BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PACIFIC POWER'S REPLY BRIEF

February 3, 2015

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I. INTRODUCTION

1. In this case, Pacific Power & Light Company (Pacific Power or the Company), a division of PacifiCorp, requests regulatory support from the Washington Utilities and Transportation Commission (Commission) to allow the Company to effectively and efficiently respond to the dual challenges of increasing environmental regulation and declining load. Although the Commission has specifically recognized the major changes now facing Pacific Power, the parties do not.

2. The parties' arguments mischaracterize the Company's case and ignore the need regulatory support during this time of industry transformation. There is no dispute that two major issues in this case—the appropriate capital structure and cost recovery of Public Utility Regulatory Policies Act (PURPA) expenses—were litigated in the Company's 2013 general rate case.[1] Contrary to the parties' claims, however, in this case the Company provides new evidence and analysis responding to the Commission's order in the 2013 case. The Company also provides alternatives for the Commission's consideration, which the parties summarily reject. The Company presents new proposals, like its Renewable Resource Tracking Mechanism (RRTM) and proposed increase to the basic charge, intended to directly address cost recovery issues associated with renewable resources and conservation. The Company's proposals are informed by Commission precedent and tailored to effectively address the Company's specific needs.[2]

3. The Company requests a $30.4 million increase in base rates and $5.9 million in deferred amounts for the deferrals consolidated with this case. The Company's request includes updated costs reflected in rebuttal testimony (which increased revenue requirement by $4.7 million) and the Company's acceptance of Staff's pro forma capital additions adjustment (which decreased

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[1] *WUTC v. PacifiCorp*, Docket UE-130043, Order 05 ¶¶ 157-173 (Dec. 4, 2013) (hereinafter "Order 05").

[2] This is consistent with the Commission's prior observations that ratemaking mechanisms can and should be designed to address each utility's individual circumstances. *See, e.g., WUTC v. PacifiCorp*, Dockets UE-050684, *et al.*, Order 04 ¶ 91 (Apr. 17, 2006); *WUTC v. PacifiCorp*, Dockets UE-061546, *et al.*, Order 08 ¶ 59 (June 21, 2007).

revenue requirement by $1.5 million). As noted in the Company's rebuttal testimony, $5.5 million of the rebuttal revenue requirement increase relates to updated net power costs (NPC).[3]

4. Staff recommends a revenue requirement increase of $8.0 million, reflecting $6.5 million in base rates and $1.5 million in deferred amounts.[4] Public Counsel recommends a revenue requirement increase of $1.1 million.[5] Boise White Paper LLC (Boise) recommends a revenue requirement increase of $3.3 million.[6] Although no party disputes the Company's NPC update, neither Staff nor Public Counsel include the update to NPC in the revenue requirement cited in their briefs.[7] It appears that Boise did reflect the NPC update in the revenue requirement included in its brief, although not explicitly.[8] If Staff's and Public Counsel's revenue requirement proposals are adjusted to reflect the $5.5 million NPC-related revenue requirement increase, Staff's and Public Counsel's proposals would be $13.5 million and $6.6 million, respectively.

II. LEGAL STANDARDS

5. Staff claims that "there is a clear distinction between a company's recovery of costs and its earnings."[9] Staff's support for this premise, however, is a citation to the transcript where Mr. R. Bryce Dalley states the opposite, making clear that the cost to serve includes "providing a reasonable return."[10] Staff's own witnesses at hearing rejected any distinction between recovery of costs and earnings, agreeing that a utility's return on its capital investment is a component of

[3] The NPC increase in the rebuttal testimony was $5.4 million. Duvall, Exh. No. GND-4T 8:6-7. Including the production factor adjustment resulting from the update yields a total of $5.5 million. Siores, Exh. No. NCS-10T 3. The total revenue requirement impact of the NPC update is $5.7 million, which accounts for the revenue sensitive impacts of the NPC update. Siores, Exh. No. NCS-10T 10:16-17. The NPC update was somewhat offset by other updates in the rebuttal filing, resulting in an overall revenue requirement increase in the rebuttal filing of $4.7 million. Siores, Exh. No. NCS-10T 3.
[4] Staff Brief ¶ 2.
[5] Public Counsel Brief ¶ 6.
[6] Boise Brief ¶¶ 1, 21, 116.
[7] *See* Staff Brief ¶ 2, Public Counsel Brief ¶ 6.
[8] In its post-hearing brief, Boise's proposed revenue requirement increased from a revenue *sufficiency* of $2.6 million to a revenue *deficiency* of $3.3 million. Boise Brief ¶ 21.
[9] Staff Brief ¶ 115.
[10] Dalley, TR. 395:16-19.

the cost to serve customers.[11] As described by Bonbright, "a capital-attracting rate of profit is here considered a part of the necessary cost of service."[12] Decisions of the U.S. Supreme Court and the Washington Supreme Court support this conclusion.[13]

6. Staff also contends that the Commission need not address aspects of the Company's request in this case because it amounts to an improper petition for rehearing under RCW 80.04.200.[14] The Commission's orders are clear that a subsequent rate case filing does not constitute a petition to modify or rehear the prior rate case order:

> Commission orders that find a company's rates to be fair, just, and reasonable upon a factual record do not bar the Commission from determining on another record, by complaint or on application of the regulated company, that rates are not fair, just, and reasonable and that the rates must change. Such a decision is not modifying or rehearing the prior order, but is establishing new rates on a prospective basis.[15]

7. The Commission has never invoked RCW 80.04.200 in the rate case context. For example, in the Company's 2010 rate case, the Commission denied cost recovery of the DC Intertie after concluding that it was not used and useful in the rate year.[16] Then, in the Company's 2013 rate case (filed within two years of the previous order), the Commission included the costs of the DC Intertie in rates based on the "more robust evidence" that Pacific Power presented.[17]

III. COST OF CAPITAL

8. The parties uniformly recommend a reduction in Pacific Power's return on equity (ROE), arguing that the Company's equity cost has decreased since the Commission set the Company's

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[11] Twitchell, TR. 657:6-18 (Staff includes a utility's authorized rate of return as part of the cost to serve); Ball, TR. 539:9-12 (agrees that return on equity is part of revenue requirement).
[12] James C. Bonbright, Albert L. Danielsen, & David R. Kamerschen, *Principles of Public Utility Rates*, 112 (2d ed. Public Utilities Reports 1988).
[13] *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679, 692 (1923); *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *People's Org. for Wash. Energy Res. v. WUTC*, 104 Wn.2d 798, 811 (1985).
[14] Staff Brief ¶¶ 65-69.
[15] *AT&T Commc'n. of the Pac. Nw. v. Verizon Nw.*, Docket UT-020406, Eleventh Suppl. Order ¶ 176 (Aug. 12, 2003).
[16] *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶¶ 148-52 (Mar. 25, 2011).
[17] Order 05 ¶¶ 128-30.

ROE at 9.5 percent in 2013. But the parties fail to reconcile their recommendations here with their inconsistent and sometimes completely contradictory positions in other proceedings involving substantially the same capital market conditions. Given the objective market indicators of current equity costs, the Company's recommended ROE of 10.0 percent is reasonable. Approval of a 10.0 percent ROE will help Pacific Power come closer to earning its allowed rate of return (ROR) in Washington and better prepare it for managing industry change.

9. The parties make two basic arguments in support of their hypothetical capital structure. First, the parties claim that 49.1 percent equity is safe because the Company has not been downgraded since the Commission adopted this equity level. But the parties ignore the fact that the Company has not been downgraded because it is not actually capitalized with 49.1 percent equity. Given PacifiCorp's already comparatively weak financial ratios, if it were actually capitalized with only 49.1 percent equity, it would be downgraded. Second, the parties argue that the Commission should look to industry average equity ratios to set PacifiCorp's equity ratio here. An apples-to-apples review of comparable operating companies indicates that the Company's actual capital structure is consistent with industry averages.

A. Pacific Power's Recommended ROE is Reasonable and Well Supported by the Evidence.

1. Mr. Strunk's Discounted Cash Flow (DCF) models are reasonable.

10. Public Counsel and Boise argue that Mr. Strunk should have used the median, rather than the average, of the proxy group DCF results because the median better represents the central tendency of the proxy group and mitigates the impact of outliers.[18] But Mr. Gorman failed explained why or how specific DCF results should be excluded as anomalous and Mr. Hill's bases for determining anomalous results are entirely subjective and unreasonable.[19] Using the median produces a DCF estimate that is unreasonably low, which provides further evidence that the mean, as used by Mr. Strunk, effectively captures the central tendency of the proxy group

[18] Boise Brief ¶ 37; Public Counsel Brief ¶ 25.
[19] Strunk, Exh. No. KGS-17T 28:16-29:7; *see also* Hill, Exh. No. SGH-1CTr 60:13-62:23.

and reflects a reasonable result.[20] Boise's criticism is particularly unpersuasive given that Mr. Gorman's own DCF analysis regularly relies on the average, not the median, of his results.[21]

11. Boise claims that the long-term growth rates used by Mr. Strunk are inflated because they exceed the estimated gross domestic product (GDP) growth rate.[22] The implied DCF growth rate based on recently authorized ROEs exceeds Mr. Gorman's GDP growth cap, indicating that the cap fails the common sense test and is inconsistent with objective market indicators of growth.[23] Mr. Strunk's testimony demonstrated utilities have, on average, grown at a higher rate than the GDP.[24] In fact, Mr. Gorman's forward-looking capital asset pricing model (CAPM), which assumes an 11.4 percent expected return for the market, implies a growth rate of 9.4 percent—twice the GDP growth rate Mr. Gorman claims the market cannot exceed.[25]

12. Public Counsel incorrectly claims that Mr. Strunk relied on a "historical dividend yield methodology that overstates forward-looking yields."[26] Consistent with the practice of financial economists, Mr. Strunk forecast future dividends by applying an annual growth factor to four historical quarters of observed dividends.[27] He did not rely on unadjusted historical dividend yields as suggested by Public Counsel.

13. For the first time, Boise criticizes Mr. Strunk's yield-plus-growth model for having an unspecified time period, using uncertain companies, and stale data.[28] This is surprising because Mr. Strunk's work papers made clear that the model used a five-year forecast and identified the companies modeled. Mr. Strunk also updated this model in October 2014, so it includes the

[20] Strunk, Exh. No. KGS-17T 29:3-7.
[21] *See, e.g.*, Gorman, Exh. No. MPG-1T 25:8, 34:1-3.
[22] Boise Brief ¶ 38.
[23] Allowed returns for 2014 have averaged 10 percent. Parcell, Exh. No. DCP-29CX. Mr. Gorman's calculated dividend yields average 3.74 percent. Gorman, Exh. No. MPG-7. Therefore, the growth rate implied by these two data points is 6.26 percent, which is far greater than Mr. Gorman's artificial 4.7 percent cap.
[24] Strunk, Exh. No. KGS-17T 31:1-32:4.
[25] Gorman, Exh. No. MPG-1T 43:4. The expected return can be characterized as having a yield and a growth component. Gorman, Exh. No. MPG-1T 23:18-23 (Equation 2). The market dividend yield is approximately two percent. Parcell, Exh. No. DCP-4 6; Strunk, Exh. No. KGS-29. Subtracting the dividend yield from the market return results in the implied growth rate of 9.7 percent.
[26] Public Counsel Brief ¶ 25.
[27] Strunk, Exh. No. KGS-17T 26:14-27:10.
[28] Boise Brief ¶ 39.

most up-to-date data in the record.[29]

14. Boise and Public Counsel claim that the yield-plus-growth model is unreliable because the industry as a whole does not have comparable risk to PacifiCorp.[30] The-yield-plus growth model establishes the return that investors require for bearing investment risks in the electric utility industry, and the firms relied upon by Mr. Strunk are those that the investment community—specifically the investor services Zacks and Value Line—consider to represent the electric utility industry.[31] Moreover, Mr. Parcell's proxy groups include virtually the entire electric utility industry.[32]

15. Public Counsel criticizes the yield-plus-growth model for using two different groups of companies for the dividend yield assessment (companies covered by Value Line) and the growth forecast (companies covered by Zacks).[33] This criticism is unwarranted because there is substantial overlap between the two groups—47 of the 49 companies used for the dividend yield forecast were also used for the growth assessment.[34]

2. The parties' criticisms of Mr. Strunk's CAPM analysis are unpersuasive.

16. Boise criticizes Mr. Strunk's CAPM results for using an inflated long-term growth rate of 9.74 percent, which results in a market return estimate of 12.1 percent.[35] Boise again incorrectly argues that the projected growth of corporate earnings cannot exceed forecast GDP growth.[36] Recent equity market performance has been strong and expectations of an improving economy indicate continued strong performance. Mr. Strunk calibrated the forward-looking 12.1 percent total return expectation by comparing it to recent achieved returns in the equity market.[37] Mr. Strunk found that the achieved market return was greater than 12.1 percent in half of the 26 years

[29] Strunk, Exh. No. KGS-28.
[30] Boise Brief ¶ 39; Public Counsel Brief ¶ 26.
[31] Strunk, Exh. No. KGS-17T 20:6-15.
[32] Parcell, TR. 294:17-295:2.
[33] Public Counsel Brief ¶ 26.
[34] Strunk, Exh. No. KGS-17T 32:17-22.
[35] Boise Brief ¶ 41.
[36] Gorman, Exh. No. MPG-1T 57:13-16.
[37] Strunk, Exh. No. KGS-22.

studied and less than 12.1 percent in the other half, confirming that the forward-looking forecast is also squarely supported by recent market performance. Thus, the "wonderland scenario" that Boise claims will never exist has actually occurred frequently over the last 26 years. Moreover, Mr. Strunk's 9.74 percent market growth rate is strikingly similar to Mr. Gorman's 9.4 percent forward-looking market growth rate discussed above, confirming the reasonableness of Mr. Strunk's overall expected market return.

17. Public Counsel claims that Mr. Strunk's CAPM relies on a "surprisingly elevated market risk premium of 8.36%."[38] Mr. Strunk's elevated market risk premium makes sense given the surprisingly low treasury yields in today's market. The Federal Energy Regulatory Commission (FERC) has found that the "current low treasury bond rate environment creates a need to adjust the CAPM results, consistent with the financial theory that the equity risk premium exceeds the long-term average when long-term U.S. Treasury bond rates are lower than average, and vice-versa."[39] Public Counsel also incorrectly states that Morningstar's historical risk premiums fall in the range of four percent to six percent—in fact, Morningstar's equity risk premium is 6.7 percent.

18. Public Counsel criticizes Mr. Strunk's long-term growth rate for relying on only "sell-side analysts" for projected earnings growth, claiming that these analysts have a conflict of interest and are unreliable.[40] First, Mr. Strunk did not rely exclusively on sell-side analysts; rather, he used a consensus forecast derived from multiple independent analysts. Second, the claimed conflict of interest was resolved by the Securities and Exchange Commission in 2003, rendering Public Counsel's concerns obsolete and unwarranted.[41]

19. Public Counsel further criticizes Mr. Strunk for referring to the Australian Energy Regulator (AER) as corroborative evidence that historical market risk premiums are inapplicable

[38] Public Counsel Brief ¶ 27.
[39] Strunk, Exh. No. KGS-1T 16:3-7.
[40] Public Counsel Brief ¶ 28.
[41] Strunk, Exh. No. KGS-17T 27:12-28:7.

to the current interest rate environment.[42] Contrary to Public Counsel's implications, Mr. Strunk did *not* use data from AER in his analysis, and Mr. Strunk made clear that doing so, as Public Counsel has done in its brief, is inappropriate.[43]

3. Mr. Strunk's risk premium analysis is sound.

20. Public Counsel also criticizes Mr. Strunk's risk premium analysis for relying on allowed returns that "*may* overstate the actual cost of capital."[44] It is unrealistic to assume, as Public Counsel does, that regulatory commissions, imbued with the public interest, would consistently award returns that exceed utilities' cost of capital. Public Counsel further alleges that Mr. Strunk's analysis includes outliers, like allowed returns for generation-only utilities.[45] This claim is simply untrue—Mr. Strunk's analysis includes only state-commission-allowed returns.[46]

21. Parties also claim that Mr. Strunk's risk premium analysis is flawed for positing that the expected risk premium varies inversely with long-term treasury yields.[47] This relationship is entirely reasonable. When investors perceive large risks associated with holding risky assets, they flock to less risky securities like long-term treasury bonds, driving up prices and driving down yields on such securities.[48] Thus, the spread between the cost of holding treasury and other high-grade bonds and the cost of holding riskier assets expands.

22. The inverse relationship is also supported by academic literature and historical data.[49] For example, Dr. Morin confirmed this inverse relationship, based on numerous empirical

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[42] Public Counsel Brief ¶ 29.
[43] Strunk, Exh. No. KGS-17T 25:1-11.
[44] Public Counsel Brief ¶ 31 (emphasis added).
[45] *Id.*
[46] Strunk, Exh. No. KGS-1T 17:9-18.
[47] *See, e.g.*, Boise Brief ¶ 42.
[48] Strunk, Exh. No. KGS-17T 33:13-34:2.
[49] Strunk, Exh. No. KGS-1T 17:17-18. For example, a June 2014 working paper, authored by the Divisions of Research & Statistics and Monetary Affairs at the Federal Reserve Board in Washington, D.C., establishes the increase in observed risk premia for risky assets like stocks when investors flock to and drive down yields for lower-risk securities like U.S. treasury bonds. The empirical analysis presented in the article shows that U.S. utility stocks react negatively (*i.e.*, decline) during flights to safety, thereby confirming the increase in required returns at times where government bond prices rise and the associated yields decline. "Flights to Safety," Federal Reserve Board (June 2014), available at: http://www.federalreserve.gov/pubs/feds/2014/201446/201446pap.pdf (accessed Feb. 2, 2015).

studies, concluding that "in low interest rate environments, when bondholders' interest rate fears subside and shareholders' fears of loss of earning power dominate, the risk differential will widen and hence the risk premium will increase."[50] The inverse relationship is also supported by the decisions of regulatory commissions, which have consistently awarded higher implied market risk premia as interest rates have declined in recent years.[51]

23. Boise further claims that Mr. Strunk relied on "unreliable projected yields," which is factually incorrect. Mr. Strunk relied on a spot yield, rather than the average of the spot yield over the last month, which was used by Mr. Gorman. The spot yield is the best measure because it incorporates all information. Smoothing, as used by Mr. Gorman, brings in information that is stale and does not reflect the current market consensus.

4. The Commission should rely on Comparable Earnings (CE) results.

24. Both Messrs. Strunk and Parcell use the CE method and their results support the Company's recommended 10.0 percent ROE.[52] Boise discounts the use of the CE model in its entirety, claiming that it fails to measure the return required by investors and produces misleading and unreliable results due to accounting differences between companies.[53] The Commission has been clear, however, that it values all models and has never rejected the use of the CE method for determining ROE.[54] The CE model is well accepted for determining utility cost of capital. As described by Dr. Morin, the CE method "has a long and rich history in regulatory proceedings, and finds its origins in the fair return doctrine enunciated by the U.S. Supreme Court in the landmark *Hope* case."[55]

25. Public Counsel also criticizes Mr. Strunk's analysis for providing an ROE estimate based on general industrial stocks, in addition to utility stocks.[56] While utilities may not face the full

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[50] Roger A. Morin, *New Regulatory Finance*, 128 (1st ed. Public Utilities Reports 2006).
[51] Strunk, Exh. No. KGS-1T 16 Figure 1.
[52] Pacific Power Brief ¶¶ 34-39.
[53] Boise Brief ¶ 43.
[54] *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704, *et al.*, Order 11 ¶¶ 292-300 (Apr. 2, 2010).
[55] Roger A. Morin, *New Regulatory Finance*, 381 (1st ed. Public Utilities Reports 2006).
[56] Public Counsel Brief ¶ 33.

range of competitive risks to which firms in unregulated markets are exposed, neither do firms in competitive markets face all of the risks and constraints inherent in carrying out an obligation to serve in a challenging regulatory environment. Businesses in unregulated industries have commercial freedoms (*e.g.*, how and when to price, where to locate, where to source supplies, which customers to target for their higher margin, etc.) that Pacific Power does not have. Moreover, *Hope* requires that the ROE be commensurate with both regulated and unregulated entities of comparable risk and the industrial group relied on by Mr. Strunk is an appropriate peer group for comparison purposes.[57]

26. Public Counsel is also critical of the CE method for not being forward-looking.[58] The historical returns used in the CE analysis are highly relevant because past performance influences forward-looking investor expectations.[59] Public Counsel also claims that because the market price of utility stocks was above the book value from 2002 to 2013, the actual cost of equity for that period must be less than the 9.73 percent average return.[60] But during that same period, the average allowed return was 10.49 percent, indicating that the cost of equity was more than 9.73 percent, contrary to Public Counsel's claim.

B. Equity Costs have not Decreased Since the Company's Last Rate Case.

27. Boise claims that equity costs are decreasing and the decreasing trend "is poised to continue for the foreseeable future."[61] This claim is undercut by Mr. Gorman, whose ROE recommendation increased in this case as compared to Pacific Power's 2013 rate case. Boise also relies on the recent decision by the Public Service Commission of Wyoming (WYPSC), which set PacifiCorp's ROE at 9.5 percent.[62] The WYPSC last approved a 9.8 percent ROE for PacifiCorp in mid-2012,[63] so its recent decision does not show how equity costs have changed

[57] Strunk, Exh. No. KGS-1T 18:6-12.
[58] Public Counsel Brief ¶ 35.
[59] Strunk, Exh. No. KGS-17T 20:19-21:6.
[60] Public Counsel Brief ¶ 34.
[61] Boise Brief ¶ 44.
[62] *Id.*
[63] *Re Rocky Mountain Power*, Docket No. 2000-446-ER-14, Record No. 13816 ¶¶ 37 (Dec. 30, 2014).

since Pacific Power's 2013 rate case when the Commission set the Company's current ROE at 9.5 percent.[64] The WYPSC also approved an ROR of 7.41 percent, which is higher than Pacific Power's current ROR in Washington.

28. Boise also relies on authorized returns, claiming that the average electric utility return for the first half of 2014, excluding the Virginia cases, was 9.72 percent.[65] Correctly interpreted to either include all vertically integrated utilities or exclude all non-vertically integrated utilities, the national data supports an ROE in the 10.0 percent range.[66]

C. Investor Expectations of Increasing Interest Rates Support a Higher ROE.

29. Staff incorrectly argues that interest rates have declined in 2014 and the "decline in interest rates indicates that investors expect lower returns."[67] First, the interest rates used to develop the parties' ROE recommendations here are nearly the same as when the Company's ROE was last set in 2013.[68] Second, investors expect interest rates to increase.[69] Staff discounts investor expectations of rising interest rates as "speculation,"[70] but investor expectations are the key to setting a forward looking ROE.[71] Third, interest rates do not affect ROE on a lockstep basis.[72] The Commission has specifically observed that it is "too simplistic" to focus only on comparing interest rates in different time periods to establish an ROE.[73] Rather, the Commission must "consider the relationship between the risk a utility faces in financial markets and interest

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[64] The WYPSC's decision setting PacifiCorp's ROE at 9.8 percent in 2012 is consistent with the Commission's 2012 ROE determinations. *WUTC v. Puget Sound Energy*, Docket UE-111048, *et al.*, Order 08 ¶ 89 (May 7, 2012) (approving a 9.8 percent ROE for PSE); *WUTC v. Avista Corp.*, Docket UE-120436, *et al.*, Order 09 ¶74 (Dec. 26, 2012) (approving a settlement with a 9.8 percent ROE for Avista).

[65] *Id.*

[66] Strunk, Exh. No. KGS-17T 8 Table 1, 9:22-10:4; Parcell, Exh. No. DCP-29CX 1; Hill, Exh. No. SGH-23CX 2; Parcell, Exh. No. DCP-26CX 60.

[67] Staff Brief ¶ 20.

[68] Gorman, Exh. No. MPG-26CX 4:15-19; Hill, Exh. No. SGH-21CX 55:5-13.

[69] *See* Strunk, Exh. No. KGS-20; Strunk, TR. 339:18-24; Hill, Exh. No. SGH-1CT 17:3-10.

[70] Staff Brief ¶ 22.

[71] Strunk, TR. 339:18-24.

[72] *See, e.g., Coakley, et al. v. Bangor Hydro-Elec. Co., et al.*, 147 F.E.R.C. ¶ 61,234, ¶¶ 157-60 (June 19, 2014) (FERC abandoned the indexing of ROE to changes in treasury yields between the date of hearing and the date of a final order).

[73] *WUTC v. PacifiCorp*, Docket UE-100749, Order 07 ¶ 27 (May 12, 2011).

rates."[74] As Mr. Gorman testified, there is greater interest rate risk today than in the Company's 2013 case.[75]

D. The Hypothetical Equity Ratio Corresponds to Higher Equity Costs.

30. Boise claims that the Commission has never adjusted an ROE to account for a lower equity ratio.[76] The Commission has typically used hypothetical equity ratios to strengthen a utility's financial metrics and enhance its ability to earn its authorized return.[77] No party has identified an instance where the Commission has used a hypothetical equity ratio to lower a utility's overall ROR, except as applied to Pacific Power. Because the Commission has generally used hypothetical equity ratios to provide regulatory support to utilities, the Commission has not previously adopted offsetting ROE adjustments.

31. Here the situation is different because the Commission is adding leverage to Pacific Power's capital structure. Debt creates more risk and more risk increases the cost of equity.[78] According to Dr. Morin, "[i]n ascribing a capital structure different from the company's actual capital structure, which, for example, imputes a higher debt amount, the repercussions on equity costs must be recognized. The greater the debt ratio, the greater is the return required by equity investors."[79] Boise also claims that the ROE adder is unnecessary because the Company already has a greater equity ratio than other companies in the proxy group.[80] But this is untrue with respect to the operating companies in the proxy group, which is the most relevant comparison. It is also untrue with respect to other relevant metrics, such as the market-value equity ratio.[81]

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[74] *Id.*
[75] Gorman, Exh. No. MPG-1T 39:17-18; Gorman, TR. 217:14-20.
[76] Boise Brief ¶ 49.
[77] *See, e.g.*, *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048, *et al.*, Order 08 ¶ 493 (May 7, 2012).
[78] Strunk, TR. 314:22-315:1; Hill, TR. 316:23-317:5.
[79] Roger A. Morin, *New Regulatory Finance*, 484 (1st ed. Public Utilities Reports 2006); *see also* Hill, TR. 316:23-317:5.
[80] Boise Brief ¶ 50.
[81] Hill, Exh. No. SGH-3 5.

E. The Company's Actual Capital Structure is Reasonable.

1. Declining debt costs demonstrate the safety and economy of the Company's *actual* capital structure.

32. Staff claims that PacifiCorp's actual capital structure "remains higher than the equity capitalization the Company needs to attract capital."[82] Staff points to the Company's declining debt costs as evidence that the hypothetical capital structure is reasonable.[83] Staff and Boise claim that the Company has operated in Washington with the hypothetical capital structure since 2011 and has not been downgraded.[84]

33. The Company's debt costs are largely a function of its crediting rating, which is the result of the *actual* capital structure of PacifiCorp. If the Company were actually capitalized with 49.1 percent equity on a consolidated basis, the Company's debt costs would be higher.[85] If Washington rates do not reflect an allocated share of PacifiCorp's actual capital structure, they should not reflect the low debt costs resulting from that capital structure.

34. Public Counsel argues that PacifiCorp can have less equity and maintain its credit rating because Berkshire Hathaway Energy (BHE) has less equity but has the same credit rating.[86] BHE is more diversified and is not exclusively a vertically integrated electric utility, like PacifiCorp.[87] In addition, BHE's capital structure, for purposes of its credit rating, is comparable to PacifiCorp because BHE relies on debt financing from its parent that is structured like equity and viewed as equity by ratings agencies.[88]

35. Public Counsel also argues that the fact that the Company's credit rating has not changed since 2006 despite changing equity levels undermines the claim that actual capitalization with 49.1 percent equity would result in a downgrade.[89] This comparison ignores material changes in

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[82] Staff Brief ¶ 13.
[83] *Id.* at ¶ 15.
[84] *Id.* at ¶ 14; Boise Brief ¶¶ 46-47.
[85] Williams, TR. 175:1-8, 180:1-9.
[86] Public Counsel Brief ¶ 15.
[87] Williams, TR. 168:14-17.
[88] *Id.* at 168:18-25.
[89] Public Counsel Brief ¶ 17.

the industry and the overall economy. For example, in the Company's 2005 rate case, the Commission observed that "credit ratings agencies have tightened their rating criteria," that the Company's actual equity ratio was increasing, and that there was a "general trend of increasing equity capitalization in the industry."[90]

36. Boise claims that dividend payments are a "virtual guarantor" that PacifiCorp will continue to lower its equity ratio to support BHE's credit rating.[91] Mr. Williams testified that the Company's dividend payments will result in an equity ratio of 51.4 percent, however, generally maintaining the current equity component.[92]

2. The Company's actual capital structure is consistent with the industry.

37. The parties argue that a hypothetical 49.1 percent equity ratio is consistent with the capitalization of comparable electric utilities.[93] The Company thoroughly rebutted this claim, demonstrating that: (1) the actual operating companies in the proxy group have equity ratios higher than PacifiCorp's; (2) the majority of authorized equity ratios for integrated electric utilities from January 2009 through October 2014 were greater than 49.1 percent; (3) the average equity ratio for similarly rated utilities in 2013 was 51.24 percent; and (4) the average authorized equity ratio for the first nine months of 2014 was 50.52 percent.[94]

38. All the parties rely on the holding company equity levels of the proxy companies, which is not an apt comparison. In the past, the Commission has refused to adjust PacifiCorp's capital structure based on the capital structure of its parent company, making clear that the operating utility, not the holding company, is the relevant entity for purposes of determining the appropriate capital structure.[95] In fact, the Commission has cited with approval the FERC's use

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[90] *WUTC v. PacifiCorp*, Dockets UE-050684, *et al.*, Order 04 ¶¶ 231-32 (Apr. 17, 2006).
[91] Boise Brief ¶ 47.
[92] Williams, TR. 315:19-22.
[93] Staff Brief ¶ 8; Public Counsel Brief ¶ 16; Boise Brief ¶ 47.
[94] Williams, TR. 170:22-171:19; Strunk, Exh. No. KGS-17T 14:1-5; Williams, Exh. No. BNW-16T 3:13-20; Parcell, Exh. No. DCP-29CX 4.
[95] *WUTC v. PacifiCorp*, Dockets UE-050684, *et al.*, Order 04 ¶¶ 281-86 (Apr. 17, 2006); *see also WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048, *et al.*, Order 08 at ¶¶ 42-57 (May 7, 2012) (agreeing that the relevant capital structure must remove common equity from non-regulated subsidiaries).

of the stand-alone capital structure of the operating company as long as the operating company issues its own debt, maintains its own credit rating, and meets other relevant standards.[96] Just as it would be unreasonable to determine PacifiCorp's capital structure based on the diversified holdings of BHE, it is unreasonable to compare PacifiCorp, an operating electric utility, to the capital structures of the holding companies in the peer group.

39. Staff also argues that the 49.1 percent equity ratio is consistent with the equity ratios of Puget Sound Energy (PSE) and Avista, which Staff claims "represents a reasonable benchmark for PacifiCorp's equity level."[97] The Company's debt costs are substantially less than PSE's and Avista's, demonstrating that if the Company were actually capitalized at the hypothetical level, its debt costs would be higher.[98] Moreover, if Staff's comparison is reasonable for capital structure, then it is also reasonable for purposes of setting the Company's ROE. In PSE's current case, Staff recommends no change to PSE's current ROE of 9.8 percent and an overall ROR of 7.77 percent.[99] To the extent that parties argue that the Commission should rely on industry averages to establish the hypothetical capital structure, consistency requires that the Commission also rely on industry averages to establish the ROE. The undisputed evidence in the record is that average ROEs are substantially higher than the parties' recommendations and the Company's currently approved ROE.[100]

IV. NET POWER COSTS

A. The Commission Should Allow Cost Recovery of Power Purchase Agreements (PPAs) with Out-of-State Qualifying Facilities (QFs).

1. No party challenged the benefits provided to Washington by out-of-state QFs.

40. The Company's testimony described the numerous benefits provided by out-of-state QFs to Washington customers, including the provision of energy and capacity, resource diversity, and

[96] *WUTC v. PacifiCorp*, Dockets UE-050684, *et al.*, Order 04 n. 434 (Apr. 17, 2006).
[97] Staff Brief ¶ 16.
[98] Williams, Exh. No. BNW-1T 12 Table 5.
[99] Parcell, Exh. No. DCP-27CX 6:1-7:3.
[100] Strunk, Exh. No. KGS-17T 8 Table 1 (average ROE for 2014 is 9.92 percent for integrated utilities); Parcell, Exh. No. DCP-29CX 1 (average 2014 ROE for all utilities is 10.0 percent).

emission-free generation.[101] In their briefs, the parties have not challenged these benefits. Given Staff's agreement "that a facility's costs should be allocated to the customers that benefit from that facility," it is reasonable for Washington customers to pay for the benefits they receive from out-of-state QFs, which are not covered by current market prices.[102]

2. Market re-pricing of out-of-state QF PPAs violates PURPA.

41. Staff claims that the Commission did not re-price the out-of-state QF PPAs at market prices in Order 05.[103] But Order 05 expressly states that the electricity generated by out-of-state QFs that serves Washington customers is "priced at market rates."[104] Indeed, Staff's brief ultimately acknowledges that, "the gap left by [excluding the out-of-state QF PPAs] is captured by GRID as market purchases and priced at market rates."[105]

42. Market prices fail to account for PURPA's requirement that the Company enter into QF PPAs based on avoided cost prices established at the time the PPA is executed.[106] Market re-pricing results in a preference for Washington customers, who are not indifferent to QF generation when they receive electricity generated by QFs at prices that are less than Pacific Power's avoided costs. In addition, market prices do not compensate Pacific Power for the capacity provided to Washington customers by out-of-state QFs, unlike contemporaneous avoided costs.[107]

3. PURPA's cost recovery provisions support the Company's request.

43. Staff contends that situs assignment of QFs is consistent with PURPA because neither the statute nor FERC's regulations address the treatment of QF PPA costs when the QF serves customers in more than one state.[108] There is no dispute, however, that PURPA expressly

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[101] Pacific Power Brief ¶¶ 62-65.
[102] Ball, Exh. No. JBLJLB-7CX 1.
[103] Staff Brief ¶ 45; Staff Brief ¶ 63 (Commission "expressly excluded the costs of these resources in rates").
[104] Order 05 ¶ 98.
[105] Staff Brief ¶ 64.
[106] Pacific Power Brief ¶¶ 74-75.
[107] Pacific Power Brief ¶ 74.
[108] Staff Brief ¶ 48.

provides for cost recovery. PURPA case law and the Commission's own prior orders have rejected Staff's argument that the Commission can disregard PURPA when the QF is located in another state.[109] No party has cited any cases to the contrary.

4. The Washington re-pricing alternative mitigates allegations of harm.

44. Boise argues that re-pricing out-of-state QF PPAs at anything above market assigns the costs of out-of-state energy policies to Washington customers.[110] On the contrary, re-pricing the QF PPAs at Washington avoided cost prices does not harm Washington customers.[111] Rather, the Washington re-pricing alternative requires Washington customers to pay for the benefits received from the out-of-state QF PPAs at Commission-approved prices that specifically reflect those benefits.

45. Staff claims that the Washington re-pricing alternative does not result in customer indifference because it increases Washington rates.[112] The fact that rates increase when the out-of-state QF PPAs are re-priced at Washington avoided cost prices demonstrates that Washington customers are not currently paying the full costs of the QF resources that are used to serve them.[113] Staff's argument has merit only if one assumes that the Commission's avoided cost prices are too high, a claim Staff rejects.[114]

46. Staff is also critical of the methodology underlying the Company's Washington re-pricing proposal, even though Staff failed to address the issue in its testimony. In fact, no party presented pre-filed testimony rebutting the Company's calculations or responded to the Company's response to Bench Request No. 3, detailing its Washington re-pricing methodology.[115] Despite consistently failing to address the methodology in the evidentiary

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[109] *State ex rel. Utils. Comm'n v. N. C. Power*, 338 N.C. 412, 450 S.E.2d 896, 900 (1994); *WUTC v. Wash. Water Power*, 56 P.U.R.4th 615, 624 (Nov. 9, 1983).
[110] Boise Brief ¶ 75.
[111] Duvall, Exh. No. GND-4T 25:8-17.
[112] Staff Brief ¶ 51.
[113] Duvall, Exh. No. GND-4T 25:20-26:2.
[114] Gomez, TR. 554:16-22.
[115] WAC 480-07-405(6)(c) (allowing objections to bench request responses).

record, Staff now claims that the re-pricing proposal "cannot be reconciled with the Company's avoided costs for Washington" because the resulting avoided cost price is more than the Company's 2014 avoided costs.[116] This argument, of course, ignores the vintage of the QF PPA and makes a comparison that Staff itself agrees is inapt.[117]

47. Staff also claims that the Company manipulated the historical avoided cost prices by not assuming that the QF PPAs were re-executed every five years.[118] First, claims of "manipulation" are without merit considering the Company's approach is fully consistent with the evidence provided in the last case and relied on by Staff.[119] Second, the five-year contract term has been in place since only 2004, so it does not apply to all of the out-of-state QF PPAs.[120] Third, Washington's rules provide for longer QF PPAs, so there is no reason to assume that all of the out-of-state QF PPAs would be five-year contracts.[121] Fourth, the Company's revenue requirement would increase even if all of the post-2004 out-of-state QF PPAs were re-priced assuming a five-year contract, providing further evidence that market re-pricing results in illegal, preferential treatment for Washington customers.[122]

48. Staff claims that the majority of the out-of-state QF PPAs exceed the 2 MW eligibility cap for standard contracts in Schedule 37 and therefore re-pricing using Schedule 37 results in prices "significantly above the Company's actual avoided cost in Washington."[123] There is no evidence in the record to support this contention. On the contrary, at hearing Staff agreed that "Washington sets avoided cost prices in a manner that protects ratepayers" and that Schedule 37's prices "are designed to insure customer indifference between QF power and non-QF power."[124] Moreover, if the out-of-state QF PPAs are not subject to Schedule 37, then there is no

[116] Staff Brief ¶ 52.
[117] Gomez, TR. 561:15-18, 563:3-6.
[118] Staff Brief ¶ 53.
[119] Bench Request No. 3.
[120] *Id.*
[121] WAC 480-107-075(3).
[122] Bench Request No. 3.
[123] Staff Brief ¶ 57.
[124] Gomez, TR. 554:16-22.

basis for limiting the contracts to five-year terms.

5. Contradictory arguments in opposition to the load decrement alternative support the Company's primary recommendation.

49. Staff claims that the load decrement proposal is "based on a misunderstanding of the Commission's Order 05" because in Order 05 the Commission concluded that the out-of-state QFs serve Washington load.[125] At the same time, Staff defends situs assignment by claiming that the Commission has excluded the out-of-state QF PPAs from Washington rates, implying that the QFs do not serve Washington load.[126] Staff's contradictory arguments confirm the Company's decision to provide the load decrement as an alternative in the event that the Commission reverses its finding in Order 05 and concludes that the out-of-state QF PPAs do not serve Washington customers. Given that the parties all agree that the out-of-state QF PPAs serve Washington load, Washington customers should pay for the benefits received from the PPAs, consistent with the Company's primary recommendation.

6. The Company's proposal will not result in unreasonable over-collection of QF costs.

50. Boise argues that the Company already over-collects its Washington QF costs under the west control area inter-jurisdictional allocation methodology (WCA), so the Company should not be allowed to over-recover its other west control area QF costs.[127] Boise's argument is directed at the WCA, not the Company's proposal to allocate QF PPAs fairly under the WCA. The Company simply proposes that out-of-state QF PPAs receive the same treatment as all other generation resources under the WCA, the allocation of which Boise does not challenge.[128] Under the WCA, the Company has never over-recovered its costs.[129]

7. Situs assignment of out-of-state QF PPAs violates the Commerce Clause.

51. Situs assignment provides a disincentive for Pacific Power to participate in interstate

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[125] Staff Brief ¶¶ 60-61.
[126] *Id.* at ¶¶ 45, 63.
[127] Boise Brief ¶ 68.
[128] Duvall, TR. 433:8-20.
[129] Dalley, Exh. No. RBD-3T 8 Table 1.

commerce by discouraging contracting with out-of-state QFs and encouraging contracting with Washington QFs. While Boise argues that the Company assumed the risk of under-recovery when it chose to operate in interstate commerce, Boise cannot justify a facially discriminatory policy on this basis.[130]

52. In *Fulton Corp. v. Faulkner*, the Supreme Court found that there was "no doubt" that a tax was facially discriminatory against interstate commerce because it taxed stock "only to the degree that its issuing corporation participates in interstate commerce."[131] The Court concluded that the tax "discourage[d] domestic corporations from plying their trades in interstate commerce."[132] Similarly, in *Camps Newfound/Owatonna, Inc. v. Town of Harrison, Maine,* the Supreme Court found that a tax that fell more heavily on summer camps catering to out-of-state campers provides a strong incentive for affected entities to refrain from doing business with nonresidents to avoid the discriminatory tax.[133] The Court continued that even if the affected entities are not actually deterred by the statute, "it is clear that discriminatory burdens on interstate commerce imposed by regulation . . . also violate the Commerce Clause."[134] Here, like the statutes at issue in *Fulton* and *Camps Newfound,* situs assignment discourages Pacific Power from participating in interstate commerce.

53. Boise admits that if an out-of-state QF PPA is priced less than market, Washington customers are "foreclosed from receiving the benefit of those rates."[135] Denying Washington customers the potential benefits of a low-cost QF PPA simply because the QF is located outside Washington effectively blocks the flow of commerce at Washington's border, which the Court

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[130] Boise Brief ¶ 71.
[131] *Fulton Corp. v. Faulkner*, 516 U.S. 325, 333 (1996).
[132] *Id.*
[133] *Camps Newfound/Owatonna, Inc. v. Town of Harrison, Me.*, 520 U.S. 564, 578 (1997).
[134] *Camps Newfound,* 520 U.S. at 578; *see also Healy v. Beer Inst., Inc.*, 491 U.S. 324, 341 (1989) ("discriminatory treatment establishes a substantial disincentive for companies doing business in Connecticut to engage in interstate commerce, essentially penalizing Connecticut brewers if they seek border-state markets and out-of-state shippers if they choose to sell both in Connecticut and in a border State").
[135] Boise Brief ¶ 71.

has described as the "clearest example" of unconstitutional economic protectionism.[136]

54. Staff claims that the Company has failed to demonstrate that Oregon and California energy policies have materially changed since the last case, making it unreasonable to include out-of-state QF PPAs in rates.[137] Predicating QF PPA cost recovery on the requirement that other states adopt the same policies as Washington runs afoul of the dormant Commerce Clause because it "has the practical effect of requiring out-of-state commerce to be conducted at the regulating state's direction."[138]

B. Boise Failed to Address the Substantial Flaws in its Energy Imbalance Market (EIM) Adjustment.

55. Boise's brief largely reiterates its testimony and fails to address any of the underlying flaws resulting from its reliance on the E3 Report for EIM-related ratemaking. Boise ignores the fact that the E3 Report is based on different load and price forecasts and assumes different generation and transmission resources than the NPC pro forma period in this case.[139] Boise fails to justify its reliance on the report's allocation of benefits between the Company and California Independent System Operator Corporation (CAISO) despite the fact that the report states it is "not intended to be a methodology for allocating costs and benefits."[140]

56. Boise's brief also ignores the numerous other criticisms identified by the Company in its testimony and at hearing. For example, the Company presented evidence that the inter-regional dispatch benefits Boise imputes directly from the E3 Report are already reflected in GRID as transactions between PacifiCorp and CAISO at the California-Oregon-Border (COB) market.[141] Boise did not dispute this evidence.

57. Likewise, Boise did not directly dispute the Company's evidence that the five-minute

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[136] *City of Phila. v. New Jersey*, 437 U.S. 617, 624 (1978); *Alliance for Clean Coal v. Miller*, 44 F.3d 591, 595-97 (7th Cir. 1995) ("the fact that Illinois rate-payers are footing the bill does not cure the discriminatory impact on western coal producers" of a statute requiring Illinois plants to use coal mined in Illinois).
[137] Staff Brief ¶ 42.
[138] *Entergy Nuclear Vermont Yankee, LLC v. Shumlin*, 733 F.3d 393, 429 (2d Cir. 2013).
[139] Mullins, Exh. No. BGM-5 4, 7, 40; Duvall, Exh. No. GND-4T 33:17-22.
[140] Mullins, Exh. No. BGM-5 13, 34.
[141] Duvall, Exh. No. GND-4T 37:7-15.

dynamic transfer capability assumed in the E3 Report does not currently exist. The inter-regional dispatch benefits reported in the E3 Report rely on this five-minute dynamic transfer, without which the benefits estimated in the report are overstated.[142] Boise claims that Pacific Power's testimony that a five-minute dynamic transfer is more valuable than a 15-minute dynamic transfer is unreliable as the conclusion is based only on Pacific Power's witness's judgment.[143] Pacific Power's witness, Mr. Duvall, has nearly 40 years of industry experience, including numerous years modeling NPC, and he is clearly competent to offer an expert opinion on this issue.[144] Boise's witness also acknowledges that dispatching resources on a shorter schedule is more valuable.[145]

58. Regarding intra-regional dispatch savings, Boise's brief does nothing to substantiate its witness's assumption that the removal of market caps will accurately model the Company's participation in the EIM or more accurately model NPC in this case. Boise also fails to rebut the Company's evidence that GRID already includes the benefits.[146]

59. Regarding reserve dispatch savings, Boise's brief continues to assert that the Company will achieve 98 MW of reserve savings, despite the E3 Report's conclusions to the contrary and despite Boise's witness's testimony before the WYPSC.[147] Notably absent from Boise's brief is any explanation or justification for its witness's shifting testimony. With respect to the within-hour dispatch benefit, Boise's brief fails to address the Company's evidence that this adjustment improperly removes from NPC costs that were never included in the first place.[148]

60. Boise urges the Commission to "follow the example" of the WYPSC and include some EIM benefits in NPC.[149] Boise claims that this case and the Wyoming case have "nearly

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[142] *Id.* at 36:20-37:6.
[143] Boise Brief ¶ 80; Duvall, TR. 425:7-21.
[144] Duvall, Exh. No. GND-1CT 1:6-15.
[145] Mullins, Exh. No. BGM-1CT 42:16-18 (more granular dispatch is more valuable).
[146] Duvall, Exh. No. GND-4T 39:11-21.
[147] Boise Brief ¶ 82.
[148] Duvall, Exh. No. GND-4T 44:8-46:2.
[149] Boise Brief ¶ 77.

identical factual circumstances."[150] But the testimony before the WYPSC was, without explanation, materially different from the same witness's testimony in this case.[151] Moreover, the Company has an energy cost adjustment mechanism in Wyoming that will allow it to recover 70 percent of the difference between the forecast and actual benefits, which significantly mitigates the impact of the EIM adjustment if the benefits do not materialize during the rate year. Finally, Boise's recommendation that the Commission "follow the example" of the WYPSC on this single issue is unpersuasive when Boise has not urged the Commission to "follow the example" of other recent decisions of the WYPSC with respect to ROE, capital structure, the recovery of QF costs, the Chehalis outage, or the modeling of inter-hour wind and load integration costs.[152]

C. Boise's Thermal Outage Rate Adjustments are Meritless.

1. The 2013 Chehalis outage was not anomalous or imprudent.

61. Boise argues that an outage like the 2013 Chehalis outage is unlikely to occur in the rate year because it was "catastrophic."[153] Boise also claims that because the Company fixed the problem that caused the 2013 outage, an outage of that magnitude is unlikely to occur in the rate year.[154] Boise has presented no competent evidence to support these arguments. Boise has also failed to cite any precedent where the Commission removed an outage rate of this length from the historical average as an anomaly or an unrepresentative of the rate year. Removing non-anomalous outages distorts the historical average, resulting in an outage rate that is not representative of the expected outage level during the rate year.

62. Boise also claims that the Company "effectively concedes" that the 2013 outage was imprudent because the Company implemented changes in its data monitoring in response to the

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[150] *Id.* at ¶ 78.
[151] Mullins, TR. 733:13-15; Mullins, Exh. No. BGM-11CX 10:6-9, 64:24-65:6.
[152] *Re Rocky Mountain Power*, Docket No. 2000-446-ER-14, Record No. 13816 ¶¶ 172, 187 (Dec. 30, 2014); *Re Rocky Mountain Power*, Docket No. 2000-447-EA-14, Record No. 13826 ¶ 67 (Jan. 15, 2015).
[153] Boise Brief ¶ 89.
[154] *Id.*

outage.[155] But the Company's testimony was unequivocal that the outage was not imprudent, that the monitoring equipment in place never indicated that failure was imminent, and that the Company's actions were entirely consistent with, if not superior to, standard industry practice.[156] There is no basis in the record to conclude that the outage was due to imprudence.

2. The Colstrip outage satisfies the Commission's deferral standards.

63. Boise argues that there is nothing extraordinary about the Colstrip outage that would support a deferral.[157] The length of this outage was significant, however, and consistent with outages that the Commission has previously deemed extraordinary.[158] Boise also continues to claim that the root cause analysis supports an inference that the plant operator was at fault for the outage.[159] Such an inference cannot be reconciled with the express conclusion of the analysis, which found that the plant operator was not imprudent.[160] In fact, based on this same root cause analysis, the Commission has already concluded that the outage was not the result of imprudence.[161]

D. The Company's Proposed RRTM is Necessary to Address the Variability of Intermittent Generation.

64. Staff claims that NPC volatility related to intermittent wind generation is "caused by the Company's own inability to accurately forecast market prices."[162] Staff's position, which is not supported by any testimony in the record, is unpersuasive for several reasons. First, the Company has used the same forward price curve methodology for years in setting rates, determining avoided costs, and resource planning, without objections to its accuracy. Second, the Commission has specifically recognized the volatility in forward price curves when requiring

[155] *Id.* at ¶ 90.
[156] Ralston, Exh. No. DMR-2T 4:18-5:5, 6:5-8:10.
[157] Boise Brief ¶ 99.
[158] *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶¶ 141-42 (Mar. 25, 2011).
[159] Boise Brief ¶¶ 100-101.
[160] Mullins, Exh. No. BGM-4C 47.
[161] *See Re Avista Corp. Energy Recovery Mechanism Annual Filing to Review Deferrals for Calendar Year 2013*, Docket UE-140540, Order 01 ¶ 7 (July 10, 2014).
[162] Staff Brief ¶ 94.

Pacific Power to update its forward curve throughout a case to reflect the changes occurring in the market.[163] Third, Staff's criticism reflects a misunderstanding of the forward price curve, which is not a "forecast" of market prices. The forward price curve used in rate cases "represents market forwards, the value that market participants will buy and sell today for a commodity that delivers sometime in the future." It is "not a forecast; it is simply a representation of where one believes they can transact today for forward settlements/deliveries."[164] The fact that the forward price curve has deviated from actual market prices indicates the inherent difficulty of determining future market prices and supports the need for the RRTM.

65. Staff and Public Counsel also argue that the RRTM is improperly designed due to the lack of dead and sharing bands.[165] Because the RRTM is not a PCAM, these guidelines are inapplicable. The RRTM is narrowly tailored to allow the Company to recover the costs associated with resources acquired in compliance with Washington state energy policy, as allowed by statute.[166]

66. Staff and Boise argue that it is improper to carve out only a single component of the Company's overall generation fleet.[167] Both the legislature and the Commission have found that it is not only possible, but also appropriate, to carve out costs associated with specific resources for purposes of cost recovery.[168]

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[163] *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 193 (Mar. 25, 2011).
[164] *PacifiCorp's 2013 Integrated Resource Plan*, Docket UE-120416, 2013 Integrated Resource Plan at 178 (Apr. 30, 2013); *see also WUTC v. Puget Sound Energy*, Dockets UG-040640, *et al.*, Order 06 ¶ 103 (Feb. 18, 2005) (approving the development of forward price curves using "transactional data taken from the actual futures market").
[165] Staff Brief ¶¶ 98-99; Public Counsel Brief ¶¶ 82-83.
[166] Duvall, Exh. No. GND-4T 53:2-5.
[167] Staff Brief ¶ 102; Boise Brief ¶ 94.
[168] *See* RCW 80.80.060(6) (allowing deferral of new resource costs); *WUTC v. Puget Sound Power and Light Co.*, 87 P.U.R.4th 53, 56 (Sept. 30, 1987) (allowing recovery of replacement power costs for extended Colstrip outage). Similarly, the Commission approved PacifiCorp's prior deferral application related to low hydro conditions. *WUTC v. PacifiCorp*, Dockets UE-050684, *et al.*, Order 04 ¶¶ 288-313 (Apr. 17, 2006). Although the Commission ultimately approved a settlement that allowed only partial cost recovery of the deferred amounts, in allowing the deferral the Commission confirmed that it was possible to isolate the costs associated with a single type of resource for purposes of later cost recovery.

67. Boise argues that the wind variability is insufficient to justify the RRTM.[169] Boise's analysis relies on year-to-year variability, not the actuals-to-forecast variability relevant for purposes of the RRTM.[170] Boise does not even address this type of variability. Public Counsel asserts that the Company's proposal could result in over-recovery of NPC.[171] The Company's cap on potential recovery under the RRTM specifically eliminates the risk identified by Public Counsel.[172]

E. Staff Failed to Design a PCAM Tailored to Pacific Power's Needs.

68. Staff argues that its proposed PCAM is "nearly identical" to Avista's Energy Recovery Mechanism (ERM), but it has been "conformed to the Company's particular circumstances."[173] The only modification Staff identifies, however, was the use a slightly larger dead band for Pacific Power. Staff never describes the basis for that modification or why it conforms to Pacific Power's circumstances. Staff further argues that the PCAM "must . . . reflect asymmetry of power cost distribution," without actually demonstrating that the Company's power costs are asymmetric.[174] Staff also claims that its PCAM "would significantly reduce the Company's power cost risk[.]"[175] But Staff's own analysis demonstrates that the Company would have recovered only 28 percent of the $303 million in Washington-allocated NPC under-recovery since 2007.[176] Such a PCAM does not constitute a "significant" reduction in risk, particularly when the vast majority of PCAMs in the industry (including those in the ROE proxy group) allow dollar-for-dollar cost recovery.[177]

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[169] Boise Brief ¶ 93.
[170] Duvall, Exh. No. GND-4T 56:18-57:2.
[171] Public Counsel Brief ¶ 84.
[172] Duvall, Exh. No. GND-4T 59:1-10.
[173] Staff Brief ¶ 72.
[174] *Id.* at ¶ 73.
[175] *Id.* at ¶ 79.
[176] Gomez, TR. 571:6-11.
[177] Strunk, TR. 301:21-22. Forty-two states have adopted PCAMs that allow dollar-for-dollar recovery of NPC. The eight states that do have adopted dead or sharing bands are Idaho, Missouri, Montana, Oregon, Utah, Vermont, Washington, and Wyoming. The NERA report referenced by Mr. Strunk at hearing is available at the following website. The report begins on page 466:
http://dms.puc.hawaii.gov/dms/OpenDocServlet?RT=&document_id=91+3+ICM4+LSDB15+PC_DocketReport59+26+A1001001A14I16B13220B1705818+A14I16B43914B012961+14+1960

F. Deferral Period Hydro Conditions are Not Average.

69. Staff claims that hydro generation is typically nine percent less than forecast, so the fact that 2014 hydro generation is 7.6 percent less than expected is "better than average."[178] This argument supports the Company's deferral, demonstrating the need to respond to low-hydro conditions that have been plaguing the Company for many years, including in the current year.[179] Staff also argues that the hydro deferral should be rejected because it addresses a "*single element* of [the Company's] total NPC."[180] As described above, the Commission has previously allowed recovery of single elements of total NPC.

V. PRO FORMA CAPITAL ADDITIONS

70. The Company agreed to Staff's proposal to include only those pro forma capital additions in service at the time of the Company's rebuttal testimony, which results in 17 projects being included in the revenue requirement. Public Counsel recommends including only 13 projects.[181] Public Counsel argues that the Company's data supporting capital additions included variances between projections and actuals and that Public Counsel's proposal "helps ensure that the most reliable data is being used."[182] For the four projects representing the difference between the joint Staff/Company position and Public Counsel's position, however, Public Counsel has not articulated any specific inaccuracies or concerns. The Company has diligently updated and corrected the data throughout this proceeding and verified that the amounts to be included in rates are the actual costs for all projects now in service.[183]

71. Boise proposes to exclude all pro forma capital additions except the Merwin Fish Collector. Boise argues that using a cutoff date amounts to a "bright line" standard for pro forma adjustments, contrary to the Commission's direction in Order 05.[184] Staff correctly observes that

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[178] Staff Brief ¶ 86; *see also* Boise Brief ¶ 102.
[179] Duvall, Exh. No. GND-4T 61:1-11.
[180] Staff Brief ¶ 87 (emphasis in original). Contrary to Staff's assertions, the Company is not proposing a hydro tracking mechanism.
[181] Public Counsel Brief ¶ 46.
[182] *Id.* at ¶ 52.
[183] Dalley, Exh. No. RBD-10CX 5.
[184] Boise Brief ¶ 53.

its approach is consistent with Order 05 and "balances the Commission's policy preference for an historical test year with allowing the Company a fair opportunity to earn an authorized return in the rate year."[185]

72. Boise claims that the upgrades to the Union Gap Substation are not used and useful as of the date of the Company's rebuttal testimony.[186] As explained in Mr. Vail's testimony at hearing, "Union Gap Phase 1 is in service as of November 7. The majority of the project went in service in August."[187] Union Gap Phase 1 is "complete in totality,"[188] and thus used and useful as of November 7, 2014. Boise also complains that the costs associated with the Jim Bridger Unit 1 cooling tower "have varied so significantly."[189] But there is no dispute that the project went into service in May 2014 and the costs are now known and measurable.[190] Boise claims that the Company "did not even attempt to demonstrate" that the pro forma capital additions described in Ms. Siores' testimony were used and useful.[191] On the contrary, Ms. Siores' testimony included descriptions of every project, including detailed cost information, which was updated through discovery.

VI. WAGES AND LABOR

A. The Commission Should Reject Public Counsel's Adjustment to the Company's Post-Test Year Wage Increase.

73. Public Counsel proposes to limit the post-test year wage increases to the 12-month period following the end of the historical test year (December 31, 2014), arguing that the Company's proposal is essentially based on a future test year and would violate the matching principle.[192] The Company's proposal is consistent with the Commission's use of a modified historical test

[185] Staff Brief ¶ 148.
[186] Boise Brief ¶ 57.
[187] Vail, TR. 458:5-7.
[188] *Id.* at 458:18-21.
[189] Boise Brief ¶ 57.
[190] Siores, Exh. No. NCS-10T 18:19-23.
[191] Boise Brief ¶ 54.
[192] Public Counsel Brief ¶¶ 54-55.

year and conceptually consistent with previous Commission precedent.[193] The Company's pro forma adjustment is based on known and measurable increases and will most accurately reflect the costs expected to be incurred in the rate effective period.[194]

B. Public Counsel's Proposed Adjustment to Full Time Equivalent (FTE) Count Should be Rejected.

74. Public Counsel argues that the Company's labor costs should be set using the actual FTE employee complement as of June 2014 because the Company has experienced a "unidirectional trend" of declining work force levels for the last three and a half years.[195] The Company provided evidence that it needs a sufficient level of staffing to ensure proper functioning of its business units, it is actively recruiting to fill vacancies, and it anticipates that returning to full work force levels by the end of 2015.[196] At hearing, the Company explained that even if it does not return to full work force levels by the end of 2015, the Company will incur comparable costs by using contract employees to temporarily fill vacancies for essential positions.[197] Public Counsel's proposed reduction would unfairly prevent the Company from recovering expenses that will be incurred regardless of whether the Company permanently fills all of the current FTE employee vacancies.

C. Public Counsel's Adjustments to Pension and OPEB Expense Should be Rejected.

75. Public Counsel argues that its pension and OPEB expense adjustment is known and measurable and consistent with other proposed adjustments in this case.[198] Public Counsel's adjustment continues to reflect a piecemeal adjustment by adjusting a single component of non-wage labor costs. The Company's approach in this case is consistent with its prior rate case

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[193] Ramas, TR. 682:22-683:4; *see, e.g.,* Order 05.
[194] Wilson, Exh. No. EDW-2T 2:4-6.
[195] Public Counsel Brief ¶¶ 58-59.
[196] Stuver, TR. 493:8-22, 496:2-5, 496:11:14.
[197] *Id.* at 496:15-25, 497:1.
[198] Public Counsel Brief ¶ 62.

filings, in which pension, OPEB expenses, and other labor-related expenses are based in the historical test year, while adjustments are made for known and measurable changes to wages.[199]

VII. IHS GLOBAL INSIGHTS

76. The parties continue to oppose Pacific Power's proposal to use IHS Global Insight indices, arguing that the indices are unreliable and their use is contrary to a historical test period.[200] But the parties largely fail to rebut Pacific Power's principal argument—that further modification to the Commission's approach is critical to halt the Company's cost under-recovery in Washington. The Commission has already taken incremental steps to modify the use of a historical test period and the Company's proposed use of IHS Global Insight indices to escalate non-labor operations and maintenance expenses is consistent with these prior modifications.

VIII. INSURANCE EXPENSE

77. Public Counsel argues that certain unresolved claims should be removed from the six-year average because, until liability is established, the claims are not known and measurable.[201] At hearing, the Company made clear that it has recognized the expense related to all of the claims on its books, consistent with the relevant accounting requirements.[202] Public Counsel's argument amounts to a request that the Commission direct the Company to move from an accrual to a cash basis for determining its insurance expense.[203] Given that there is no evidentiary basis for such a move, it should be rejected. Moreover, concerns that the Company's liability may be less than the amount expensed are unwarranted because if the expense is reversed, the reversal will flow through the six-year average.[204] Public Counsel also argues that some of the insurance claims should not be assigned to Washington customers,[205] but it does not claim that the Company improperly allocated its insurance expense under the WCA.

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[199] *WUTC v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 226 (Mar. 25, 2011).
[200] Staff Brief ¶¶ 139-140; Public Counsel Brief ¶¶ 68-69; Boise Brief ¶ 62.
[201] Public Counsel Brief ¶ 74.
[202] Stuver, TR. 487:20-23, 488:6-9.
[203] *Id.* at 485:9-24, 487:24-488:3.
[204] Stuver, TR. 484:21-485:3, 487:4-11.
[205] Public Counsel Brief ¶ 74.

78. Staff recommends that the actual 2012 insurance expense be replaced in the historical average with the 2007 expense.[206] Staff argues that the 2012 expense is anomalous but provides no analysis demonstrating that the wholesale replacement of the 2012 expense with the 2007 expense is more reasonable. And excluding actual expense denies the Company the opportunity to recover the costs resulting from events that inevitably arise.[207]

IX. DEFERRALS

79. Staff reiterates its argument that the Company should not recover interest on the Merwin deferral as a disincentive to file deferral petitions.[208] In its brief, as at hearing, Staff was unable to identify a single prior case where the Commission denied interest when requested on a deferral, as Staff recommends here. Public Counsel argues that the Merwin deferral is single-issue ratemaking and an attempt to circumvent the Commission's ruling in the 2013 rate case.[209] Nothing in the 2013 rate case order precluded the Company from filing a deferral related to the Merwin project and the Commission has allowed similar deferrals in the past.[210] Without recovery of the deferred amounts, including return on the investment, the regulatory lag relating to the project will be substantial.

80. Staff argues that the Colstrip deferral should likewise not include interest.[211] But Staff agrees that NPC deferrals under Avista's and PSE's PCAMs include interest,[212] so there is no reason to exclude interest here.

X. END-OF-PERIOD RATE BASE

81. Boise argues that the use of end-of-period (EOP) rate base violates the matching principle and is extraordinary relief that should not be available in every case.[213] The Commission's

[206] Staff Brief ¶ 135.
[207] Siores, Exh. No. NCS-10T 8:6-17.
[208] Staff Brief ¶ 145.
[209] Public Counsel Brief ¶ 79.
[210] *E.g., Re PacifiCorp*, Docket UE-070624, Order 01 (Oct. 24, 2007) (approving deferral of decommissioning costs of Powerdale hydroelectric generating plant).
[211] Staff Brief ¶ 150.
[212] Gomez, TR. 573:1-11.
[213] Boise Brief ¶ 59.

reasoning approving EOP in the last case is equally applicable here. Boise also claims that increasing loads mitigate the need for EOP to address regulatory lag.[214] Contrary to Boise's claim, the Company is forecasting declining load in Washington.[215]

XI. COST OF SERVICE

A. The Company's Recommended Basic Charge is Cost-Based, Maintains Appropriate Conservation Incentives, and is Consistent with State Energy Policy.

82. Public Counsel and the Alliance for Solar Choice (TASC) claim that a high basic charge discourages conservation and is contrary to state energy policies.[216] But neither party disputed that under the Company's proposal, 89 percent of a typical bill and 77 percent of a low-usage bill will still consist of volumetric charges, thereby providing a significant incentive to conserve.[217]

83. Public Counsel and TASC also argue that economic theory and efficient competitive pricing should result in cost recovery primarily, if not exclusively, through volumetric rates.[218] The Commission has rejected this argument, however, and found that it is appropriate to recover some fixed costs through a fixed monthly charge.[219] The industries cited by Public Counsel that have exclusively volumetric pricing are not comparable to electric utilities, where the Company provides its service *on demand* directly to a customer's home or business.

84. TASC argues that the Company's inclusion of certain fixed distribution costs in the calculation of the basic charge is "misleading" because those costs are actually variable long-run marginal costs.[220] The distribution system costs that the Company recommends including in the calculation of the basic charge have depreciable lives of 40 to 60 years and are in no way

[214] Boise Brief ¶ 61.
[215] Dalley, TR. 417:11-18 (production factor shows less load during rate year as compared to test period).
[216] Public Counsel Brief ¶ 111; TASC Brief ¶ 16-18.
[217] Steward, Exh. No. JRS-13T 30, 31:10-14.
[218] Public Counsel Brief ¶ 110; TASC Brief ¶ 14-15.
[219] *See, e.g., WUTC v. Avista Corp.*, Dockets UE-991606, *et al.*, Third Suppl. Order ¶ 416 (Sept. 29, 2000).
[220] TASC Brief ¶ 29; Public Counsel Brief ¶ 110.

"variable in nature."[221] In fact, Public Counsel agrees that these costs are fixed and do not vary with usage.[222] There is nothing misleading about the Company's characterization of these costs.

85. Public Counsel also claims that increasing the basic charge is confusing given that meter reading costs, which are only one component of the basic charge, are decreasing.[223] Any changes in costs are reflected in the Company's calculation of the basic charge; the fact that customers might assume the basic charge is decreasing is not a reasonable basis to actually decrease it.

86. Public Counsel relies on a 1992 order where the Commission classified only service drops and meters as customer-related for purposes of cost of service studies, while all other distribution costs are demand-related.[224] In that 1992 order, however, the Commission also indicated that technological changes in the utility industry may warrant changes to how distribution costs are treated.[225] Here, the growth in energy efficiency and conservation and increasing customer generation represent technological changes that warrant a change in how the basic charge is calculated.[226] And, given that residential customers pay no demand charge, it is reasonable to recover a portion of the fixed distribution costs through the basic charge, as the Company recommends.[227]

87. TASC argues that increasing the basic charge is simply about cost recovery and the Company should avail itself of other cost recovery mechanisms like decoupling or a PCAM.[228] Similarly, Staff's brief states that, "[c]uriously, PacifiCorp has not requested a decoupling mechanism in this case."[229] But Staff's testimony endorses the Company's approach, agreeing that increasing the basic charge is a "more efficient means of pursuing the underlying policy

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[221] Steward, Exh. No. JRS-13T 27:8-10.
[222] Watkins, Exh. No. GAW-6T 18:18-22.
[223] Public Counsel Brief ¶ 109.
[224] *Id.* at ¶ 114.
[225] Watkins, Exh. No. GAW-6T 19:21-23.
[226] Pacific Power Brief ¶ 152.
[227] Steward, Exh. No. JRS-13T 27:16-28:5.
[228] TASC Brief ¶ 4
[229] Staff Brief ¶ 117.

goals that decoupling addresses," particularly considering that decoupling proposals have been "the subject of controversy."[230] In addition, the increase to the basic charge is not simply about cost recovery, it also sets an appropriate rate design that more fairly reflects the costs of providing service to individual customers.

B. Staff's Recommended Rate Design Sends Confusing Price Signals and is Inconsistent with Cost Causation.

88. Staff supports its proposed three-tier rate design because it would result in a decrease for the average customer bill, while shifting costs to high usage customers.[231] Staff does not dispute that costs are increasing and that lowering a customer's bill sends a price signal to increase consumption. By shifting costs to high usage customers, Staff's proposal is inconsistent with the principles of cost causation, particularly given that Staff simply assumes, without evidence, that high usage customers cause higher costs than they already pay with the current steeply inverted rate structure.

89. Staff justifies its proposed rate design primarily by claiming that it will increase energy efficiency.[232] Comparisons of the expected energy savings under Staff's and the Company's proposals, however, indicate that they would both achieve nearly the same savings.[233] Staff criticizes this comparison, claiming that the Company's assumptions of long-term usage reductions for customers using less than 850 kWh are unrealistic because 850 kWh corresponds to a customer's basic needs.[234] Staff claims these customers are already "relatively efficient" and cannot respond to a price signal in a meaningful way.[235]

90. Staff's arguments are flawed for several reasons. First, for Pacific Power's customers, basic needs usage, excluding heating, is closer to 600 kWh, not the 850 kWh level Staff found

[230] Twitchell, Exh. No. JBT-1T 24:12-25:2.
[231] Staff Brief ¶¶ 125-126.
[232] *Id.* at ¶ 118.
[233] Steward, Exh. No. JRS-21.
[234] Staff Brief ¶ 123; Twitchell, Exh. No. JBT-1T 28:1-9.
[235] *Id.* at ¶ 123.

using inapplicable national data.[236] Based on an assumption of inelasticity for usage less than 600 kWh, and assuming the same revenue requirement, the Company's proposal actually results in higher expected energy savings.[237] Therefore, Staff's conservation arguments do not support its proposal, particularly given that Staff's savings depend on confusing price signals.

91. Second, Staff recognized that there are effective energy efficiency programs targeted at all levels of usage, *e.g.*, lighting efficiency programs that focus on a significant portion of low-usage customer's basis needs.[238] Thus, it is unreasonable to assume that low usage customers cannot gain efficiencies.

92. Third, long-term elasticity, which is Staff's benchmark, assumes structural changes, like more efficient building codes and appliances, which apply to customers of all usage levels.[239]

93. Fourth, there is no basis for Staff's assumption that customers using less than 850 kWh are already relatively efficient given that Company's data indicates that usage is largely tied to the number of people and the square footage of the home, which do not necessarily correlate to more efficient usage.[240]

94. Staff's brief also fails to address the likely impact of their proposal on low-income customers. Staff's failure to address this impact is particularly egregious considering: (1) Staff agreed that rate design should consider the customers' economic circumstances; (2) Staff agreed that Pacific Power has a significant number of low-income customers; and (3) in Pacific Power's last rate case, Staff agreed to postpone consideration of its three-tier proposal to allow for the development of better data regarding the impact of the proposal on the "most vulnerable of PacifiCorp's customers."[241] Additionally, as noted by the Energy Project, adoption of Staff's

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[236] Steward, Exh. No. JRS-13T 44:6-20.
[237] Steward, Exh. No. JRS-21. PacifiCorp's expected savings total 25,284 MWh, while Staff's rate design has expected savings of 24,576 MWh. Even examining savings from usage greater than 850 kWh, as Staff recommends, results in similar expected savings. Staff's proposal would save 22,840 MWh, the Company's proposal would save 21,629 MWh, a difference of five percent.
[238] Twitchell, TR. 615:15-22.
[239] Twitchell, Exh. No. JBT-1T 31:10-13.
[240] Steward, Exh. No. JRS-13T 45:7-46:7.
[241] Staff Brief ¶ 110; Kouchi, Exh. No. RK-1T 9:8-10:2; Order 05 ¶ 250.

rate design would require a redesign of the current Low Income Bill Assistance program structure.[242]

C. The Company's Schedule 36 Rate Design is Reasonable.

95. The Commission should adopt the Company's proposed modification to the Schedule 36 rate design.[243] This modification, made in response to Wal-Mart Stores, Inc.'s recommendation, proposes a more gradual movement in demand charges in light of bill impacts.[244]

XII. CONCLUSION

96. The Commission should approve the Company's requested $30.4 million revenue requirement increase, adopt the Company's rate design proposals, approve the Company's proposed RRTM, and allow amortization of the Company's $5.9 million in deferred amounts.

Respectfully submitted this 3rd day of February, 2015.

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[242] Energy Project Brief at 9.
[243] Steward, Exh. No. JRS-13T 50:19 – 51:3; Wal-Mart Stores, Inc.'s Brief ¶ 13.
[244] Steward, Exh. No. JRS-13T 50:20.