

Exhibit No. ___T (CJW-1T)

Docket No. UE-050684

Witness: Christian J. Ward

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP, d/b/a Pacific Power &
Light Company,

Respondent.

DOCKET NO. UE-050684

TESTIMONY OF

CHRISTIAN J. WARD

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

RE: PACIFICORP GENERAL RATE CASE

November 3, 2005

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LIST OF EXHIBITS

Exhibit No. ___ (CJW-2): Adjustment 4.18, Miscellaneous Administrative and General Expense - Washington

Exhibit No. ___ (CJW-3): Adjustment 4.19, Remove RTO Expenses - Washington

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Christian J. Ward. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is cward@wutc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission as a regulatory analyst.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since September 1999, and as a regulatory analyst since April 2004.

Q. Would you please state your educational and professional background?

A. I graduated from The Evergreen State College in 1998 and received a Bachelor of Arts degree with emphasis in business management and accounting. I have examined and assisted in the analysis of several other utility rate filings. I also successively completed the 47th Annual Regulatory

1 Studies Program, sponsored by the National Association of Regulatory
2 Utility Commissioners (NARUC).

3

4 **II. SCOPE OF TESTIMONY**

5

6 **Q. What is the scope of your testimony?**

7 A. I analyze the following adjustments:

- 8 • Adjustment 4.1, Capital Stock Expense Amortization;
- 9 • Adjustment 4.18, Miscellaneous Administrative and General Expense;
- 10 • Adjustment 4.19, Remove RTO Expenses.

11

12 **Q. Do you sponsor any exhibits?**

13 A. Yes. I sponsor Exhibit No. ___ (CJW-2), entitled "Adjustment 4.18,
14 Miscellaneous Administrative and General Expense - Washington." In this
15 exhibit I summarize the calculation of Staff Adjustment 4.18. I also sponsor
16 Exhibit No. ___ (CJW-3), entitled "Adjustment 4.19, Remove RTO Expenses,
17 - Washington," which shows the calculation of Staff Adjustment 4.19.

18

1 III. DISCUSSION OF ADJUSTMENTS

2
3 A. Adjustment 4.1, Capital Stock Expense Amortization

4
5 Q. What is capital stock expense?

6 A. Capital stock expense is the cost the Company incurs to issue equity capital.
7 The costs are basically the fees the Company pays to financial institutions to
8 issue new common stock.

9
10 Q. Did PacifiCorp propose an adjustment to amortize these expenses?

11 A. Yes. PacifiCorp's Adjustment 4.1 accumulates the costs the Company
12 incurred to acquire new common stock in prior years, and amortizes these
13 costs over a twenty year period. The Company's adjustment is shown in
14 Exhibit No.____ (PMW-3), Tab 4, at pages 4.1 and 4.1.1.

15
16 Q. Over what period of time did the Company accrue these costs?

17 A. This expenditure has accumulated on the Company's books since it began
18 operations in the early 1900s up until 1998. According to the Company's
19 Response to Staff Data Request No. 70, "No additions have been recorded to
20 Capital Stock Expense since 1998." Accordingly, the Company incurred

1 these costs in periods before 1999. The detailed back-up information the
2 Company provided showed various amounts for various years after 1980,
3 and a lump sum amount for all periods before 1980.

4 In short, these are not current costs. These are costs PacifiCorp
5 incurred many years ago.

6
7 **Q. Please explain how the FERC Uniform System of Accounts requires**
8 **PacifiCorp to book capital stock expense.**

9 A. According to the FERC Uniform System of Accounts (USofA), PacifiCorp is
10 to book capital stock expense to Account 214. 18 C.F.R. Part 101 describes
11 Account 214 in part as follows: "A. This account shall include in a separate
12 subdivision for each class and series of stock all commissions and expenses
13 incurred in connection with the original issuance and sale of capital stock ...

14 B. When capital stock which has been actually issued by the utility is retired,
15 the amount in this account, applicable to the shares retired shall be written
16 off to account 210, Gain on Resale or Cancellation of Reacquired Capital
17 Stock, provided, however, that the amount shall be charged to account 439,
18 Adjustments to Retained Earnings, to the extent that it exceeds the balance in
19 account 210."

1 In other words, the accounting rules require capital stock expenses to
2 be booked in Account 214, which is a reduction to stockholder’s equity.
3 When the equity issuances are retired, the associated amounts in account 214
4 are simply transferred to other capital accounts, as required by the USofA.
5 By the nature of this accounting, capital stock expense is not intended to be
6 included as a utility operating cost.

7

8 **Q. Did PacifiCorp record its capital stock expenses in Account 214?**

9 A. Yes. However, PacifiCorp is proposing to amortize these capital stock
10 expenses through Account 930, a utility operating expense account.

11

12 **Q. Is PacifiCorp required to follow the FERC USofA?**

13 A. Yes. Under WAC 480-100-203, the Commission requires all electric utilities
14 to use the uniform system of accounts (USofA) as published by the Federal
15 Energy Regulatory Commission (FERC) in 18 C.F.R. Part 101. According to
16 WAC 480-100-203(3): “Any deviation from the uniform system of accounts,
17 as prescribed by the FERC, will be accomplished only after due notice and
18 order of this Commission.”

19

1 **Q. Should the Commission accept PacifiCorp's Adjustment 4.1 and allow**
2 **PacifiCorp to deviate from the USofA by amortizing these capital stock**
3 **expenses using Account 930?**

4 A. No. As I explain below, these amounts should not be allowed to be
5 amortized. The Company's adjustment constitutes retroactive ratemaking.
6 The Commission should reject the Company's Adjustment 4.1.

7

8 **Q. Please explain why the Company's Adjustment 4.1 constitutes retroactive**
9 **ratemaking.**

10 A. The Company's adjustment seeks to recover costs the Company incurred
11 many years ago. In other words, the Company is seeking current recovery of
12 costs the Company incurred in accounting periods ending in 1998; several
13 years before the test period in this case: the twelve months ended September
14 30, 2004. This is a classic example of retroactive ratemaking.

15

16 **Q. How should the Commission treat the Company's Capital Stock Expense**
17 **Amortization Adjustment 4.1?**

18 A. The Commission should reject the Company's adjustment as retroactive
19 ratemaking. Staff's Adjustment 4.1 removes the \$171,120 in capital stock
20 expense the Company allocated to Washington.

1 **B. Adjustment 4.18, Miscellaneous Administrative and General Expense**

2

3 **Q. Please explain Adjustment 4.18, Miscellaneous Administrative and**
4 **General Expense.**

5 A. This adjustment is intended to remove expenses or other items that are not
6 appropriate from the Company to recover through rates, such as charitable
7 contributions, expenses related to political, legislative or promotional
8 activities, entertainment expenses, club dues, and expenses that do not apply
9 to Washington.

10

11 **Q. Why should the Commission exclude charitable contributions for**
12 **ratemaking purposes?**

13 A. It is my understanding that under the court's decision in *Jewell v. Utilities &*
14 *Transportation Commission*, 90 Wn.2d 775 (1978), the Commission cannot
15 include charitable contributions in calculating utility rates. The court said
16 that there was no proof these expenses resulted in any better service; that
17 nothing in the Commission's statutes required the utility to be a "good
18 corporate neighbor;" and that a utility was not entitled to recover expenses
19 that result in "improving the image of the corporation."

20

1 **Q. Why should the Commission exclude for ratemaking purposes**
2 **PacifiCorp’s expenses that are related to political or legislative activities?**

3 A. WAC 480-100-213 states that the Commission “will not allow either direct or
4 indirect expenditures” for these items “for rate-making purposes.” That rule
5 defines “political or legislative activities” to include activities such as
6 supporting or opposing legislation or political action committees, or
7 candidates. Company activities before the Commission or similar regulatory
8 or local governmental bodies are not included as political or legislative
9 activities.

10

11 **Q. Why should the Commission exclude for ratemaking purposes**
12 **PacifiCorp’s expenses that are related to promotional activities?**

13 A. WAC 480-100-233 states that the Commission “will not allow expenses for
14 promotional or political advertising for ratemaking purposes.” Promotional
15 advertising includes advertising “to encourage any person or business to
16 select or use the service or additional service of an electric utility.”

17

18 **Q. Did PacifiCorp incur expenses in the test period of a promotional or**
19 **political nature?**

1 A. Yes. Some of the groups to whom PacifiCorp paid money promote business
2 development, which in turn, promotes electric utility usage. In addition,
3 some of these groups, such as chambers of commerce, engage in lobbying
4 activities. PacifiCorp included payments to such entities without adjusting
5 out the portions that are attributable to promotional or political activities.
6

7 **Q. Why should the Commission exclude for ratemaking purposes the**
8 **Company's expenses for entertainment, club dues, and similar items?**

9 A. These items are related to Company image building and/or they do not
10 otherwise result in better utility service. If the Company chooses to incur
11 these types of expenses, they should be borne by shareholders, not
12 ratepayers.
13

14 **Q. Did PacifiCorp propose a Miscellaneous Expense Adjustment?**

15 A. Yes. The Company sponsors Miscellaneous Expense Adjustment 4.3.
16 According to the Company, this adjustment removes "certain miscellaneous
17 expenses that should have been charged below the line to non-regulated
18 expenses." *Direct Testimony of Mr. Wrigley, Exhibit No. ___T (PMW-1T) at 10,*
19 *lines 19-21.* Company Adjustment 4.3 is shown in Exhibit No. ___ (PMW-3),
20 Tab 4, page 4.0, column 4.3.

1

2 **Q. Does Staff accept PacifiCorp's Adjustment 4.3?**

3 A. Yes.

4

5 **Q. What PacifiCorp miscellaneous general expense accounts did Staff review**
6 **to determine whether there were any additional expense items that should**
7 **be removed?**

8 A. I reviewed FERC Accounts 910 - Miscellaneous Customer Service and
9 Informational Expenses; 912 - Demonstrating and selling Expenses; 913 -
10 Advertising Expenses; 920 - Administrative and General Salaries; 921 - Office
11 Supplies and Expenses; 923 - Outside Services Employed, 930 -
12 Miscellaneous General Expenses; and 935 - Maintenance of General Plant.

13

14 **Q. Based on that review, did you discover any expenses that the Company**
15 **recorded "above the line" that should have been recorded "below the**
16 **line," or otherwise should be excluded for ratemaking purposes?**

17 A. Yes. The Company recorded above the line certain payments it made to
18 various chambers of commerce, as well as expenses related to the Company's
19 political activities, sponsorships, gifts to Board Members, community
20 dinners, galas, club memberships, association dues that had components for

1 political or legislative activities, and payments to Rotary Clubs and other
2 charitable organizations.

3 I discovered PacifiCorp recorded these amounts in the test year in
4 Accounts 920, 921, 923 and 930. These are “above the line” accounts. Unless
5 these items are excluded for ratemaking purposes, they will be included in
6 the rates paid by Washington ratepayers.

7

8 **Q. Did PacifiCorp follow the USofA when it recorded above the line these**
9 **sorts of expenses you found in Accounts 920, 921, 923 and 930?**

10 A. No. PacifiCorp should have recorded the money it paid to charities or
11 similar organizations in USofA Account 426.1 – Donations. 18 C.F.R. Part
12 101, defines Account 426.1 as follows: “This account shall include all
13 payments or donations for charitable, social or community welfare
14 purposes.”

15 The Company should have recorded the other expenses I identified
16 under USofA Account 426.5 – Other Deductions. According to the same
17 regulations: “This account shall include other miscellaneous expenses which
18 are non-operating in nature, but which are properly deductible before
19 determining total income before interest charges.”

20

1 1. *Account 920 – Administrative and General Salaries*

2

3 **Q. You testified that you reviewed items in PacifiCorp’s Account 920. Please**
4 **describe what you found and what adjustment is appropriate.**

5 A. I found Company expenditures relating to entertainment, such as consultant
6 lunches, raffles, and entertainment for the Portland PacifiCorp retirees’
7 Christmas lunch. These amounts are not related to utility service and they
8 should be removed.

9 As shown on page 1, line 4 of my Exhibit No. ___ (CJW-2), the total
10 company amount I removed was \$27,556, and Washington’s share was
11 \$2,295.

12

13 2. *Account 921 – Office Supplies and Expenses*

14

15 **Q. You also testified that you reviewed items in PacifiCorp’s Account 921.**
16 **Please describe what you found and what adjustment is appropriate.**

17 A. I found PacifiCorp payments related to chamber of commerce activities,
18 Rotary Club activities, other charitable activities, other club activities, gala
19 events and dinners, as well as expenses related to PacifiCorp’s activities in
20 the states of Oregon, Wyoming, Idaho and Utah.

1 As shown on page 1, line 5 of my Exhibit No. ___ (CJW-2), the total
2 system amount the Company recorded in Account 921 for the test period is
3 \$16,568,398. I removed \$1,202,440 (system wide), and \$100,142 for
4 Washington.

5

6 **Q. Why should the Commission disallow the Company's payments to**
7 **chambers of commerce?**

8 A. Chambers of commerce engage in business promotional activities of the sort
9 described in WAC 480-100-223. In addition, chambers of commerce engage
10 in lobbying activity, and image building for their members. Some chamber
11 of commerce organizations solicit donations, which qualifies them as a
12 charity. As I explain earlier, these types of expenses either cannot or should
13 not be recovered from ratepayers.

14

15 **Q. Why should the Commission disallow the other types of expenses you**
16 **described?**

17 A. As I testified earlier, a utility's charitable contributions cannot be recovered
18 from ratepayers. The expenses for gala dinners and other items are also not
19 utility service related. The expenses relating to Company activities in

1 Oregon, Wyoming, Idaho and Utah are removed because they do not apply
2 to Washington.

3

4 **Q. What methodology did you use to determine the amount of expenses in**
5 **Account 921 that should not be recovered from ratepayers?**

6 A. There was a tremendous volume of transactions in this account. Therefore, I
7 applied a sampling technique to derive the estimated amount to disallow. I
8 reviewed a full, two-month period of transactions, and removed
9 expenditures that PacifiCorp should have charged below the line or should
10 otherwise not recover, and used that amount to calculate a percentage to
11 apply to the other months in the test period.

12 I then removed the unrecoverable amounts from the two-month
13 sample, and applied the percentage to the remaining amounts in the account
14 for the other months of the test year.

15 This calculation is detailed on lines 21-22 of my Exhibit No. ___ (CJW-
16 2), page 1.

17

18 3. *Account 923 – Outside Services Employed*

19

20 **Q. What did you find in Account 923, and what adjustment is appropriate?**

1 A. In my review of this account, I discovered PacifiCorp payments associated
2 with sponsorships, association memberships, gifts to Scottish Power Board
3 members, retiree services including the Company's Retiree Ambassador
4 Program, and the costs associated with an employee retirement video. I
5 removed these expenses for the reasons I described earlier: these are either
6 image-building activities or they do not result in better service to ratepayers.

7 I also found expenses PacifiCorp incurred in Oregon, Wyoming,
8 Idaho and Utah involving case activities. These expenses were not
9 associated with Washington and were removed for that reason.

10 As shown on page 1, line 6 of my Exhibit No. ____ (CJW-2), the total
11 company amount removed was \$1,593,709. Washington's portion is
12 \$132,727. However, to fairly balance out case expenses, I recalculated
13 Washington's case expenses and included all of those expenses as part of
14 Staff's Adjustment 4.3, as shown on lines 27-28 of my Exhibit No. ____ (CJW-
15 2), page 1.

16

17 4. *Account 930 – Miscellaneous General Expenses*

18

19 **Q. What is your adjustment related to Account 930?**

1 A. I removed three types of expenditures from this Account: 1) Nature
2 Conservancy; 2) Lobbying and similar expenses based on the Company's
3 Response to Staff Data Request No. 140a; and 3) A portion of the dues
4 PacifiCorp paid to the Edison Electric Institute (EEI).

5 As shown on page 1, line 7 of my Exhibit No. ____ (CJW-2), company
6 wide, I removed \$2,315,100. Washington's portion is \$192,806.

7

8 **Q. Please explain the Nature Conservancy element of the adjustment.**

9 A. In reviewing the Company's Response to Staff Data Request No. 59a, for
10 Account 930, I found a \$61,000 payment (total company) to the Nature
11 Conservancy. This is a charitable organization and these expenses cannot be
12 included in rates. Washington's share is \$5,080.

13

14 **Q. Please explain the part of the adjustment based on the Company's**
15 **Response to Staff Data Request No. 140a.**

16 A. Staff Data Request No. 140 asked PacifiCorp to "provide the vendor names
17 and amounts charged to WA for accounts that are posted above or below the
18 line for Membership dues, Lobbying Activities, Civic Activities and Political
19 Activities." The Company's response consisted of data on three
20 spreadsheets.

1 Spreadsheet “a” listed the above-described activities which PacifiCorp
2 charged above the line; Spreadsheet “b” listed the above-described activities
3 that PacifiCorp charged below-the-line; and Spreadsheet “c” listed the
4 above-described activities which PacifiCorp had removed from the test
5 period.

6 Spreadsheet “a” included membership dues, chamber of commerce
7 activities, other charitable contributions and club dues. As I explained
8 earlier, the ratepayers should not bear the burden of these costs. These
9 expenses are more properly borne by shareholders. Accordingly, I removed
10 them. I removed \$1,884,664, total company. Washington’s share is \$156,959.

11

12 **Q. Please explain the Edison Electric Dues portion of the Staff adjustment to**
13 **Account 930 by first describing the Edison Electric Institute.**

14 A. According to Edison Electric Institute’s Notes to the Financial Statements,
15 December 31, 2002 and 2001:

16 Edison Electric Institute (EEI or the “Institute”) is the association of
17 America’s shareholder-owned electric utility companies. Its members
18 generate approximately 70 percent of the country’s electricity, serving
19 nearly 70 percent of all ultimate customers in the nation...EEI
20 provides the principal forum for the electric utility industry to serve
21 as liaison between the industry and the federal government and to
22 promote electrotechnologies. Its officers act as spokespersons for
23 shareholder-owned electric utility companies on subjects of national
24 interest.

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Q. How much did PacifiCorp pay in dues to EEI in the test year?

A. The total company amount that PacifiCorp paid EEI was \$847,428, as shown on page 2, line 25 of my Exhibit No. ___ (CJW-2). PacifiCorp is including \$70,576 as Washington’s share in the Company’s results of operations.

Q. Should the Commission disallow any part of PacifiCorp’s payments to EEI?

A. Yes. The foregoing description of EEI shows that it engages in political activities. The portion of the money PacifiCorp paid to EEI for these purposes should not be recovered from ratepayers.

Q. What percentage of PacifiCorp’s payments to EEI for 2003 and 2004 were for political activities and therefore should be disallowed?

A. 43.60%. As shown on page 2 of my Exhibit No. ___ (CJW-2), lines 28 and 30, this results in an adjustment that removes \$369,436 total company and Washington’s share is \$30,767.

1 **Q. How did you calculate that 43.60%?**

2 A. I reviewed EEI financial data for the year ended December 31, 2003, and the
3 year ended December 31, 2004. In that data, EEI provided a schedule of
4 Expenses organized by NARUC category as a percentage of dues paid. I
5 then removed the amounts for those categories that were political in nature.

6 The percentage applicable to 2003 was 43.52%; and for 2004 it was
7 43.76%, as shown on page 2 of my Exhibit No. ___ (CJW-2), lines 6 and 17.

8 The average of these two percentages is 43.6%. I applied that percentage to
9 the Company's total EEI expenditures for the test year (\$847,428), as shown
10 on page 2 of my Exhibit No. ___ (CJW-2), lines 25 and 26, to get the amount
11 to be removed on lines 28 and 30.

12
13 **Q. What expense categories were associated with the amounts you removed?**

14 A. I removed expenses from the following expense categories:

- 15 1) Legislative Advocacy
- 16 2) Legislative Policy Research
- 17 3) Advertising
- 18 4) Marketing
- 19 5) Public Relations

20

1 5. *Other*

2

3 **Q. Did you remove other expenditures in Staff's Miscellaneous**
4 **Administrative and General Expense Adjustment 4.18?**

5 A. Yes. I removed a note receivable that PacifiCorp had included in a rate base
6 account, a one-time uncollectible accrual, and a Washington non-operating
7 direct access cost.

8

9 **Q. Please explain Staff's adjustment for the note receivable.**

10 A. Based on the Company's Response to Staff Data Request No. 228, I
11 discovered that the Company had recorded a note receivable as a
12 miscellaneous rate base item. The Company should have recorded this item
13 on its balance sheet in Account 141, current and accrued assets, which are not
14 included as a direct rate base component. Notes receivables are considered
15 investments because they are already earning a return in the form of interest.
16 Including these in rate base would constitute double earning.

17 Accordingly, I removed this item from rate base. As shown on page 1,
18 line 13 of my Exhibit No. ___ (CJW-2), Washington's share is \$57,761.

19

1 **Q. Please explain Staff's adjustment for the one-time uncollectible accrual.**

2 A. This adjustment simply removes from the test period results of operations a
3 non-recurring uncollectible expense allocated to Washington. Non-recurring
4 items are usually excluded for ratemaking purposes because they do not
5 reflect the Company's ongoing operations.

6 Based on the Company's Response to Staff Data Request No. 234, and
7 as shown on page 1, line 9 of my Exhibit No. ___ (CJW-2), the expense to
8 Washington is \$5,726.

9

10 **Q. Please explain Staff's adjustment for the Washington non-operating direct**
11 **access cost.**

12 A. This adjustment corrects the system-wide allocation of Direct Access costs
13 that should have been assigned directly to Oregon. Based on the Company's
14 Response to Staff Data Request No. 236, and shown on line 10 of my Exhibit
15 No. ___ (CJW-2), the expense to Washington is \$12,825.

16

17 **C. Adjustment 4.19, Remove RTO Expenses**

18

19 **Q. Please explain the Staff's adjustment for RTO-related expenses.**

1 A. This adjustment removes the expenses the Company recorded in the test
2 year in Account 901, related to the Company's participation in the Regional
3 Transmission Organization (RTO) formation effort.

4 These amounts should not be included because the Company has not
5 demonstrated that Washington retail customers have benefited from these
6 efforts, or that these expenses are in the best interest of Washington
7 ratepayers.

8

9 **Q. What is the magnitude of the RTO adjustment?**

10 A. As shown on line 7 of my Exhibit No. ___ (CJW-3), the RTO adjustment
11 removes \$904,511, total company. Washington's portion is \$75,329.

12

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

14 A. Yes.