

Exhibit No.____(RBD-1T)
Docket UE-14____
Witness: R. Bryce Dalley

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT COMPANY,
a division of PacifiCorp

Respondent.

Docket UE-14____

**PACIFIC POWER & LIGHT COMPANY
DIRECT TESTIMONY OF R. BRYCE DALLEY**

May 2014

TABLE OF CONTENTS

QUALIFICATIONS 1
PURPOSE OF TESTIMONY..... 1
REASONS FOR THE PROPOSED RATE CHANGE 2
COST CONTROL MEASURES 4
PROPOSALS TO ADDRESS CHRONIC UNDER-RECOVERY 9
 End-of-Period Rate Base Balances 9
 IHS Global Insights Indices 10
 Labor Expenses 11
 Pro Forma Capital Additions 12
 Renewable Resource Tracking Mechanism (RRTM)..... 13
CONCLUSION..... 13

ATTACHED EXHIBIT

Exhibit No.____(RBD-2)—Summary Sheets from Commission Basis Reports from 2006 through 2012

1 **Q. Please state your name, business address, and present position with Pacific**
2 **Power & Light Company (Pacific Power or Company), a division of PacifiCorp.**

3 A. My name is R. Bryce Dalley and my business address is 825 NE Multnomah Street,
4 Suite 2000, Portland, Oregon 97232. I am currently employed as Vice President,
5 Regulation.

6 **QUALIFICATIONS**

7 **Q. Please describe your education and professional experience.**

8 A. I received a Bachelor of Science degree in Business Management with an emphasis
9 in finance from Brigham Young University in 2003. I completed the Utility
10 Management Certificate Program at Willamette University in 2009, and I have also
11 attended various educational, professional, and electric-industry-related seminars.
12 I have been employed by PacifiCorp since 2002 in various positions within the
13 regulation and finance organizations. I was appointed Manager of Revenue
14 Requirement in 2008 and was promoted to Director, Regulatory Affairs and Revenue
15 Requirement in 2012. I assumed my current position in January 2014. I am
16 responsible for all regulatory activities in Washington, California, and Oregon.

17 **PURPOSE OF TESTIMONY**

18 **Q. What is the purpose of your testimony in this case?**

19 A. My testimony discusses the primary reasons a rate increase is necessary at this time
20 and the challenges facing Pacific Power in the current Washington regulatory
21 environment. I also present an overview of the new proposals presented in this case
22 to address the fact that the Company has not been able to recover the costs to serve its
23 Washington customers or earn its authorized rate of return since 2006. Finally,

1 I address the Company's ongoing efforts to control its costs and minimize rate
2 pressure on customers.

3 **REASONS FOR THE PROPOSED RATE CHANGE**

4 **Q. What is driving the need for a rate increase in this case?**

5 A. The need for a rate increase is primarily driven by three factors. First, since the
6 Company's last general rate case in Docket UE-130043 (the 2013 Rate Case), the
7 Company has been adding significant capital additions to its generation, transmission,
8 and distribution infrastructure. Washington's gross electric-plant-in-service balances
9 have increased by \$114.3 million from the level approved in the 2013 Rate Case. The
10 capital additions include investments necessary to maintain safe, reliable, and
11 efficient electric service to the Company's Washington customers.

12 Second, Washington-allocated net power costs (NPC) are \$12.0 million higher
13 in this case compared to the level of NPC approved in the 2013 Rate Case. NPC in
14 this case include the costs of power purchase agreements (PPAs) with qualifying
15 facilities (QFs) in California and Oregon, despite the final order issued by the
16 Washington Utilities and Transportation Commission (Commission) in the 2013 Rate
17 Case (Order 05), which only allowed recovery of the costs of PPAs with Washington
18 QFs and disallowed the costs of California and Oregon QF PPAs.¹ As discussed in
19 more detail in the direct testimony of Mr. Gregory N. Duvall, the Company is re-
20 presenting this proposal in this case for several reasons:

- 21 • The energy generated by the QFs in California and Oregon is physically
22 delivered to meet Washington load in the same manner as any other west
23 control area generating resource. These QFs provide direct benefits to

¹ *Wash. Util. & Trans. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-130043, Order 05, ¶¶110-114 (Dec. 4, 2013).

1 Washington customers, yet those customers do not pay for any portion of
2 the costs of providing that benefit.

- 3 • Including all PPAs with QFs located in the west control area is consistent
4 with the West Control Area inter-jurisdictional allocation methodology
5 (WCA). The Company's proposal allocates west control area QF PPAs in
6 the same manner as all other west control area generating resources.
7 Treating QF PPAs in this manner increases the accuracy of the NPC
8 forecast for the west control area.
- 9 • All of the California and Oregon PPAs are with QFs that are eligible to
10 meet the renewable portfolio standard (RPS) in Washington's Energy
11 Independence Act (EIA).²
- 12 • The Company's proposal in this case is consistent with its position in its
13 petition for judicial review of Order 05 in the 2013 Rate Case.

14 In recognition of the Commission's order, however, the Company also presents two
15 alternative approaches to addressing the Company's PPAs with California and
16 Oregon QFs. These approaches are presented in Mr. Duvall's testimony.

17 Third, consistent with the Company's petition for judicial review of Order 05,
18 the Company proposes to use its actual capital structure in development of the
19 revenue requirement. The actual capital structure provides benefits to Washington
20 customers through higher credit ratings that allow the Company to obtain low-cost
21 debt. As discussed in greater detail in the direct testimony of Mr. Bruce N. Williams,
22 use of the Company's actual capital structure appropriately balances safety and
23 economy. The Company is also proposing a return on equity (ROE) of 10.0 percent,
24 as presented in the direct testimony of Mr. Kurt G. Strunk. As with the California
25 and Oregon QF PPAs, however, the Company also presents an alternative cost of
26 capital using a hypothetical capital structure that includes a 49.1 percent equity

² The EIA is codified at RCW 19.285.

1 component, which is consistent with the Commission's decision in the 2013 Rate
2 Case.³

3 **Q. At current rates, including the rate increase approved in the 2013 Rate Case,**
4 **would the Company be able to earn its authorized rate of return during the test**
5 **period?**

6 A. No. As described in the direct testimony of Ms. Natasha C. Siores, at current rates,
7 the Company will earn an ROE of 6.16 percent during the test period. A revenue
8 increase of \$27.2 million, or 8.5 percent, is necessary to give the Company the
9 opportunity to recover its prudent costs and earn a reasonable ROE.

10 COST CONTROL MEASURES

11 **Q. What has the Company done to control costs and minimize rate increases?**

12 A. The Company continues to proactively and aggressively control its costs. These
13 efforts have successfully allowed PacifiCorp to minimize the frequency of general
14 rate cases in its other five jurisdictions. Senior management from all of PacifiCorp's
15 business units regularly reviews cost-control measures and discusses methods to
16 minimize rate increases for customers. These efforts have allowed PacifiCorp to
17 minimize the frequency and magnitude of rate increases in all of its six state
18 jurisdictions.

19 **Q. As a result of these efforts, has the Company been able to provide periods of rate**
20 **stability and certainty in its other five states?**

21 A. Yes. The Company was able to enter into multi-year rate plans in all of the other
22 states in which it operates. Although there were other considerations in assessing the
23 reasonableness of the overall settlements, these settlements provide examples of the

³ Order 05, ¶42.

1 beneficial effect of the Company’s cost control measures. Most recently, in
 2 December 2013, the Public Utility Commission of Oregon approved a stipulation in
 3 which the Company agreed not to file its next general rate case until 2015.⁴

4 **Q. Why hasn’t the Company been able to reduce the frequency of general rate cases
 5 in Washington?**

6 A. In PacifiCorp’s other jurisdictions, the Company’s cost control measures and the
 7 availability of alternative ratemaking mechanisms have allowed the Company to
 8 recover the costs to serve its customers and earn ROEs that are closer to its authorized
 9 ROEs. In Washington, however, despite nearly annual rate increases and aggressive
 10 cost control measures, the Company has not been able to recover its cost to serve
 11 customers or earn a reasonable ROE since at least 2006. As shown in Table 1, the
 12 Company on average has earned at a level more than 600 basis points below its
 13 authorized ROE.

Table 1⁵

Washington Commission Basis Reports - Return on Equity								
	2006	2007	2008	2009	2010	2011	2012	Average
Per Books	2.08%	2.72%	0.02%	6.13%	4.59%	5.64%	7.14%	4.05%
Restated	3.49%	3.90%	3.53%	5.28%	6.69%	7.57%	6.99%	5.35%
Pro Forma	2.48%	3.15%	5.65%	7.81%	6.23%	7.43%	7.26%	5.72%
Authorized	10.20%	10.20%	10.20%	10.20%	10.20%	9.80%	9.80%	10.09%
Variance (Per Books v. Authorized)	-8.12%	-7.48%	-10.18%	-4.07%	-5.61%	-4.16%	-2.66%	-6.04%

14 It is important to note that the Company filed general rate cases in 2006, 2008,
 15 2009, 2010, 2011, and 2013. But in each of those cases, the authorized price increase

⁴ The stipulation provides that “the earliest proposed rate effective date for the Company’s next general rate case filing will be January 1, 2016.” *In the Matter of PacifiCorp d/b/a Pacific Power Request for a General Rate Revision*, Docket No. UE 263, Order No. 13-474, Appendix A at 6 (Dec.18, 2013).

⁵ The cover letters and summary sheets from each of the Company’s Commission basis reports for the years 2006 through 2012 are attached as Exhibit No.____(RBD-2).

1 was less than the Company's requested revenue requirement, in some instances
2 significantly less.⁶ Half of these cases were fully litigated and half were settled. In
3 some cases, the Company settled for less than its request to reduce the risk and
4 burdens of litigation.

5 **Q. Are there other factors affecting the Company's chronic under-recovery?**

6 A. Yes. Rates in Washington are set using a different inter-jurisdictional allocation
7 methodology than used in PacifiCorp's other five jurisdictions. Washington is the
8 only state that uses the West Control Area inter-jurisdictional allocation methodology
9 (WCA). The use of a different inter-jurisdictional allocation methodology in
10 Washington versus the Company's other five states creates allocation gaps that
11 exacerbate the Company's under-recovery. For example, in the 2013 Rate Case, the
12 Company demonstrated that use of the Commission-approved WCA created an
13 allocation gap (compared to the 2010 Protocol) of nearly \$30 million, or over 400
14 basis points on ROE.⁷

15 **Q. Has the Company proactively tried to address its chronic under-recovery in**
16 **Washington?**

17 A. Yes. For example, a key element of the settlement in the Company's 2011 general
18 rate case, Docket UE-111190, was the parties' agreement to engage in a collaborative
19 process to address the regulatory challenges facing the Company in Washington. In
20 exchange for this agreement, the Company agreed not to file a general rate case in

⁶ Docket UE-061546, Order 08 (requested \$23.2 million; Commission authorized a \$14.2 million); Docket UE-080220, Order 05 (requested \$34.9 million; Company settled for \$20.4 million); Docket UE-090205 (requested \$38.5 million; Company settled for \$13.5 million); Docket UE-100749, Order 06 (requested \$56.7 million; Commission authorized a \$33.5 million increase minus a \$4.8 million rate credit for revenues from the sale of renewable energy credits); Docket UE-111190, Order 07 (requested \$12.9 million; Company settled for \$4.5 million); Docket UE-130043, Order 05 (requested \$42.8 million; Commission authorized an increase of \$17.0 million).

⁷ Docket UE-130043, Rebuttal Testimony of R. Bryce Dalley, Exhibit No.____(RBD-3T) at 12 (Aug. 2, 2013).

1 2012. As discussed in the Company's 2013 Rate Case, the parties were unable to
2 agree to any reforms to the regulatory environment, and the Company's challenges
3 persist.

4 In addition, after issuance of Order 05 in the 2013 Rate Case, the Company
5 has taken steps to address under-recovery and reduce regulatory lag. First, the
6 Company filed two petitions for accounting orders related to increased costs due to an
7 extended outage at the Colstrip Unit 4 generating plant⁸ and unusually low hydro
8 conditions.⁹ The requested Colstrip outage deferral is consistent with the Staff
9 recommendation in the Company's 2010 general rate case, Docket UE-100749.¹⁰
10 The hydro deferral request is consistent with Commission precedent in Docket
11 UE-080220.¹¹

12 Second, the Company also filed a separate tariff rider to include in rates the
13 revenue requirement associated with the Merwin Fish Collector after the project was
14 placed in service in March 2014. The Merwin Fish Collector is a fish passage project
15 mandated by the Federal Energy Regulatory Commission (FERC) license for the
16 Lewis River hydroelectric project.¹² The Company sought to include the Merwin
17 Fish Collector as a pro forma capital addition in the 2013 Rate Case, but the

⁸ Docket UE-131384.

⁹ Docket UE-140094. The Company proposes to amortize both of these deferrals as part of this case. This is discussed further in the direct testimonies of Ms. Siores and Ms. Joelle R. Steward.

¹⁰ See *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-100749, Redacted Testimony of Alan C. Buckley, Exhibit No.__(APB-1T) at 16 (Oct. 5, 2010) ("it is up to the Company to file an accounting petition with the Commission requesting deferral and possible recovery" of excess costs resulting for an extended forced outage).

¹¹ *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-080220, Order 05 (Oct. 8, 2008) (approving a settlement allowing amortization of a portion of the Company's 2005 hydro deferral).

¹² Docket UE-140617. If the Commission approves the separate tariff rider, the revenue requirement in this case would be reduced by approximately \$1.7 million.

1 Commission did not approve the Company's proposal, stating that the project was not
2 yet used and useful and the costs were not known and measurable.¹³

3 **Q. If capital additions are a driver of the need for a rate increase, why didn't the**
4 **Company file an expedited rate filing (ERF) as Staff recommended in the 2013**
5 **Rate Case?**

6 A. Although the Company appreciates Staff considering alternative rate mechanisms
7 such as the ERF, the parameters of an ERF filing are too limited to address the
8 challenges facing Pacific Power at this time. First, the Company could not propose a
9 change to its ROE or capital structure as part of an ERF, but the Company needs to
10 address these issues because the ROE and capital structure adopted in its 2013 Rate
11 Case are significant contributors to the Company's inability to recover the cost to
12 serve Washington customers or to earn a reasonable return. As discussed further in
13 Mr. Williams's direct testimony, the overall rate of return authorized in the 2013 Rate
14 Case (7.36 percent) is well below the other investor-owned utilities in Washington, as
15 well as the national average for regulated electric utilities. In addition, the
16 Company's proposed capital structure and overall rate of return in this case are
17 consistent with the Company's position in its petition for judicial review of Order 05.

18 Second, an ERF is limited to an increase of less than three percent. A filing
19 proposing a rate increase of over three percent is defined as a general rate case under
20 the Commission's administrative rules.¹⁴ Given the Company's chronic under-
21 recovery, an ERF is not a viable option at this time.

¹³ Order 05, ¶203.

¹⁴ WAC 480-07-505(1)(a).

1 Finally, the Commission has a pending docket to review its procedural rules.¹⁵
2 One of the proposed topics for discussion in this docket is the ERF. The Company is
3 actively participating in the rulemaking and looks forward to exploring potential use
4 of the ERF in the future.

5 **PROPOSALS TO ADDRESS CHRONIC UNDER-RECOVERY**

6 **Q. What is the Company proposing in this case to address its chronic under-**
7 **recovery?**

8 A. The Company has included a variety of proposals to better align the cost levels
9 reflected in the test period with cost levels expected during the rate effective period,
10 including: (1) use of end-of-period balances (December 31, 2013) rather than
11 average-of-monthly-averages balances to reflect electric plant in service; (2) use of
12 IHS Global Insight factors to better reflect non-labor O&M expenses in the rate
13 effective period; (3) an adjustment to reflect labor expenses at levels expected during
14 the rate effective period; (4) pro forma capital additions for projects over \$250,000 on
15 a Washington-allocated basis; and (5) a renewable resource tracking mechanism to
16 better reflect the costs to comply with the RPS. Each of these proposals is discussed
17 briefly below.

18 **End-of-Period Rate Base Balances**

19 **Q. Please describe the Company’s proposal for the use of end-of-period rate base**
20 **balances?**

21 A. Consistent with the 2013 Rate Case, the Company proposes to reflect electric-plant-
22 in-service balances at end-of-period levels rather than on an average-of-monthly-
23 averages basis. As discussed in more detail in the direct testimony of Ms. Siores, the

¹⁵ Docket A-130355.

1 Commission has recognized in multiple proceedings that use of end-of-period rate
2 base mitigates regulatory lag. For example, in the 2013 Rate Case, the Commission
3 concluded: “In this case, there is a need to address at least some of the impacts of
4 regulatory lag on PacifiCorp. We determine that an appropriate response to address
5 these impacts in this case is approval of PacifiCorp’s use of [end-of-period] rate
6 base.”¹⁶

7 **Q. Did the Company consider proposing a future test period in this case?**

8 A. Yes. Future test periods are used in many of PacifiCorp’s other state jurisdictions.
9 The Company has informally discussed this option with Staff and other parties on
10 several occasions, including during the collaborative process mentioned above.
11 Based on those discussions, the Company chose not to propose a future test period
12 but to instead make discrete adjustments to the historical test period to reduce
13 controversy and facilitate ease of review and auditing of the Company’s filing. Many
14 of the Company’s adjustments are designed to reflect costs anticipated in the rate
15 effective period while using the Commission’s preferred approach of using a
16 historical test period with known and measurable adjustments.

17 **IHS Global Insights Indices**

18 **Q. Please describe the Company’s proposal to adjust non-labor O&M expense**
19 **using indices developed by IHS Global Insights.**

20 A. As discussed in the direct testimony of Ms. Siores, in developing the revenue
21 requirement in this case, the Company included an adjustment to better reflect non-
22 labor O&M expense in the rate effective period. This is calculated by applying IHS
23 Global Insight indices by FERC function to historical non-labor O&M expense levels.

¹⁶ Order 05, ¶184.

1 **Q. What is IHS Global Insight?**

2 A. IHS Global Insights is a third-party provider of utility-specific inflation indices at the
3 FERC functional level.

4 **Q. Has the Company proposed similar adjustments in other jurisdictions?**

5 A. Yes. The Company uses the same approach in its California, Oregon, Utah, and
6 Wyoming cases as a method to better reflect cost levels expected during the rate
7 effective period.

8 **Q. Did the Company consider proposing an attrition adjustment in this case?**

9 A. Yes. The Company evaluated Avista's proposed attrition mechanism and Puget
10 Sound Energy's approved mechanism. The Company determined that use of an
11 attrition mechanism would not adequately mitigate future under-recovery for Pacific
12 Power because: (1) the mechanisms do not address NPC, which is over one-third of
13 Pacific Power's revenue requirement; and (2) the existing mechanisms assume a
14 consistent level of growth in the costs that PacifiCorp is actively managing to control,
15 as discussed above. While the Company does not propose an attrition mechanism in
16 this case, the Company remains open to considering this type of mechanism in the
17 future.

18 **Labor Expenses**

19 **Q. How does the Company reflect salary and wage expenses in the revenue
20 requirement in this case?**

21 A. The Company reflects salary and wage expenses in the revenue requirement at the
22 levels expected for the rate effective period based upon known increases under union
23 contracts and known or anticipated increases for the non-union workforce. This is

1 similar to the Company's approach in its previous rate cases, including the 2013 Rate
2 Case. In this case, however, the Company adjusts salaries and wages through the rate
3 effective period. In previous cases, the Company adjusted salaries and wages forward
4 one year past the historical test period. The Company's approach in this case is
5 consistent with the approach used by other utilities in Washington to reflect salaries
6 and wages at the level anticipated during the rate effective period.

7 **Pro Forma Capital Additions**

8 **Q. Please describe the Company's proposal to include pro forma capital additions**
9 **in this case.**

10 A. In the Company's 2013 Rate Case, the Company proposed five pro forma capital
11 additions to address regulatory lag. The Commission approved the four pro forma
12 capital additions that were in service before the beginning of the rate effective
13 period.¹⁷ In this case, the Company proposes to include all pro forma capital
14 additions greater than \$250,000 on a Washington-allocated basis to mitigate
15 regulatory lag. All of these capital additions will be operational and serving
16 customers before the beginning of the rate effective period.

17 For those pro forma capital additions greater than \$1.0 million on a
18 Washington-allocated basis, the Company provides the following testimony:
19 Mr. Richard A. Vail testifies about upgrades to the Company's distribution and
20 transmission facilities; Mr. Mark R. Tallman testifies about the Merwin Fish
21 Collector; and Mr. Dana A. Ralston testifies about a cooling tower replacement at
22 Unit 1 of the Jim Bridger generating plant. The other pro forma capital additions are
23 addressed in Ms. Siores's direct testimony.

¹⁷ Order 05, ¶¶200-201.

1 **Renewable Resource Tracking Mechanism (RRTM)**

2 **Q. Please describe the Company's proposal for an RRTM.**

3 A. The Company proposes to establish an RRTM to allow the Company to collect or
4 credit the differences between the value of wind resources included in Washington
5 rates and the actual value of wind resources used to serve Washington customers.
6 The RRTM is discussed in further detail in Mr. Duvall's direct testimony.

7 **Q. Why is the RRTM necessary?**

8 A. The Company's NPC is highly variable due to factors largely outside of the
9 Company's control, including variations in generation from wind resources used to
10 comply with Washington's RPS, established in the EIA. The passage of the EIA in
11 2006 removed a significant part of the Company's discretion in selecting the power
12 supply used to serve Washington customers, mandating procurement of certain levels
13 of renewable generation resources. At the same time, the EIA requires customers to
14 bear the costs of prudent compliance.

15 **CONCLUSION**

16 **Q. Please summarize your testimony.**

17 A. The Company is sensitive to the impact that rate increases have on customers and, as
18 discussed above, actively works to minimize the frequency and magnitude of these
19 increases. But despite the recent outcome in the Company's 2013 Rate Case and the
20 Company's ongoing cost control efforts, a rate increase of \$27.2 million is necessary
21 to recover the costs to continue providing safe, reliable, and efficient electric service
22 to Washington customers and to earn a reasonable return.

1 Q. Does this conclude your direct testimony?

2 A. Yes.