

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

3 A. My name is Douglas K. Stuver and my business address is 825 NE Multnomah
4 Street, Suite 1900, Portland, Oregon, 97232. My present position is Senior Vice
5 President and Chief Financial Officer.

6 **Q. Briefly describe your education and professional experience.**

7 A. I have a Bachelor of Arts degree in business administration from the University of
8 Pittsburgh and am a Certified Public Accountant licensed in the state of
9 Pennsylvania. I worked for Ernst & Young for eight years in auditing and have
10 since worked for Enserch Energy Services, CNG Energy Services, and Duke
11 Energy Corporation in various accounting and risk management capacities.
12 I joined PacifiCorp in 2004 as the controller for the commercial and trading
13 division and moved into my current role as Senior Vice President and Chief
14 Financial Officer in March 2008.

15 **Q. What are your responsibilities as Senior Vice President and Chief Financial**
16 **Officer?**

17 A. My primary responsibilities include the accounting, treasury, tax, financial
18 planning and analysis, external financial reporting, and internal audit functions for
19 PacifiCorp.

20 **Purpose of Testimony**

21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. My direct testimony addresses the investor-supplied working capital model
23 accepted by the Washington Utilities and Transportation Commission

1 (Commission) in Order 06 in docket UE-100749 as the methodology most
2 appropriate for compensating the Company for any working capital supplied by
3 the use of investor funds.¹ Specifically, my testimony provides the following:

- 4 • An overview of working capital and the accepted investor-supplied
5 working capital model.
- 6 • Proposed refinements to Staff’s classification in the investor-supplied
7 working capital model of certain balance sheet accounts among current
8 assets, current liabilities, investments, and invested capital to properly
9 measure investor-supplied working capital.
- 10 • A description of the basis for each of the proposed refinements, which
11 relate to derivatives, pension, and other post-retirement benefits and
12 frozen derivative values.
- 13 • An exhibit supporting the Company’s \$28.5 million adjustment to
14 Washington rate base that results from application of the investor-supplied
15 working capital model.

16 **Working Capital and the Investor-Supplied Working Capital Model—Overview**

17 **Q. Please describe working capital.**

18 A. Working capital is a rate base component intended to provide a return to the
19 utility for any investor funds used to support working capital activities. Working
20 capital from an accounting perspective represents the difference between current
21 assets and current liabilities. For ratemaking purposes, working capital may be
22 broader, but includes cash, other short-term funds, accounts receivable,

¹ *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket No. UE-100749, Order 06, ¶ 291 (March 25, 2011) (“Order 06”).

1 inventories and supplies, prepayments, accounts payable, income taxes payable,
2 and other balances. To the extent assets included in working capital exceed
3 liabilities, the utility is financing activities with the use of investor funds. To the
4 extent investor funds are used to support these working capital activities, the
5 utility is compensated by inclusion of the computed working capital balance in
6 rate base. Inclusion of the working capital balance in rate base fairly balances the
7 interests of investors and customers and promotes prudent investment in the
8 Company's system.

9 **Q. Describe the methodology of the investor-supplied working capital model**
10 **accepted by the Commission in Order 06.**

11 A. The investor-supplied working capital model determines the rate base impact of
12 working capital by comparing the Company's assets and liabilities to invested
13 capital where "invested capital" includes all debt and equity balances. To the
14 extent assets and liabilities represent non-investor supplied balances, they are
15 classified in the "investments" column in the model to reduce the potential rate
16 base addition for balances for which the Company is already being provided a
17 return. To the extent assets and liabilities represent balances funded by cash and
18 on which no return or carrying charge is accrued, they are classified in the
19 "current assets" or "current liabilities" columns. If total "invested capital" is
20 greater than total "investments" in the model, then the Company has a positive
21 investor-supplied working capital balance that would serve to increase rate base.
22 If total "invested capital" is less than total "investments" in the model, then the
23 Company has a negative investor-supplied working capital balance that would

1 serve to reduce rate base.

2 Balances included in the investments column that represent non-investor-
3 supplied balances are generally balances that are already included in rate base or
4 otherwise earn a return, as well as balances associated with non-cash activities.
5 For example, plant balances are classified in the investments column since they
6 are a separate component of rate base. Construction-work-in-progress is
7 classified in the investments column since the balance accrues allowance for
8 funds used during construction. Any invested funds or liabilities on which
9 interest accrues are also classified in the investments column.

10 Balances classified in the current assets and current liabilities columns
11 represent balances that are generally short-term in nature and do not accrue any
12 sort of return or carrying charge. Thus, to the extent invested capital is used to
13 support these balances, the utility would be compensated via a rate base addition
14 computed as described above.

15 The investor-supplied working capital model begins with the total
16 company balance sheet on a Federal Energy Regulatory Commission (FERC)
17 Form No. 1 basis using an average of monthly averages. Each FERC account
18 balance is assigned to the current assets column, the current liabilities column, the
19 investments column, or the invested capital column. Total-company balances are
20 used as the starting point for the model because the Company does not have a
21 Washington-only balance sheet.

22 **Q. Describe how Washington-allocated investor-supplied capital is calculated.**

23 A. Investments are assigned to Washington, the Company's other state jurisdictions,

1 and non-utility operations based on the Company's unadjusted results of
2 operations for Washington using the West Control Area inter-jurisdictional
3 allocation methodology. The percentage of total Washington-allocated
4 investments relative to total investments is then applied to the difference between
5 total investments and total invested capital to determine the Washington-allocated
6 investor-supplied working capital balance. This method of allocating investor-
7 supplied working capital to Washington was accepted by the Commission in
8 Order 06.

9 **Refinements to the Investor-Supplied Working Capital Model**

10 **Q. What refinements do you propose to make to the model?**

11 A. The Company proposes the following refinements for the reasons set forth below:

12 (1) The Company proposes that derivative assets and liabilities (including cash
13 collateral outstanding) be included in the investments column rather than the
14 current assets or current liabilities columns. The associated regulatory asset
15 balances for these items are already appropriately included in the investments
16 column.

17 (2) The Company proposes that pension and other post-retirement benefits
18 liabilities and the associated regulatory asset balances be included in the current
19 assets and current liabilities columns rather than in the investments column.

20 (3) The Company proposes that all frozen derivative balances be included in the
21 investments column, along with the associated regulatory assets balances that
22 offset these amounts.

23 (4) The Company proposes that accumulated deferred income tax balances

1 associated with its pension and other post-retirement benefits liabilities and
2 regulatory assets be classified in the current assets and current liabilities columns,
3 along with those underlying balances.

4 **Q. Please describe the rationale associated with your proposal to include**
5 **derivative balances in the investments column.**

6 A. Derivative assets (FERC accounts 175 and 176) and liabilities (FERC accounts
7 244 and 245) should be classified in the investments column because the amounts,
8 with the exception of cash collateral, collectively represent unrealized gains and
9 losses on energy contracts that have not impacted customer rates and generally
10 have not affected investor capital. Inclusion of these balances in the current assets
11 and liabilities columns would imply that investor funds have been used to finance
12 the balances and are therefore eligible for inclusion in rate base to reimburse the
13 Company for its costs to investors. With the exception of cash collateral the
14 Company has paid to collateralize certain of its derivative liabilities, and for
15 which the counterparties pay the Company interest, no investor funds have been
16 used for derivative contracts. Cash collateral paid by the Company should not be
17 included in investor-supplied working capital because the Company is already
18 receiving a carrying charge from the counterparty and should not be entitled to a
19 second carrying charge from customers through its inclusion in rate base.

20 It is important that the net regulatory asset associated with these derivative
21 contracts (included in FERC account 182.3) be classified consistently with the
22 derivative assets and liabilities. The Company applies regulatory accounting to its
23 derivative assets and liabilities to the extent it expects the amounts to ultimately

1 be recovered in rates when the unrealized gains and losses are realized and
2 reported as net power costs. Staff classified this net regulatory asset in the
3 investments column in docket UE-100749, and the Company proposes
4 maintaining that classification.

5 Employing this methodology, derivative assets and liabilities (excluding
6 collateral) and the associated regulatory asset net to \$(0.5) million based on the
7 average of monthly averages as of June 30, 2012, while on a gross basis the
8 regulatory asset and net derivative liability balances were \$336.1 million and
9 \$336.6 million, respectively. The average of monthly averages as of June 30,
10 2012 yields a net \$108 million of cash collateral deposited by the Company with
11 counterparties.

12 The Company proposes that the derivative assets and liabilities be
13 included in the investments column rather than the current assets and current
14 liabilities columns to recognize that unrealized gains and losses on derivative
15 contracts, offset by a regulatory asset, result in no impact to investor funds, and to
16 properly remove the interest-bearing collateral balances included within
17 derivative assets and liabilities from recovery in rate base.

18 **Q. Please describe the rationale supporting your proposal to classify pension**
19 **and other post-retirement benefits liabilities and associated regulatory assets**
20 **in the current assets and current liabilities columns.**

21 A. Pension and other post-retirement benefits liabilities (FERC account 228.3) and
22 the associated regulatory assets (included in FERC account 182.3) represent the
23 difference between the amount the Company has contributed to its pension and

1 post-retirement benefit plans and the amount the Company has recorded to
2 expense for those same plans. For ratemaking purposes, the Company recovers
3 pension and post-retirement costs based on the amount recorded to *expense*.
4 Investor capital is impacted for any difference between the amounts *contributed*
5 to the plans and the amounts included in rates as *expense*.

6 For example, if the Company records \$10.0 million of pension and post-
7 retirement benefits expense but contributes \$15.0 million to the pension and post-
8 retirement benefit plans, customer rates reflect the \$10.0 million in expense, and
9 investor capital is used to finance the \$5.0 million of contributions in excess of
10 the amount expensed. Accordingly, it is appropriate to include this \$5.0 million
11 in investor-supplied working capital to compensate investors for their cost of
12 capital. Likewise, if the Company records \$15.0 million of pension and post-
13 retirement benefits expense but contributes \$10.0 million to the pension and post-
14 retirement benefit plans, customer rates reflect \$5.0 million more than the
15 Company has contributed. Accordingly, it is appropriate to include a net liability
16 of \$5.0 million in investor-supplied working capital for these customer-provided
17 funds.

18 Under the model established in docket UE-100749, pension and other
19 post-retirement benefits liabilities, as well as the associated regulatory assets,
20 were classified in the investments column. To capture the investor-supplied
21 working capital impacts of contributions in excess of expense (or vice versa),
22 these balances should instead be classified in the current assets and current
23 liabilities columns.

1 Differences between cumulative expense and contributions can arise as a
2 result of funding requirements and funding policies. For example, the federal
3 Pension Protection Act of 2006, as amended, has required the Company to
4 contribute significant amounts to its pension plan since enacted, and cumulative
5 contributions exceed cumulative expense recognized to date.

6 For the 12 months ended June 30, 2012, the average of monthly averages
7 result in \$650.3 million of regulatory assets (included in FERC account 182.3)
8 and \$412.9 million of pension and other post-retirement liabilities (FERC account
9 228.3), for the Company's pension and other post-retirement plans, or a net asset
10 of \$237.4 million. These amounts are reflected in the current assets and current
11 liabilities columns to properly capture the impacts on investor-supplied working
12 capital.

13 **Q. Please describe the rationale supporting your proposal to include all frozen**
14 **derivative balances in the investments column.**

15 A. Under the model established in docket UE-100749, the non-current portions of the
16 frozen derivative values (FERC accounts 186 and 253) and the associated
17 regulatory asset (included in FERC account 182.3) are classified in the
18 investments column, while the current portions of the frozen derivative values
19 (FERC accounts 174 and 242) are classified in the current assets and current
20 liabilities columns. As the frozen derivative values are fully offset by a regulatory
21 asset and are non-cash accounting adjustments, these amounts should be included
22 in the same column as the current portion of the frozen derivative values within
23 the investor-supplied working capital model to avoid any impact to the resulting

1 calculation. These frozen derivative values result from commodity contracts
2 previously accounted for as derivatives that were de-designated as such, resulting
3 in the mark-to-market adjustment being frozen at the time of the de-designation.
4 These amounts amortize against the regulatory asset over the remaining term of
5 the underlying commodity contracts and have no cash or income statement
6 impacts.

7 For the 12 months ended June 30, 2012, the average of monthly averages
8 result in \$108.9 million of regulatory assets (included in FERC account 182.3),
9 \$1.3 million current frozen mark assets (included in FERC account 174), \$0.2
10 million of noncurrent frozen mark assets (included in FERC account 186), \$11.7
11 million of current frozen mark liabilities (included in FERC account 242), and
12 \$98.7 million of noncurrent frozen mark liabilities (included in FERC account
13 253), for an impact of zero.

14 **Q. Do you propose any other changes to the investor-supplied working capital**
15 **model?**

16 A. Yes. Under the current model, all accumulated deferred income tax balances are
17 included in the investments column. In conjunction with the Company's proposal
18 to include pension and other post-retirement benefits liabilities and their
19 associated regulatory asset balances in the current assets and current liabilities
20 columns, the Company proposes to include the associated accumulated deferred
21 income taxes in the current assets and current liabilities columns, which would
22 partially offset the impacts of the underlying changes.

1 **Q. What is the result of the investor-supplied working capital calculation?**

2 A. The use of the model with the modifications discussed above results in a
3 \$28.5 million positive investor-supplied working capital balance on a
4 Washington-allocated basis using the average of monthly averages as of June 30,
5 2012. Inclusion of this amount in rate base appropriately balances the interests of
6 investors and customers, and promotes prudent investment in the Company's
7 system.

8 **Q. Does this conclude your direct testimony?**

9 A. Yes.