g., Docket No. UE-020417, Third Suppl. Order at ¶ 5; Docket Nos. UE-050684 and UE-050412, Order 04/03 at ¶ 305 (combining both standards in affirming that deferred accounting is "warranted in extraordinary *circumstances*") (emphasis added); see also Docket No. UE-100749, Order 10 at ¶ 21 & n.19 (quoting the 2002 order to explain the purpose of deferred accounting); Docket Nos. UE-020417 and UE-991832, Sixth/Eighth Suppl. Order at ¶ 29 (finding insufficient nexus between causation and cost to justify deferred accounting, even if the "extraordinary" nature of costs might "arguably" provide a rationale for deferral).

227/ Docket Nos. UE-140762 and UE-140617, Order 03/01 at ¶ 10 (May 29, 2014).

228/ Docket No. UE-131384, PacifiCorp's Petition for an Accounting Order at ¶ 6 (July 26, 2013) ("Colstrip Petition").

229/ Mullins, Exh. No. BGM-1CTr at 63:19-64:15.

230/ Duvall, Exh. No. GND-10CX (Company Response to Boise DR 4.4) (emphasis added).

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

100 Second, the Company has not demonstrated that Colstrip Outage costs were incurred "due to factors beyond the Company's control." From the beginning, the Company did not even attempt to satisfy the Commission's standard, merely alleging that the cause of the Colstrip outage was "under investigation."[231/] This cavalier approach has continued throughout these proceedings, with Mr. Ralston stating that "the root cause report supported the conclusion that the operator was not at fault," based upon a conclusion in that root cause analysis that "there was no 'smoking gun' which clearly indicated the cause of failure."[232/] In sum, from beginning to end, the Company has improperly and ineffectually attempted to prove its positive burden of proof—i.e., that the Colstrip Outage was, affirmatively, due to factors beyond its control—by alleging a lack of determinacy.

101 To the extent that inferences are to be drawn from the root cause analysis, however, Mr. Mullins has demonstrated that the evidence weighs in favor of concluding the Colstrip outage costs are the result of imprudent plant operations, ineligible for extraordinary cost recovery.[233/] The Company concedes that plant "failure was *most likely* … caused during the previous outage by rotor insertion, skid pan damage, or air gap baffle installation,"[234/] with Mr. Ralston also agreeing that "[t]he root cause analysis indicates that prior repair work 'could' have caused initial damage that ultimately lead [sic] to the outage."[235/] Accordingly, Boise recommends that the Commission reject the Colstrip Petition in finding that Pacific Power has neither demonstrated that Colstrip Outage costs are sufficiently quantifiable and extraordinary,

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231/ Colstrip Petition at ¶ 4.
232/ Ralston, Exh. No. DMR-2T at 8:17-21 (quoting Mullins, Exh. No. BGM-4C).
233/ Mullins, Exh. No. BGM-1CTr at 65:6-66:13. The Company's attempt to discredit Mr. Mullins' testimony at hearing on the basis that he lacks decades of experience operating power plants is bereft of substance.
234/ Mullins, Exh. No. BGM-4C at 68 (UE-131384, the Company's Response to WUTC DR 5) (emphasis added).
235/ Ralston, Exh. No. DMR-2T at 9:18-19.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

nor conclusively "due to factors beyond the Company's control" so as to justify recovery.

2. The Declining Hydro Deferral Request Lacks Sufficient Basis

102 The Company's decision not to withdraw its Declining Hydro petition, despite plain evidence that 2014 hydrological conditions have actually *exceeded* normal levels,[236/] is a strong testament to the sort of institutional entitlement which the Commission identified in the Company's 2013 rate case. Most notably, the Commission remarked upon "a loss of perspective on the Company's responsibility to manage its power costs," via the proposal of "a PCAM that would protect the Company from any risk of under-recovery."[237/] Far from amending its perspective, however, the Company's continued request for costs associated with Declining Hydro conditions—conditions that have been proven *not to exist*—takes that sense of entitlement to an unprecedented level. Staff and Public Counsel also agree that the Declining Hydro deferral request lacks sufficient basis.[238/] This request is without merit or factual basis.

3. Deferred Accounting Treatment Is Inappropriate for the Merwin Fish Collector

103 While Boise is not contesting the inclusion of Merwin Fish Collector costs in rate base,[239/] it would not be appropriate to allow special deferred accounting treatment for such costs, should the Commission determine them to be prudently incurred. More specifically, if Pacific Power is allowed to recover undepreciated net plant as with any allowed pro-forma capital addition, an accrual of return, interest, or special depreciation treatment should not be allowed.[240/]

236/ Mullins, Exh. No. BGM-8T at 23:4-24:5.
237/ 2013 GRC Order 05 at ¶ 172.
238/ Gomez, Exh. No. DCG-1CT at 16:16-18:14; Ramas, Exh. No. DMR-1CTr at 42:5-44:21.
239/ Mullins, Exh. No. BGM-1CTr at 8:4-5.
240/ Id. at 69:7-12.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

104 First, deferred accounting treatment would result in a double-counting of the return component in rate period revenue requirement because Pacific Power would receive a return on rate base: a) via the plant inclusion as a capital addition; and b) for the same plant through the deferral.[241/] Likewise, any special depreciation treatment through deferred accounting would double-count depreciation already associated with the Company's decision to include the Merwin Fish Collector as a pro-forma plant addition.[242/]

105 Finally, Mr. Mullins has testified to serious issues of equity and fairness relevant to the increasing frequency of deferral requests like the Merwin petition, requests that appear unnecessary at best. As noted by Mr. Mullins:

> Customers do not control the timing of rate cases, nor do they have the information or the resources to file petitions requesting deferred accounting of *benefits* the Company receives between rate cases. Rather, customers rely on the regulatory compact and the oversight of the Commission's rate case process to capture and balance both the costs and the benefits the Company realizes between rate cases. It would be unfair to allow [] PacifiCorp to shift responsibility for all of its expenses to customers through deferred accounting, while allowing the Company to enjoy the benefits it receives until such a time as it chooses to file a rate case.[243/]

The Commission should consider the one-sided, Company-favoring nature of so many of these deferral requests. The Merwin Fish Collector petition is precisely of this variety, containing duplicative Company benefits and an overall request which is simply unnecessary and harmful to customers, given the return and depreciation treatment already available to the Company in the normal rate base mechanism.

241/ Id. at 69:18-22.

242/ Id. at 70:3-7.

243/ Id. at 70:21-71:2 (quoting Docket No. UE-140617, ICNU Comments on Petition of PacifiCorp at 4 (May 27, 2014)).

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

H. Modifications to the Company's Cost of Service Study Are Justified in Order to Accurately Classify and Allocate Production and Transmission Costs

106 Boise recommends that the Commission adopt modifications to the Company's class embedded cost of service ("ECOS") study as proposed by witness Mr. Robert Stephens, including: 1) use of more traditional classification methodology for production costs, i.e., a demand approach for fixed costs and an energy approach for variable costs; 2) allocation of the demand component of production costs using the 4 Coincident Peak ("CP") method; and 3) use of traditional demand classification with a 12 CP demand allocation method for transmission system costs.[244/] As Mr. Stephens demonstrates, aligning the ECOS study with cost causation principles significantly varies cost returns derived from Pacific Power's calculations, whether the Commission adopts Mr. Stephens' recommended approach or an alternatively proposed modification retaining the Company's Peak Credit classification.[245/]

107 More specifically, the rate of return index for industrial customers under Schedule 48T-Dedicated Facilities—under either approach proposed by Mr. Stephens—demonstrates that this customer class is actually providing revenues producing a return higher than the system average, or up to 52% above test year cost of service.[246/] Accordingly, it is both proper and imperative, from a cost causation and fairness perspective, for the Commission to adopt Boise's recommendations as explained in additional detail below.

1. The Company's Classification and Allocation Approaches Should Be Modified to More Accurately Reflect Cost Causation

108 There is a disparity in how the Company presently classifies and allocates

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244/ Stephens, Exh. No. RRS-1Tr at 2:9-29.
245/ Id. at 27:8-28:6; Exh. No. RRS-5r (using Mr. Stephens' recommended ECOS approach); Exh. No. RRS-8r (using a modified Peak Credit ECOS study).
246/ Stephens, Exh. No. RRS-1Tr at 28:1-6 and Table 5.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

production plant among rate schedules in the ECOS study versus the actual need for production capacity existing within those same customer groups. Mr. Stephens has illustrated this disparity by juxtaposing capacity allocated to customer rate schedules under the Company's Peak Credit method with the peak demands actually warranted by those schedules—revealing a massive surplus in capacity allocated to industrial customers compared to an acute shortfall in residential allocation.[247/] The graphic depiction of this allocation disparity is provided in Figure 2 of Mr. Stephens' responsive testimony, highlighting a fundamental cost causation flaw in the Company's Peak Credit ECOS methodology.[248/]

109 To correct this disparity and align ECOS classification and allocation according to cost causation principles, Boise recommends that the Commission require the Company to revise its present Peak Credit classification ratio, i.e., 43% demand/57% energy, to a more traditionally accepted approach; specifically, 100% of fixed costs should be classified as demand related, while variable costs should be classified as energy related.[249/] As Mr. Stephens explains, "[b]ecause production investment is primarily due to the need for and the size of the peak demands of customers, it should be assigned to customer classes exclusively, or at least primarily, on those classes' contribution to utility system peaks."[250/] As illustrated in Figure 1 of Mr. Stephens' responsive testimony, a comparison of class load contributions during the Company's extreme demand months of December and May (highest and lowest demand, respectively) shows that additional loads of residential and commercial class customers—and *not* industrial customers—drive Pacific Power loads and the need for generating capacity and

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247/ Id. at 16:12-20 & n.10; Exh. No. RRS-4r (using a 4 CP average for purposes of peak demand, as discussed in further detail in the next section).
248/ Stephens, Exh. No. RRS-1Tr at 16:20-21 and 17, Figure 2.
249/ Id. at 17:1-18:2.
250/ Id. at 17:3-5.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

production plant investment.[251] Therefore, modification to the Company's Peak Credit classification is warranted to ensure that production capacity assignment in the ECOS study reflects actual peak demands and customer class responsibility.

2. Allocating Production Costs via a 4 CP Method Will Provide a Better Measure of Demand Component

110 Boise also recommends that the Commission require the use of a 4 CP method as a better measure for allocating the demand component production costs, regardless of whether the Peak Credit classification methodology is retained. The Company's present allocation method, the use of the highest 100 summer and 100 winter WCA hourly peaks, includes some hours as low as 75% of the system peak, only four hours within 5% of the peak, and just 22 hours within 10% of the peak.[252] Not only is this extremely low correlation of demand allocation to system peak contrary to accepted industry standards,[253] but as Mr. Stephens explains, the Company's method violates cost causation principles, which reasonably require consideration of only those hourly demands in close proximity to the system peak:

> By considering only the hourly demands that are reasonably close to the annual system peak, the cost analyst recognizes that it is only during the highest system load hours that production capacity is most likely to be fully utilized. Consequently, a demand allocation method that is based on each class's contribution during these high demand periods will fairly and reasonably recognize the classes' proportionate responsibility in causing the utility to incur those production investments.[254]

111 Contrary to the top 100/100 method used by the Company, the use of a 4 CP allocator, as proposed by Mr. Stephens for demand-related production costs based on July,

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[251] Id. at 14:6-15:5.
[252] Id. at 9:17; 10:17, 20-21.
[253] E.g., id. at 8:17-9:6, 9:20-10:12.
[254] Id. at 9:7-14.

August, January, and December as typically the highest Company demand months: 1) better accounts for dominant seasonal peaks; 2) reflects actual load characteristics on the Company's system; 3) properly reflects class responsibility for production investment; 4) gives recognition to both the summer and winter seasons, as does the Company's current method; and 5) is better supported by industry literature.[255/] Accordingly, Boise recommends that the Commission require the Company to adopt a 4 CP demand allocator.[256/]

3. Like Production, Transmission System Costs Should Be Classified Exclusively as Demand Related, and Allocated Using a 12 CP Demand Measure

112 National and Company standards provide ample justification for classifying all transmission system costs as demand related using a 12 CP demand measure. While the Company presently makes no distinction between production and transmission classification in the ECOS study, Mr. Stephens points out that he is unaware of any precedent outside of Washington and PacifiCorp cases for classifying or allocating transmission plant costs on the basis of energy to *any* degree.[257/] As Mr. Stephens explains, because transmission costs are all fixed and not variable with energy flow, there is no arguable trade-off between fixed and variable costs that justify an energy component to reflect cost causation in regard to transmission facility allocation.[258/] Indeed, the Company confirms in its Open Access Transmission Tariff ("OATT") that its transmission system was constructed to meet peak customer demand, with no reference to energy therein.[259/]

[255/] Id. at 19:1-14, 14:1-3.

[256/] Id. at 19:15-21:11; Exh. No. RRS-5r (using Mr. Stephens' recommended ECOS approach); Exh. No. RRS-6r (using a 4 CP demand measure within the context of the Peak Credit classification approach).

[257/] Stephens, Exh. No. RRS-1Tr at 23:15-24:5.

[258/] Id. at 24:9-25:6.

[259/] Id. at 25:7-14.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

113 Due to the undisputed fact that the Company's transmission system is built to meet peak system demands, it would be perfectly appropriate to allocate Company transmission costs on as little as a 1 CP measure, as some Regional Transmission Organizations effectively do.[260/] Nonetheless, Mr. Stephens has proposed a conservative 12 CP allocator for 100% of transmission costs, primarily based upon the widespread use of this method, including by the Federal Energy Regulatory Commission and even PacifiCorp itself in its OATT.[261/] Boise recommends that the Commission order the Company to adopt this 12 CP transmission allocator, even if the Peak Credit method is retained for production costs.[262/]

I. Pacific Power's Rate Spread Proposal Should Be Modified to Minimize Anomalous Outcomes and Guide Allocation in All Revenue Requirement Circumstances

114 Boise supports the Company's rate spread proposal, so long as modest adjustments are ordered by the Commission. As Mr. Stephens has pointed out, the Company's proposed two tiered rate spread approach—allocating a one-half, or 4.2% increase to some schedules, and a full 9.5% increase to the rest[263/]—can lead to anomalous results because whether a customer schedule gets a 4.2% or 9.5% increase depends upon whether the schedule is above or below a hard trigger of 100% cost of service.[264/] For example, under the Company's proposal, a rate schedule at 99.99% of cost of service would receive a full 9.5% increase, while another schedule at 100.01% of cost of service would receive a mere 4.2% increase.[265/]

115 In order to avoid the potential for such anomalies, Mr. Stephens has proposed that movement toward cost of service should be made to the fullest extent possible (e.g., creating

260/ Id. at 26:3-8.
261/ Id. at 26:8-16, 25:17-22; Exh. No. RRS-7.
262/ Stephens, Exh. No. RRS-1Tr at 27:1-7; Exh. No. RRS-8r.
263/ Steward, Exh. No. JRS-1T at 13:13-14:2.
264/ Stephens, Exh. No. RRS-1Tr at 30:11-15.
265/ Id. at 30:15-23.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

nearly identical rate increases for the two hypothetical schedules described above), subject to the following constraints: 1) a maximum increase at 1.12 times the system average increase; and 2) the creation of a floor on the maximum increase, in the event that the average increase granted by the Commission is very low.[266/] The first proposed constraint avoids rate shock and is based on Pacific Power's proposal; the second allows for a moderate increase regardless of the revenue requirement outcome, to produce movement toward cost of service, but also should not be considered to constitute a rate shock.[267/]

IV. CONCLUSION

116 The Company has brought the Commission to an important crossroads with these proceedings. In spite of the Commission's attempt to address Company concerns on rate recovery with measures such as EOP rate base, as well as guidance and encouragement in designing appropriate alternative rate mechanisms, Pacific Power has not only filed another annual rate request, but has sought to bypass Commission holdings in the last rate case through additional deferred accounting requests. Specifically, most of the proposed rate increases in these proceedings arise from cost recovery requests recently rejected by the Commission, or premised upon under-earning claims which do not hold up in the face of prior Commission findings and the evidence in this record. Pacific Power has simply not carried its burden of proof on many issues identified in Boise's brief and sponsored testimony. Boise recommends a $35.4 million reduction to the Company's overall rate increase requests, comprised of a $28.6 million reduction to requested revenue requirement and the rejection of $6.8 million in rate increases attributable to the consolidated deferral dockets.

266/ Id. at 31:9-21.
267/ Id. at 31:12-16.

DAVISON VAN CLEVE, P.C.
333 SW Taylor, Suite 400
Portland, OR 97204
Telephone (503) 241-7242

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Respectfully submitted,

DAVISON VAN CLEVE, P.C.

Melinda J. Davison
Jesse E. Cowell
333 S.W. Taylor, Suite 400
Portland, Oregon 97204
(503) 241-7242 telephone
(503) 241-8160 facsimile
mjd@dvclaw.com
jec@dvclaw.com
Of Attorneys for Boise White Paper, L.L.C.