

Exhibit No. \_\_\_T (JLB-1T)  
Docket UE-152253  
Witness: Jason L. Ball

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT  
COMPANY,

Respondent.

DOCKET UE-152253

TESTIMONY OF

Jason L. Ball

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

*Policy Overview*  
*Rate Plan*  
*Decoupling*  
*Decommissioning and Remediation Reporting*  
*Adjustment 8.13 – Idaho Asset Exchange*

March 17, 2016  
Corrected May 3, 2016

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**LIST OF EXHIBITS**

Exhibit No. JLB-2	Staff Revenue Requirement Model
Exhibit No. JLB-3	Staff Revenue Requirement Model Year 2
Exhibit No. JLB-4	Decoupling Trigger Illustration
Exhibit No. JLB-5	Pacific Power Transmission Map
Exhibit No. JLB-6	Selections from Attachment WUTC 102-1 to Company Response to Staff Data Request 102

1  
2  
3 **I. INTRODUCTION**

4 **Q. Please state your name and business address.**

5 A. My name is Jason L. Ball. My office address is the Richard Hemstad Building, 1300  
6 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington,  
7 98504. My email address is jball@utc.wa.gov.

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

9 A. I am employed by the Washington Utilities and Transportation Commission  
10 (Commission) as a Regulatory Analyst. Among other duties, I am responsible for  
11 policy, economic, financial, and accounting analysis, and for evaluating certain  
12 power supply issues of the investor-owned electric and gas utilities under the  
13 jurisdiction of the Commission.

14  
15 **Q. How long have you been employed by the Commission?**

16 A. I have been employed by the Commission since June 2013.

17  
18 **Q. Would you please state your educational and professional background?**

19 A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-  
20 major in Economics and Government. In 2013, I graduated with honors from New  
21 Mexico State University with a Master of Economics degree specializing in Public  
22 Utility Policy and Regulation.

1 **Q. Have you previously testified before the Commission?**

2 A. Yes. I sponsored testimony in Pacific Power & Light Company's ("Pacific Power"  
3 or "Company") general rate case in Docket UE-140762 on overall policy, revenue  
4 requirement, inflation factors, and the Merwin Fish Collector accounting deferral. I  
5 testified on power supply, operations and maintenance expense, and other accounting  
6 adjustments in Avista Corporation's (Avista) general rate case in Docket UE-  
7 150204. I presented power supply and load forecasting testimony in Avista's general  
8 rate case in Docket UE-140188. I presented an economic feasibility study relating to  
9 line extensions in Docket UE-141335. I co-sponsored joint testimony in Puget  
10 Sound Energy's (PSE) power cost only rate case in Docket UE-141141. I presented  
11 recommendations of Commission Staff (Staff) to the Commission at open meetings  
12 in Dockets UE-131623, UE-131565, and UE-140617. I also reviewed Avista's  
13 Energy Recovery Mechanism (ERM) annual true-up in Docket UE-140540.

14

15 **Q. What topics will you be discussing in your testimony?**

16 A. My testimony has six components.

- 17 • First, I summarize and discuss the key differences between Staff's responsive  
18 testimony and Pacific Power's direct case.
- 19 • Second, I respond generally to Company witness Bryce Dalley and present  
20 Staff's revenue requirement in response to Company witness Shelly McCoy.
- 21 • Third, I address the Company's proposed two year rate plan.
- 22 • Fourth, I respond to the Company's proposed decoupling mechanism.

- Fifth, I present Staff's proposal for decommission and remediation reporting.
- Finally, I discuss Adjustment 8.13 – Idaho Power Asset Exchange.

## II. SUMMARY

**Q. Please summarize the key findings of your testimony.**

A. In my testimony, I present Staff's proposed revenue requirement and I respond to two key proposals by the Company, the rate plan and decoupling. Staff is generally supportive of the Company's efforts to employ additional ratemaking tools but recommends that certain conditions be attached.

The Company's proposed rate plan is a well-designed stay-out period with discrete adjustments. The rate plan will provide the Company with a strong incentive to control its costs while the earnings test in the Company's proposed decoupling mechanism will prevent the Company from receiving a windfall of additional earnings. Staff's recommended revenue requirement in the first year is essentially offset by the recommended increase in the second; therefore Staff proposes only one small change to rates at the beginning of the second year of the rate plan. However, before implementing the second year rates, Staff proposes a 60 day period for reviewing the Company's cost attestation. This is discussed in greater detail in section VI of my testimony.

Staff is generally supportive of the Company's proposed decoupling mechanism. However, as detailed in section VII of my testimony, Staff recommends that the Commission attach several conditions to the Company's proposal related to

1 conservation targets, deferral triggers, reliability, customer guarantees, and reporting.  
2 These conditions bring the Company's proposed mechanism into alignment with  
3 other decoupling mechanisms approved by the Commission.  
4

5 **Q. Please summarize the remaining issues you discuss.**

6 A. Staff is concerned about the transparency of costs related to decommissioning and  
7 remediation. In section IX, I recommend including information in the Company's  
8 annual CBRs about the costs and revenue related to decommissioning and  
9 remediation.

10 Lastly, I discuss the Company's Idaho Power Asset Exchange adjustment and  
11 the manner in which the adjustment was presented. Specifically, the Company's  
12 proposals do not include the entirety of costs and benefits from the exchange and,  
13 due to this deficiency, Staff recommends that they be removed from this filing.  
14

### 15 III. INTRODUCTION OF WITNESSES

16

17 **Q. Please introduce the other Staff witnesses testifying in this proceeding and the**  
18 **subjects of their testimony.**

19 A. The following witnesses present testimony and exhibits for Staff:

- 20 • Ms. Elizabeth O'Connell addresses the prudence of the Company's SCADA  
21 EMS Replacement and Union Gap Substation Upgrade. She also addresses  
22 Staff's proposed treatment of these facilities in the context of the Company's

1 two-year rate plan proposal. Finally, she discusses the following accounting  
2 adjustments: 7.2 – Property Tax Expense, and 8.2 – Environmental Remediation.

- 3 • Mr. David Parcell serves as Staff's cost of capital witness and presents a  
4 recommendation on a fair rate of return.
- 5 • Mr. Jeremy Twitchell presents Staff's analysis on the prudence of implementing  
6 Selective Catalytic Reduction (SCR) at the Company's Jim Bridger Coal Plant.
- 7 • Ms. Tiffany Van Meter presents Staff's proposal on cost of service and rate  
8 design. She also addresses the Company's Adjustment 4.9 – Memberships and  
9 Subscriptions.
- 10 • Ms. Joanna Huang presents Staff's recommendation on the Company's proposal  
11 to accelerate depreciation for Colstrip and Jim Bridger.

12  
13 **IV. OVERVIEW OF COMPANY'S DIRECT CASE**

14  
15 **Q. Please provide an overview of the Company's direct case.**

16 A. The Company seeks additional annual revenue of approximately \$10.0 million, an  
17 increase of 2.99 percent, primarily driven by costs related to the installation of SCR  
18 at Jim Bridger Unit 3 and the Company's accelerated depreciation proposal.

19 Additionally, the Company proposes to implement a two-year rate plan. In  
20 the second year, the Company requests an additional \$10.3 million related to the  
21 SCADA EMS Replacement, Union Gap Substation Upgrade, SCR upgrades at Jim



1 Bridger Unit 4, and the expiration of several production tax credits (PTCs). On a  
2 percentage basis, this is the same as the request for the first year.<sup>1</sup>

3 The Company has provided minor changes to the requested revenue  
4 requirement through discovery. The results of these changes are included in my  
5 attached Exhibit No. JLB-2. In brief, the Company provided updates for actual  
6 transfers to plant, the removal of O&M expenses related to the Cholla coal plant in  
7 Arizona, and the impact of bonus depreciation from the passing of the PATH act.  
8 These changes reduce the Company's revenue requirement by \$160,238 for year one  
9 of the rate plan and by \$705,582 for year two of the rate plan.

10 The Company's proposed rate increase includes no change to cost of capital.  
11 As Company witness Bryce Dalley states, "To facilitate expeditious review of this  
12 ERF and rate plan . . . the Company is not requesting a change in its authorized  
13 return on equity or rate of return."<sup>2</sup>

14 Below is the revenue requirement impact of each of the major components of  
15 the Company's case.

<b>TABLE 1 – Revenue Requirement Increase as Proposed by Pacific Power</b>		
	<b>Year 1 Revenue Requirement Increase</b>	<b>Year 2 Revenue Requirement Increase</b>
Jim Bridger – SCR	\$5,025,712	\$5,981,045
Jim Bridger/Colstrip – Accelerated Depreciation	\$9,907,232	N/A
SCADA EMS Replacement	N/A	\$334,348
Union Gap Substation Upgrade	N/A	\$634,169
General Revenue Adjustments – Other	\$(4,186,474)	\$3,600,532
Total – Before Discovery	\$10,746,470	\$10,550,094
Change through Data Request	\$(160,238)	\$(705,582)
Final Revenue Requirement	\$10,586,232	\$9,844,512

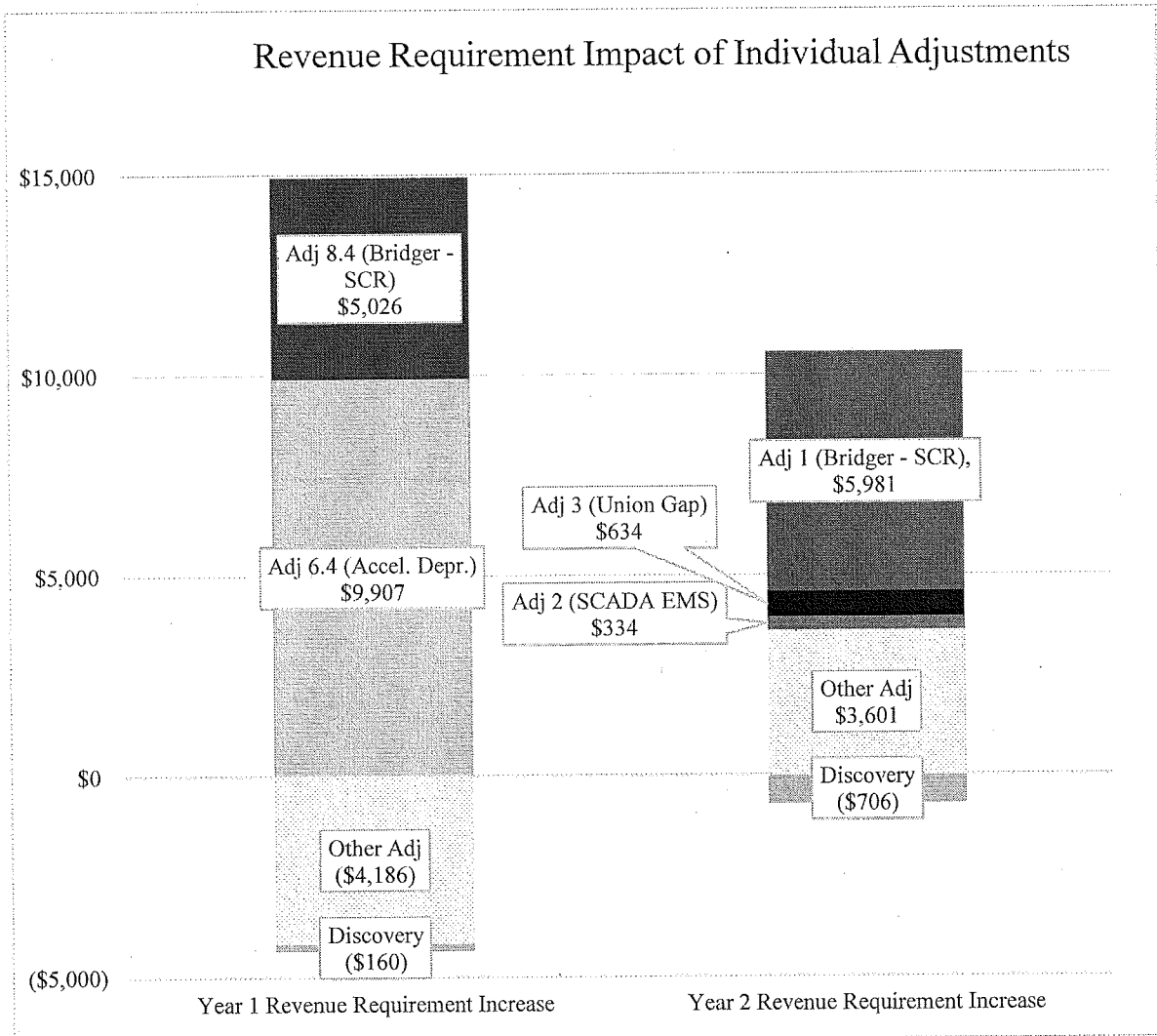
<sup>1</sup> Dalley, Exh. No. RBD-1T 2:6-11.

<sup>2</sup> *Id.* at 12:7-9.

1 In its direct case, the Company limits its requested revenue increase in the first year  
 2 to \$10 million and \$10.3 million in the second.

3 As detailed above, the Company's request contains several large adjustments.

4 The chart below shows the relative size of each of these adjustments:



5  
6  
7 **Q. Overall, how would you characterize the Company's filing?**

8 A. The Company's proposed decoupling mechanism and rate plan are well designed and  
 9 in step with prior Commission orders. However, the Company's proposal to  
 10 accelerate depreciation for Jim Bridger and Colstrip lacks robust support and

1 discussion. Staff would be interested in considering this proposal if it were  
2 adequately supported.<sup>3</sup> The Company's case supporting its installation of SCR at  
3 Bridger uses outdated information and ultimately falls flat.<sup>4</sup>

4 The Company points to an "attrition trend" in Washington as a justification  
5 for its proposals but does not support this claim with an attrition study or other in-  
6 depth analysis. Notably, the Company's own case yields a negative revenue  
7 requirement if two new pro forma adjustments, SCR and accelerated depreciation,  
8 are removed. Staff, therefore, bases its support for the Company's decoupling and  
9 rate plan proposals on standard rate making methodology.

## 11 V. OVERVIEW OF STAFF'S CASE

### 12 A. General Policy Supporting Staff's Case

13 **Q. Please summarize the fundamental principles and regulatory standards**  
14 **supporting Staff's case.**

15 **A.** Staff's case presents a revenue requirement within the modified historical test-year  
16 model. A modified historical test-year model starts with historic test year data and  
17 incorporates forward looking adjustments to account for changes between the  
18 Company's filing and the time rates go into effect. Through the use of pro-forma  
19  
20

---

<sup>3</sup> Huang, Exh. No. JH-1T 9:6-10:2.

<sup>4</sup> Twitchell, Exh. No. JBT-1T Section II.

1 adjustments and other regulatory tools, the issue of regulatory lag<sup>5</sup> can be effectively  
2 mitigated.

3 The reliance on pro-form adjustments, however, has not been enough to interrupt  
4 the trend of continuous rate cases. The Company's proposed rate plan and the use of  
5 end-of-period (EOP) rate base may help to change this trend. Staff supports  
6 employing these tools consistent with previous Commission guidance on when and  
7 how to effectively use them. In particular, Staff focuses on guidance from the  
8 Commission in the following documents:

- 9 1. In Order 05 of Avista's last general rate case (GRC), Docket UE-150204, the  
10 Commission authorized several mechanisms that reduce regulatory lag:

11 In more recent cases, the Commission has entertained the use of a  
12 variety of regulatory methods to address regulatory lag, lost revenue  
13 due to conservation, low load growth and weather fluctuations, as  
14 well as the need to invest in the existing distribution grid to meet  
15 changing customer demands. These include, in addition to attrition  
16 adjustments, such methods as expedited rate cases, decoupling, and  
17 EOP pro forma adjustments.<sup>6</sup>

18 In this case, the Company's proposed use of several regulatory methods to  
19 mitigate regulatory lag and other issues is in line with the Commission's  
20 policy as set out in the Avista order quoted above.

- 21 2. In Pacific Power's last GRC, Docket UE-140762, the Commission discussed  
22 the impact of recent trends in the electric industry on utility earnings and how  
23 to address them:

24 We note that it is even exceptional for the Commission to allow pro  
25 forma adjustments beyond a few months after the end of the test year.  
26 The Commission has relaxed this careful approach somewhat during  
27

---

<sup>5</sup> Regulatory lag refers to the time between when a Company files a case and when the rates go into effect.  
<sup>6</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-150204, Order 05, 41, ¶ 110 (Mar. 25, 2015)  
(Avista 2015 GRC Order).

1 recent years, risking violation of the matching principle, in an effort  
2 to address concerns that regulatory lag has been increasingly  
3 problematic during a period of unusually high capital investment. The  
4 Commission also has used other approaches, such as use of EOP rate  
5 base instead of the preferred AMA approach, and allowance of  
6 attrition adjustments, to address this problem. Nevertheless,  
7 companies we regulate continue to file regularly for general rate  
8 increases. Pacific Power, for example, has filed one general rate case  
9 after another, year after year, as exemplified by its filing of this case  
10 only five months after the Commission authorized rate increases in  
11 Docket UE-130043 in 2013.<sup>7</sup>  
12

13 Staff supports the Company's proposed rate plan and use of EOP rate base as  
14 a way to address the trend of continuous rate cases.

15 3. The Commission's Decoupling Policy Statement, developed in Docket  
16 U-100522, as well as the recent PSE and Avista decoupling mechanisms  
17 approved by the Commission, form the basis for Staff's analysis of the  
18 Company's proposal to implement decoupling.<sup>8</sup>  
19

20 **Q. Please summarize Staff's overall policy approach in the present case.**

21 A. Staff uses Commission precedent and guidance wherever possible to examine and  
22 issue recommendations on the Company's proposals. The Company's proposed  
23 decoupling and rate plan mechanisms fall under this framework as they are already  
24 well aligned with similar mechanisms of other utilities, which have been accepted by

---

<sup>7</sup> *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140762, Order 08, 21, n.57 (March 25, 2015) (Pacific Power 2014 GRC Order).

<sup>8</sup> *See Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-140188, Order 05, 11-14, ¶¶ 22-28 (Nov. 25, 2014); *In Re Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms*, Docket UE-121697, Order 07 (June 25, 2013) (PSE 2013 Decoupling Order).

1 the Commission. We propose only small changes to avoid unintended consequences  
2 from implementing these mechanisms.

3 In order to limit the number of issues in the case, Staff advocates for  
4 collaborative approaches among the Company and intervenors wherever possible.  
5 We see value in working together on as many issues as possible and resolving them  
6 outside of an adversarial process. This forms the bedrock of Staff's proposal to  
7 convene a cost of service collaborative rather than debate different proposals in the  
8 present accelerated case.

9 Where these two approaches are insufficient, Staff focuses on the principles  
10 of cost causation, and the matching of benefit with burden. These are important  
11 objectives that balance reducing costs for ratepayers with the Company's opportunity  
12 to earn a fair rate of return.

13  
14 **Q. How does Staff's prudence analysis fit into the policy approach outlined above?**

15 A. Mr. Twitchell's and Ms. O'Connell's prudence analyses rely on the reasonableness  
16 test for determining the recovery of costs related to post-test period rate base  
17 additions. Staff has reviewed prior Commission orders and the statutory  
18 requirements supporting prudence in developing its case. Determining the prudence  
19 of these projects is a necessary step in implementing a rate plan.

20 Mr. Twitchell's in-depth analysis should place Pacific Power on notice that  
21 management decisions must be based on principled and relevant data. Here, the  
22 Company made a critical managerial decision based on out-of-date information. As  
23 discussed by Mr. Twitchell, it is imperative that major capital decisions of any

1 investor-owned utility be subject to strong scrutiny, and, when appropriate, as here,  
2 disallowance.

3  
4 **Q. Does Staff recommend adjusting Pacific Power's recent Power Cost Adjustment**  
5 **Mechanism by reviewing power costs in the present case?**

6 A. No. The Power Cost Adjustment Mechanism (PCAM) was approved only recently,  
7 in May 2015.<sup>9</sup> The purpose behind a PCAM with sharing bands is to incentivize a  
8 company to control one of its biggest variable costs.

9 The PCAM's sharing bands only work when the baseline is not being  
10 adjusted frequently. This is the same logic that was applied in the recent PSE power  
11 cost adjustment settlement in Docket UE-130617.<sup>10</sup> In that case, Staff testified that:

12 Infrequent revisions of the baseline allow cost-sharing bands to operate as  
13 intended. It is necessary for the natural cyclical fluctuations in variable  
14 power costs to occur without tampering – otherwise the purpose the PCA  
15 and its sharing bands is lost. The primary goal for power cost adjustment  
16 mechanisms is to provide protection from extreme deviations in power  
17 costs, not to insulate the company from normal variations.<sup>11</sup>

18 On a practical level, the incentive for the Company to control its costs is lost if the  
19 baseline is frequently revised, up or down.

---

<sup>9</sup> *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140762, Order 09 (May 26, 2015) (Pacific Power 2014 PCAM Order).

<sup>10</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-130617, Order 11 (Aug. 7, 2015).

<sup>11</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-130617, Joint Testimony in Support of PCA Modification Settlement, 17:2-8 (filed Apr. 3, 2015). Settlement Stipulation approved and adopted in Order 11 (Aug. 7, 2015).

1 **B. Staff's Revenue Requirement**

2  
3 **Q. Please provide an overview of Staff's recommended revenue requirement.**

4 A. Staff's revenue requirement model shows a decrease to the Company's revenue  
5 requirement of \$5,330,704, 459,149 or 1.58~~1.62~~ percent during the first year of the  
6 rate plan. In the second year, this reverses and is an increase to the Company's  
7 revenue requirement of \$6,059,394 or 1.80 percent. A breakdown by major  
8 adjustment is shown below.

<b>TABLE 2 – Revenue Requirement Change as Proposed by Staff</b>				
<b>Staff Proposal by major item</b>	<b>Rate Plan – Year 1</b>	<b>Rate Plan – Year 2</b>		
Jim Bridger – SCR	\$1,485,275	1,443,576	\$1,182,010	
Jim Bridger/Colstrip – Accelerated Depreciation	\$0		N/A	
SCADA EMS Replacement	N/A		\$290,735	
Union Gap Substation Upgrade	N/A		\$516,986	
Expiration of Production Tax Credits	N/A		\$4,234,464	
General Adjustments – Other	\$(6,851,114)	(6,774,280)	\$(164,801)	
Total Modeled Revenue Requirement Change	\$(5,365,839)	5,330,704	\$6,059,394	
Staff Proposed Rate Change	\$0		\$693,555	728,690

9  
10 Given that the year two rate increase is almost exactly equal to the year one decrease,  
11 Staff recommends there be only a small incremental change to rates at the start of the  
12 second year of the plan. The second year increase would be \$728,690, 693,555 or  
13 .216~~1.93~~ percent.

14  
15 **Q. Have you prepared an exhibit that calculates the revenue requirement?**

16 A. Yes. My Exhibit No. JLB-2 presents Staff's adjustments, proposed capital structure,  
17 and revenue requirement for the first year of the rate plan in a format similar to Ms.  
18 McCoy's Exhibit No. SEM-3. My Exhibit No. JLB-3 presents Staff's proposed



1 revenue requirement calculation for the second year of the rate plan similar to Ms.  
2 McCoy's Exhibit No. SEM-4.

3  
4 **Q. Please describe your Exhibit No. JLB-2.**

5 A. Page 1 of my Exhibit No. JLB-2 provides an overview of Staff's analysis of the  
6 Company's 2015 results of operations. It summarizes the results of restating and pro  
7 forma adjustments on the Company's results of operations report. Finally, this page  
8 summarizes the results of Staff's modeled price change.

9 Page 2 compares the net operating income impact, net rate base impact, and  
10 revenue requirement impact of each adjustment as proposed by Staff and Pacific  
11 Power. It also shows the impact resulting from Staff's proposed capital structure.

12 Page 3 provides the calculation of Staff's modeled revenue requirement as  
13 reflected in the previous two pages.

14 Pages 4 and 5 show Staff's conversion factor and proposed capital structure,  
15 respectively.

16 Pages 6 to 16 provide a summary of all restating and pro forma adjustments  
17 and their impact on the per-books operations of the Company.

18 Pages 17 to 38 provide summaries of the individual restating and pro forma  
19 adjustments and their impact on the per-books operations of the Company.

20 Pages 39 to 61 represent certain adjustments, their treatment, and a brief  
21 explanation. Staff included only those adjustments where a change occurred, either  
22 directly or indirectly.

1 Page 62 lists the West Control Area (WCA) allocation factors used  
2 throughout the model.

3  
4 **Q. Please identify the adjustments in Exhibit No. JLB-2 that Staff contests and the**  
5 **Staff witness responsible for the proposed adjustment.**

6 **A.** The following adjustments are contested between Staff and the Company:

<b>Adjustment</b>	<b>Staff Witness</b>
4.9 – Memberships and Subscriptions	Van Meter
6.4 – Accelerated Depreciation on Jim Bridger & Colstrip	Huang
7.2 – Property Tax Expense	O’Connell
8.2 – Environmental Remediation	O’Connell
8.4 – Pro Forma Major Plant Additions	O’Connell/Twitchell
8.13 – Idaho Asset Exchange	Ball

7  
8 Additionally, several other adjustments are affected by the issues that Staff contests  
9 in the above adjustments. These are:

<b>Adjustment</b>	<b>Affecting Adjustment</b>
4.1 – Miscellaneous Expenses	Company Update on Discovery
6.1 – End-of-Period Plant Reserves	8.13 – Idaho Asset Exchange
6.2 – Annualization of Base Period Depreciation and Amortization Expense	8.13 – Idaho Asset Exchange
7.1 – Interest True-up	General
7.4 – Power Tax ADIT	Company Update on Discovery
7.7 – Deferred State Tax Expense & Balance	Company Update on Discovery
8.10 – Investor Supplied Working Capital	8.13 – Idaho Asset Exchange
8.11 – End-of-Period Plant Balances	8.13 – Idaho Asset Exchange

1 **Q. What is Staff's proposed capital structure and conversion factor for**  
2 **determining revenue requirement?**

3 A. The overall rate of return recommended by Mr. Parcell is 7.18 percent and uses the  
4 following capital structure:

<b>Component</b>	<b>Cost (%)</b>	<b>Weight (%)</b>	<b>Weighted Cost (%)</b>
Long-term Debt	50.69%	5.21%	2.641%
Short term Debt	0.19%	2.15%	0.004%
Preferred Stock	0.02%	6.75%	0.001%
Common Stock	49.10%	9.25%	4.542%
<b>Weighted Average Cost of Capital</b>			<b>7.190%</b>

5  
6 Staff's conversion factor is 62.014%. This is the same conversion factor used by the  
7 Company.

8  
9 **VI. TWO-YEAR RATE PLAN**

10  
11 **A. Overview**

12  
13 **Q. Can you please summarize Staff's recommendation regarding the Company's**  
14 **proposed rate plan?**

15 A. Staff supports the Company's proposal to implement a two-year rate plan. The  
16 present filing represents the Company's ninth general rate case in the last eleven

1 years.<sup>12</sup> This near constant flow of general rate cases wearies ratepayers with more  
2 frequent rate changes, strains the resources of participants in general rate cases and  
3 the Commission, and apparently fails to yield stable revenues for the companies.  
4 The trend of annual rate cases indicates that we should continue to explore and  
5 implement additional measures to address these issues.

6 In general, Staff supports the use of regulatory tools that are already  
7 available, such as rate plans, to produce predictable rate adjustments. In keeping  
8 with this principle, Staff proposes a small change to the Company's revenue  
9 requirement, or rates, once during the next two years. This is consistent with the  
10 results of Staff's revenue requirement model that shows a minimal decrease in the  
11 first year with a similar minimal increase in the second year. Given the context of  
12 the Company's proposal, however, specifically the nature of the adjustments it  
13 proposes to justify the two-year rate plan, Staff recommends the rate plan be  
14 approved subject to certain conditions.

15  
16 **Q. How is the remainder of your testimony in this section organized?**

17 **A.** First, I provide a background of rate plans in general and recent Commission  
18 decisions regarding rate plans. Second, I provide a summary and analysis of the  
19 Company's proposed rate plan. Third, I present Staff's proposed conditions for the  
20 rate plan, and I outline the prudence process for approving projects timed to be in  
21 service during the second year of the rate plan.

22  

---

<sup>12</sup> Pacific Power 2014 GRC Order at 13, ¶ 28.

1           **B.     Background and Commission History of Rate Plans**

2  
3   **Q.     What is a rate plan?**

4   A.     Rate plans involve two key components: a stay-out period, in which the Company  
5           agrees to not file a general rate case seeking additional revenue, and in exchange the  
6           Company either receives a series of pre-determined rate adjustments or some other  
7           type of incentive for agreeing to the stay-out period.<sup>13</sup>

8           Rate plans operate as a regulatory tool that a company may propose to  
9           address attrition or regulatory lag.<sup>14</sup> By providing a company with additional  
10          revenue, either through automatic adjustments, additional return on equity, or other  
11          mechanisms, the company is directly incentivized to control its costs in order to  
12          achieve maximum possible earnings. Further, rate plans reduce the burden on the  
13          Commission and a company's regulatory divisions by limiting the frequency of  
14          general rate cases.

15  
16   **Q.     Please describe the Commission's history with rate plans.**

17   A.     The Commission's history with rate plans dates back to at least the early 1990s. The  
18          Periodic Rate Adjustment Mechanism was approved for PSE in its 1990 general rate  
19          case and included annual rate adjustments for conservation and power-related costs.  
20          It also provide for general rate cases every three years.<sup>15</sup>

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<sup>13</sup> Ryan J. Davies and Kathleen T. Hevert, *Stay-out premiums, penalties, and multi-year regulatory rate plans*, 2-3 (Nov. 15, 2015) ([http://faculty.babson.edu/rdavies/Stayout\\_Premium\\_Davies\\_Hevert.pdf](http://faculty.babson.edu/rdavies/Stayout_Premium_Davies_Hevert.pdf)).

<sup>14</sup> See PSE 2013 Decoupling Order, 74, ¶ 171.

<sup>15</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Power & Light Co.*, Docket UE-901183-T, Third Supplemental Order, 6 (Apr. 01, 1991) (PSE 1991 PRAM Order).

1 More recently, a multi-party settlement lead to a two-year rate plan with  
2 Avista in Docket UE-120436. The settlement included automatic rate adjustments  
3 averaging two percent per year.<sup>16</sup>

4 In 2013, the Commission authorized a three-year rate plan in conjunction  
5 with a decoupling mechanism for PSE. The rate plan included automatic rate  
6 adjustments based on fixed annual escalation factors. In approving the use of such  
7 factors, the Commission noted:

8 The use of fixed annual escalation factors to adjust PSE's rates is a  
9 viable approach to reduce the impacts of regulatory lag and attrition  
10 during a multi-year general rate case stay-out period. The escalation  
11 factors provide PSE an improved opportunity to earn its authorized  
12 return, but are set at levels that will require PSE to improve the  
13 efficiency of its operations if it is to actually earn its authorized  
14 return. This is a critically important consideration underlying our  
15 approval of the rate plan.<sup>17</sup>

16 PSE expects to file a review of the effectiveness of its decoupling/rate plan  
17 mechanism in the near future.  
18  
19

### 20 C. Summary of Pacific Power's Proposed Rate Plan

#### 21 22 Q. Please describe Pacific Power's proposed two-year rate plan.

23 A. The Company proposes to implement a multi-year rate plan, for the period May 1,  
24 2016, through May 1, 2018.<sup>18</sup> This rate plan would include a rate adjustment for the  
25 second year with a rate effective date of May 1, 2017. The Company lists three rate

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<sup>16</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-120436, Multiparty Settlement Stipulation, 3, ¶¶ 4-5 (filed Oct. 19, 2012) (Settlement Stipulation approved and adopted in Order 09 (Dec. 26, 2012)).

<sup>17</sup> PSE 2013 Decoupling Order, 74, ¶171.

<sup>18</sup> Since these dates were predicated on a final order being issued in the present case by May 1, 2016, Staff assumes the Company will update its rate plan proposal on rebuttal to reflect the revised procedural schedule.

1 base drivers for the second year adjustment, including: the installation of SCRs at  
2 Jim Bridger Unit 4 (SCR Unit 4), the replacement of the Company's Supervisory  
3 Control and Data Acquisition Energy Management System (SCADA EMS  
4 Replacement), and the Union Gap Substation Upgrade project (Union Gap Upgrade).  
5 In the remainder of my testimony, these are referred to collectively as the Rate Plan  
6 Projects. Additionally, the expiration of certain production tax credits contributes to  
7 the Company's second year requested increase. Pacific Power proposes no increases  
8 for operating or administrative costs.

9 As a part of this rate plan, the Company commits to not file a rate case with  
10 an effective date earlier than May 1, 2018.<sup>19</sup> Additionally, the Company commits to  
11 increase Low Income Billing Assistance (LIBA) funding during the rate plan and in  
12 the present case, consistent with the five-year LIBA plan approved by the  
13 Commission in 2012.

14  
15 **Q. Is the Company proposing a rate plan in the same vein as the recent PSE or**  
16 **Avista plans?**

17 **A.** No. The Company's proposed rate plan is not based on trended or escalated levels of  
18 plant, O&M expense, or loads. Rather, the Company's proposed rate plan is a  
19 simple series of discrete revenue adjustments to recover specific large infrastructure  
20 projects. In essence, the Company's proposal represents rate base additions with in-  
21 service dates before the second year rate effective date. Importantly, the Company

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<sup>19</sup> Dalley, Exh. No. RBD-1T 18:19-19:1.

1 understands the need for and commits to providing attestations to confirm  
2 completion of the Rate Plan Projects.<sup>20</sup>

3  
4 **Q. What is the Company's rationale for proposing a two year rate plan?**

5 A. As discussed in the direct testimony of Company witness Bryce R. Dalley, the  
6 Company is facing a "a ten-year attrition trend, which demonstrates the necessity of  
7 a rate plan."<sup>21</sup> To support this claim, Mr. Dalley provides a table comparing the per-  
8 books return on equity to the Company's authorized level of return since 2006.<sup>22</sup>  
9 Additionally, the Company offers the use of a multi-year rate plan as a means to  
10 avoid filing additional rate cases.

11  
12 **Q. For major rate base additions, how does the Company propose to conduct a  
13 prudence review for the 2017 rate effective period?**

14 A. The Company proposes to provide an "attestation in late 2016 or early 2017 . . .  
15 verifying the final costs of the investments and that the investments are in service."<sup>23</sup>  
16 The Company states that an attestation will show the Rate Plan Projects are used and  
17 useful, as well as known and measurable.<sup>24</sup>

18  

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<sup>20</sup> Dalley, Exh. No. RBD-1T at 17:15-18:1.

<sup>21</sup> *Id.* at 21:4-5.

<sup>22</sup> *Id.* at 9:5-6.

<sup>23</sup> *Id.* at 17:18-20.

<sup>24</sup> *Id.* at 17:22-18:1.



1           **D.     Staff Recommendation on Proposed Rate Plan**

2  
3   **Q.     Does Staff support rate plans in general?**

4   A.     Yes. Staff generally supports the use of regulatory tools that may help a company  
5           mitigate regulatory lag or provide benefits to both company and ratepayers. Rate  
6           plans in general provide utilities with a direct incentive to achieve savings through  
7           aggressive cost control measures, while simultaneously providing rate payers with  
8           stable and certain rates. Further, a rate plan with a stay-out period helps reduce the  
9           regulatory burden on the Commission, other parties and the Company by limiting the  
10          need for annual general rate cases.

11  
12   **Q.     Does Staff agree with the Company’s rationale for supporting a two-year rate**  
13          **plan?**

14   A.     No, not as presented. The Company’s continual reliance on an “attrition trend”<sup>25</sup> as  
15          a justification for its proposals is misleading. “Attrition” is related to more than just  
16          a company’s achieved earnings; it is a holistic tool that requires analysis of the  
17          Company’s entire operations. Specifically, the purpose behind an attrition study is to  
18          identify historical test year relationships that may not continue into the rate effective  
19          period.<sup>26</sup> The results of an attrition study are then applied to a historical test year to  
20          ensure the appropriate relationships are being represented across the company’s  
21          operations. Without an attrition study and an analysis of these relationships, the  
22          Company’s claim of “earnings attrition” lacks adequate support.

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<sup>25</sup>*Id.* at 8:19–9:5.

<sup>26</sup> See Avista 2015 GRC Order at 21, ¶ 52.

1 Q. **Yet Staff still supports the Company's proposed rate plan. Why?**

2 A. As discussed at the beginning of this section, the Company's proposal to implement  
3 a two-year rate plan interrupts a near constant flow of general rate cases. This was  
4 an important principle in the Commission approval of the PSE rate plan:

5 The rate plan is an innovative approach that will provide incentives to  
6 PSE to cut costs in order to earn its authorized rate of return.  
7 Moreover, the lack of annual rate filings will provide the Company,  
8 Staff, and other participants in PSE's general rate proceedings with a  
9 respite from the burdens and costs of the current pattern of almost  
10 continuous rate cases with one general rate case filing following  
11 quickly after the resolution of another.<sup>27</sup>

12  
13 Rate plans also serve to address regulatory lag, specifically the time between when a  
14 rate change is requested and when it goes into effect. Due to this incongruent timing,  
15 regulatory lag diminishes a utility's opportunity to earn its allowed return.

16  
17 Q. **Can other tools be utilized at the same time as a rate plan?**

18 A. Yes. Other regulatory tools, such as EOP plant balances or decoupling, do not  
19 conflict with a rate plan. Indeed, the use of EOP plant balances is more appropriate  
20 for a rate plan than other methods of determining plant value such as average of  
21 monthly averages. This is primarily because EOP plant balances more accurately  
22 reflects the actual plant during the rate effective period. Staff witness Joanna Huang  
23 discusses the Company's proposal to use EOP plant balances and presents Staff's  
24 rationale supporting EOP plant balances.<sup>28</sup>

25 The combination of decoupling with a rate plan provides the Company with  
26 an opportunity to implement aggressive cost control measures and reap some reward.

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<sup>27</sup> PSE 2013 Decoupling Order, 66, ¶ 150.

<sup>28</sup> Huang, Exh. No. JH-1T, section III.

1 The earnings test, as discussed later, allows the Company to keep half of any excess  
2 earnings that such cost controls may achieve. The customers will benefit when the  
3 cost control measures are captured in a test year following the rate plan.

4  
5 **Q. Please discuss Staff's proposed conditions for implementing a two-year rate**  
6 **plan.**

7 A. The Company's proposed rate plan uses specific types of adjustments to justify a  
8 second year rate increase. However, Staff's revenue requirement model  
9 demonstrates a revenue requirement decrease for the first year of the rate plan. This  
10 decrease is almost exactly equal to the increase in the second year. Therefore, Staff  
11 recommends only one small change to rates in the second year of the rate plan,  
12 subject to the final attestation of costs by the Company. Further, Staff recommends  
13 several additional conditions below.

14  
15 **1. Attestation**

16  
17 **Q. Please describe Staff's recommendation related to the Company's proposed**  
18 **attestation.**

19 A. First, the Company's attestation should be filed on a date certain. This should not be  
20 difficult given the limited number of adjustments proposed in the rate plan. A  
21 review period of 60 days should suffice to confirm the status of the Rate Plan

1 Projects requested for recovery in rates. Staff recommends that a firm date of April  
2 1, 2017, be established for this attestation.<sup>29</sup>

3 The 60 day review period allows Staff and other parties to conduct discovery  
4 related to the attestation. Specifically, this allows Staff the opportunity to provide a  
5 recommendation to the Commission on the prudence of the Rate Plan Projects.  
6 Additionally, this also provides time for parties to issue recommendations to the  
7 Commission that may differ from those offered by Pacific Power and allow time for  
8 the Company to respond. Staff expects this phase of the review to require only a  
9 paper record.

10  
11 **Q. Is the attestation still necessary given that Staff is recommending a very small  
12 change to rates at the beginning of the second year of the rate plan?**

13 A. Yes. The cost attestation will confirm the actual costs of the Rate Plan Projects  
14 included for recovery. Staff expects there to be only minor variation from the  
15 presently known costs and therefore will not create a change in the necessary  
16 revenue requirement. However, if the costs change significantly then any such  
17 change can be addressed during the prudence review period.

---

<sup>29</sup> Staff's timeline assumes the Company will provide updated rate plan effective dates given the timing of the filing. Sixty days from April 1<sup>st</sup> is June 1<sup>st</sup>, which allows the Commission 30 days to formulate a decision before a hypothetical effective date of July 1.

1                   **2. Prudence Review**

2  
3 **Q. Please describe Staff's proposed prudence review process.**

4 Staff recommends a two-part prudence review. Staff proposes that, first, the  
5 Commission evaluate, in the present case, the prudence of the Company's  
6 management decisions to proceed with each of the Rate Plan Projects.<sup>30</sup> Second,  
7 Staff recommends that the prudence of the actual costs of these projects be subject to  
8 review after the Company provides an attestation of these costs. As discussed above,  
9 Staff recommends a 60 day review period that allows parties to respond to the  
10 Company's attestation.

11                   To the extent possible, Staff witness Ms. O'Connell presents an analysis of  
12 the costs that have been incurred to date for each of the Rate Plan Projects.  
13 However, Staff has not provided a recommendation on this aspect of the prudence  
14 review because the final costs are not yet known and measurable.

15  
16 **Q. Why does Staff recommend a split prudence evaluation?**

17 **A.** Staff's approach is designed to maintain the principles of a prudence evaluation,  
18 including that a project must be used and useful and the costs known and measurable  
19 before the investment is recovered in rates.<sup>31</sup> Information that is already available in  
20 the present case should be reviewed and, wherever possible, followed up by  
21 recommendations. This process will provide the Company with some certainty of

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<sup>30</sup> Staff witness Elizabeth O'Connell discusses Staff's recommendation on the SCADA EMS Replacement and Union Gap Upgrade projects. Staff witness Jeremy Twitchell discusses Staff's recommendation on the SCR Unit 4 project.

<sup>31</sup> See RCW 80.04.250.

1 the decision to go ahead with key projects while leaving the review of actual costs at  
2 a point in the future where the final amounts are known and measurable.

3  
4 **Q. Why is Staff recommending a prudence determination during the rate plan,**  
5 **after the present case has been completed?**

6 A. Since the Rate Plan Projects will not be in service until the end of 2016, Staff cannot  
7 present a recommendation on prudence of the final costs in the present case without  
8 violating the Commission's policy on pre-approval.<sup>32</sup> Staff's recommended two-step  
9 process will allow the Commission to review the final costs of the projects at the  
10 time of the attestation, after they are in service. The prudence of the initial  
11 management decisions, as discussed by Staff witnesses Ms. O'Connell and Mr.  
12 Twitchell, can be completed concurrent with the present case; the final costs cannot  
13 be.<sup>33</sup>

14  
15 **Q. Does Staff's case represent "pre-approval" of projects that will not go into**  
16 **service until the middle of this year?**

17 A. No. Staff's proposals do not represent "pre-approval." Staff's approach is an  
18 exploration of decisions and costs that are already known and measurable. During  
19 any prudence review there are two major components that divide the project into  
20 split time frames; the decision to move forward on a project, and the actual  
21 implementation of a particular project. The decision to go forward with the Rate

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<sup>32</sup> Avista 2015 GRC Order at 68, ¶ 191.

<sup>33</sup> This is true only for the installation of SCR at Jim Bridger Unit 2. Mr. Twitchell's analysis concerning unit 1 is based on final costs following the completion of that project.

1 Plan Projects was made quite a while ago and the prudence of these decisions can be  
2 evaluated now. This is consistent with traditional prudence reviews which evaluate  
3 business decisions after they have been completed.

4 The analysis offered by Ms. O'Connell and Mr. Twitchell of the Rate Plan  
5 Projects start with the Company's decision to move forward with each of these  
6 projects.<sup>34</sup> These decisions were made well before the Company filed its initial case  
7 and construction began. This completes the first half of the prudence review.

8 Ms. O'Connell's analysis continues for the SCADA EMS Replacement and  
9 Union Gap Upgrade projects with the costs that are known up to this point. This  
10 allows Staff to identify potential pitfalls and issues that have become apparent  
11 recently. Such an analysis forewarns of any potential problems that may appear in  
12 the attestation provided by the Company prior to the second year of the rate plan.

13  
14 **Q. How is Staff's proposal reflected in the second year?**

15 A. Staff recommends a small change in rates, .193 percent, beginning in the second year  
16 of the rate plan. This is a result of Staff's revenue requirement model, which  
17 estimates the second-year rate adjustment. This estimate is described in my Exhibit  
18 No. JLB-3 and includes the effects of Mr. Twitchell's recommendations surrounding  
19 the management decision of SCR Unit 4. It also includes Ms. O'Connell's analysis  
20 of the latest cost information for the SCADA EMS Replacement and Union Gap  
21 Upgrade projects. The estimates will need to be updated based on the Company's

---

<sup>34</sup> Mr. Twitchell's analysis concludes with a review of the actual costs of the SCR, since the Unit 1 Project was completed in November of last year. However, his analysis and recommendation does have an impact on the Unit 2 project, which will take place during 2016.

1           attestations after the Rate Plan Projects are placed into service. Only if an individual  
2           project's final costs are wildly different from the projected costs would there be a  
3           major impact on the second year of the rate plan. Further, Staff's proposed review  
4           period allows parties the opportunity to analyze and contest the rates in the second  
5           year of the rate plan.

6  
7                           **3.       Rate Plan and Decoupling**

8  
9   **Q.    Does the Company's inclusion of an earnings test in the decoupling mechanism**  
10 **have an impact on Staff's recommendation regarding the rate plan?**

11  **A.**    Yes. The rate plan should only be approved if the earnings test is approved as well.  
12        The earnings test in the Company's proposed decoupling mechanism provides the  
13        Company an opportunity to share excess earnings with rate payers while still having  
14        a direct incentive to control costs. This is especially important when rates, as under  
15        Staff's proposal, are being held almost constant instead of fluctuating. An earnings  
16        test protects customers from the Company achieving a windfall at ratepayer's  
17        expense. The Company also benefits by receiving a fair opportunity to achieve the  
18        approved level of revenue. This was a key point in the Commission's approval of  
19        the PSE decoupling mechanism and rate plan:

20                   While PSE will enjoy the benefits of reduced risks in the recovery of its  
21                   prudently incurred costs, these benefits are not unbounded. . . . If historical  
22                   trends on which PSE's analyses depend continue, the Company will need  
23                   to become more efficient and implement cost saving measures if it is to  
24                   actually earn its authorized return. If PSE takes the steps necessary to



1 succeed beyond expectations, the approved mechanisms provide for an  
2 earnings test each year they are in effect.<sup>35</sup>

3  
4 **Q. A rate plan was recently the subject of a judicial review and remand. Does this**  
5 **change Staff's opinion on implementing a rate plan in this case?**

6 A. No. The Superior Court's remand order was solely focused on the process by which  
7 the Commission approved the rate plan.<sup>36</sup>

8  
9 **4. Rate Design**

10  
11 **Q. How is rate design affected by a two-year rate plan?**

12 A. Staff witness Tiffany Van Meter proposes a cost of service and rate design  
13 collaborative, in which several issues will be addressed. As discussed by Ms. Van  
14 Meter, any changes resulting from this collaborative should be timed to be included  
15 in the second year of the rate plan.

16  

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<sup>35</sup> PSE 2013 Decoupling Order, 10, ¶ 26.

<sup>36</sup> See *In Re Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms*, Docket UE-121697, Order 15, 3, ¶ 5 (June 29, 2015) (PSE 2015 Decoupling Remand Order).

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## VII. DECOUPLING

### A. Overview

**Q. Please provide an overview of the Company's proposed decoupling mechanism.**

A. The Company's proposed decoupling mechanism is designed to separate the recovery of costs from the sale of kilowatt-hours. Specifically, the Company's proposed mechanism targets all costs that are recovered through energy sales, except variable power costs. The risk of over- or under-recovery of fixed costs is then reduced through the use of a dollar per customer metric. In this manner, the Company's proposal is a *full decoupling mechanism* consistent with both the recently approved Avista decoupling mechanism and the PSE version.

**Q. Overall, does Staff support the Company's proposed decoupling mechanism?**

A. Yes. The Company's proposed mechanism is very similar to the full decoupling mechanism recently approved for Avista. Staff supports the use of a decoupling mechanism, however we recommend a few conditions as discussed later in my testimony.

**Q. Are there any changes the Company has proposed that make this mechanism unique vis-à-vis the other decoupling mechanisms in Washington?**

A. Yes. The Company has proposed to separately track by rate schedule small and large general service and irrigation loads. According to the Company:

1 [C]ombining into one decoupling class shifts irrigation Schedule 40  
2 volatility due to weather to Schedules 24 and 36. Likewise, Schedule 36  
3 may not see any potential benefits from growth if combined with the other  
4 schedules. Additionally . . . the current rate structure for Schedule 24  
5 collects a significant amount of revenue from energy charges, which could  
6 shift fixed cost recovery to Schedules 36 and 40. Separately tracking and  
7 recovering deferrals by rate schedule will minimize any cost or benefit  
8 shifting between rate schedules and provide for a more equitable  
9 outcome.<sup>37</sup>

10  
11 **Q. Does Staff agree with this change?**

12 A. Yes. The Company's proposal increases the granularity of the data used to track  
13 revenues to prevent cross-schedule subsidization. The use of full decoupling is still  
14 in its infancy<sup>38</sup> and subject to close review, as the Company has proposed.<sup>39</sup>  
15 Separating the rate classes is, in Staff's opinion, a practical design choice that does  
16 not overly complicate the implementation of a decoupling mechanism.

17  
18 **Q. How is the remainder of your testimony in this section organized?**

19 A. First, I provide the historical context for decoupling through an overview of recent  
20 Commission decisions regarding decoupling. Second, I present Staff's analysis of  
21 the Company's proposed decoupling mechanism and how it conforms to the  
22 Commission policy statement on decoupling. Third, I present Staff's  
23 recommendation to approve the Company's proposed decoupling mechanism albeit  
24 with several conditions.

25  

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<sup>37</sup> Steward, Exh. No. JRS-1T 14:2-9.

<sup>38</sup> There has yet to be a review of the full decoupling mechanisms approved for Avista or PSE. However, PSE will be reviewed in its rate case that must be filed before April 1.

<sup>39</sup> Steward, Exh. No. JRS-1T 18:15-19.

1           **B.     Background of Decoupling**

2  
3                   **1.     History of Decoupling**

4  
5   **Q.     Please provide an overview of the Commission’s history with decoupling.**

6   A.     Full decoupling is a regulatory tool that has become more widely accepted only  
7           recently. However, decoupling itself has been used by this Commission since as  
8           early as 1990. In May 1990, the Commission issued a Notice of Inquiry titled  
9           “Examining Whether There are Regulatory Barriers to Least Cost Planning for  
10          Electric Utilities.” As stated in the inquiry, the Commission sought to “consider  
11          policies ‘to improve the efficiency of energy’ and ‘protect a company from a  
12          reduction of short-term earnings’ due to such increased efficiency.”<sup>40</sup>

13               PSE later successfully petitioned the Commission for a Periodic Rate  
14               Adjustment Mechanism (PRAM) that enabled “[d]isparities between authorized and  
15               collected revenue [to] be reconciled in the annual periodic rate adjustment  
16               proceeding.”<sup>41</sup> The PRAM calculated allowed revenues on a per customer basis, and  
17               included true-ups and updates for conservation costs.

18               The Commission authorized in 2007 a multi-party settlement that created a  
19               three-year decoupling pilot for Cascade Natural Gas Corporation.<sup>42</sup> The pilot was  
20               discontinued in September 2010, when the Company did not file a GRC.

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<sup>40</sup> PSE 1991 PRAM Order at 4, *quoting Notice of Inquiry*, Docket No. UE-900385 (May 9, 1990) (referencing “Chapter 2, Laws of 1990, House Bill 2198”).

<sup>41</sup> *Id.* at 5.

<sup>42</sup> *Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corp.*, Docket UG-060256, Order 05 (Jan. 12, 2007).

1           In 2009, the Commission approved a decoupling mechanism for Avista's  
2 natural gas operations that specifically targeted losses due to Company promoted  
3 conservation.<sup>43</sup> Notably, the mechanism did not include an adjustment for weather  
4 or customer growth when determining such losses.<sup>44</sup> The Commission required  
5 Avista to improve tools that measured the impacts of conservation programs on  
6 customer's usage and to meet targets related to the success of conservation programs  
7 offered by the Company.

8           In 2012, PSE filed a decoupling proposal with the Commission.<sup>45</sup>  
9 Ultimately, the proposal was revised to encompass a full decoupling mechanism.

10           Finally, in 2014, the Commission approved a full decoupling mechanism for  
11 Avista.<sup>46</sup> Specifically, the Commission noted that such a mechanism would  
12 "promote the policy goals of increased conservation."<sup>47</sup> The Commission also  
13 provided additional guidance on what to include when reviewing the Avista  
14 mechanism and the method by which to conduct the review.<sup>48</sup>  
15

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<sup>43</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-090134, Order 10 (Dec. 22, 2009).

<sup>44</sup> Avista's natural gas decoupling mechanism began in 2006 as a pilot. As a result of the 2009 decoupling evaluation, it was determined that the attempts under the pilot version of the mechanism were not successful in eliminating the effects of weather or new customer growth, so these elements were eliminated from the mechanism.

<sup>45</sup> *In Re Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms*, Docket UE-121697, Joint Petition (filed Oct. 25, 2012). Petition approved in PSE 2013 Decoupling Order.

<sup>46</sup> Avista 2014 GRC Order 05, 13, ¶ 28.

<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

1 **Q. Has the Commission provided any formal policy on decoupling mechanisms?**

2 A. Yes. The Commission issued a policy statement in 2010 titled “Report and Policy  
3 Statement on Regulatory Mechanisms to Encourage Utilities to Meet or Exceed  
4 Their Conservation Targets” (Decoupling Policy Statement).<sup>49</sup> The Decoupling  
5 Policy Statement provided guidance on the specific components of decoupling  
6 mechanisms. Further, the Commission provided four “elements” and seven  
7 “criteria” that must be addressed when any party proposes a decoupling mechanism.

8

9 **2. The purpose of a full decoupling mechanism**

10

11 **Q. Please describe the purpose of a full decoupling mechanism.**

12 A. A full decoupling mechanism separates the sales of kilowatt-hours from the level of  
13 revenue the utility is approved to collect. The sales of kilowatt-hours are highly  
14 variable due to weather, yet a utility’s costs are largely fixed – i.e. most costs do not  
15 vary with the production and sale of energy.

16 The Company’s rates are based on the sale of kilowatt-hours and, even when  
17 basic charges are present, include some revenue level designed to cover fixed costs.<sup>50</sup>

18 These revenues are not only subject to variability related to weather, but may also be  
19 reduced over time as the Company promotes conservation and energy efficiency.

20 Called the throughput incentive, such a reduction in sales provides a direct counter-  
21 incentive to decreasing energy usage through conservation programs.

---

<sup>49</sup> *Report and Policy Statement on Regulatory Mechanism, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets*, Docket U-100522 (Nov. 4, 2010).

<sup>50</sup> Pacific Power response to Staff Data Request 108.

1 Full decoupling, in essence, removes this counter-incentive and shields the  
2 Company's revenues from variation due to weather or other factors affecting sales.  
3 This is the most important function of a full decoupling mechanism.  
4

5 **C. Analysis of Pacific Power's Proposed Decoupling Mechanism**  
6

7 **Q. Please describe the analysis Staff undertook of Pacific Power's proposed**  
8 **decoupling mechanism.**

9 A. Staff relied on the Decoupling Policy Statement to analyze the Company's proposal.  
10 The Decoupling Policy Statement provides four "elements" and seven "criteria"  
11 required to approve a full decoupling mechanism.<sup>51</sup> Each of these components are  
12 addressed below.  
13

14 **1. Principles - Four elements of a full decoupling mechanism**  
15

16 **Q. Please discuss Staff's analysis of the first element and how it is incorporated**  
17 **into Pacific Power's proposal.**

18 A. The first element describes a true-up mechanism:

- 19 1. *True-up Mechanism.* Where, between general rate cases, customer use by  
20 class deviates either higher or lower from that determined by the  
21 Commission when setting rates, a utility can seek an annual true-up of  
22 revenue attributed to each affected class of customer.

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<sup>51</sup> U-100522, Decoupling Policy Statement at 17-19, ¶ 28.

1 The Company's proposed mechanism includes a balancing account that accrues  
2 interest at the currently approved FERC interest rate.<sup>52</sup> The deferred revenue  
3 calculation is described by Company witness Joelle R. Steward in her direct  
4 testimony on page 16, line 10, through page 17, line 13. The Company proposes to  
5 adopt the practice of filing mid-year Commission Basis reports, covering July 1  
6 through June 30, as the 12 month deferral calculation period.

7 This is substantively the same as the Avista deferral calculation period and is  
8 a reasonable time frame, in Staff's opinion. However, Staff proposes the  
9 introduction of a trigger limit to the deferral balance for each of the customer classes  
10 to limit the frequency of rate changes. This is discussed in more detail in the next  
11 major section of my testimony.

12  
13 **Q. Please discuss Staff's analysis of the second element and how it is incorporated**  
14 **into Pacific Power's proposal.**

15 **A.** The second element discusses rate of return:

16 2. *Impact on Rate of Return.* Evidence evaluating the impact of the  
17 proposal on risk to investors and ratepayers and its effect on the utility's  
18 ROE.

19 The Company has provided its support for no reduction in the Company's ROE  
20 through the direct testimony of R. Bryce Dalley and Kurt M. Strunk.

21 Mr. David Parcell presents Staff's proposed ROE and the rationale supporting this  
22 proposal in his direct testimony. An important feature of ROE analysis is the choice

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<sup>52</sup> Pacific Power response to Staff Data Request 109.



1 of comparable utilities and whether or not these utilities have decoupling or other  
2 revenue stabilizing mechanisms. Mr. Parcell addresses this issue.

3  
4 **Q. Please discuss Staff's analysis of the third element and how it is incorporated**  
5 **into Pacific Power's proposal.**

6 A. The third element describes an earnings test:

7 3. *Impact on Earnings test.* A proposed earnings test to be applied at the  
8 time of the true-up.

9 The Company proposes an earnings test based on the Commission basis reports, with  
10 12 month periods ending June 30 of each year. As described by Company witness  
11 Shelley E. McCoy, the earnings test would share 50 percent of any revenues in  
12 excess of the targeted rate of return.

13 The earnings test proposed by the Company is the same as the recently approved  
14 Avista mechanism. Staff supports the Company's proposed earnings test as a means  
15 to encourage the Company to control costs wherever possible.

16  
17 **Q. Please discuss Staff's analysis of the fourth element and how it is incorporated**  
18 **into Pacific Power's proposal.**

19 A. The fourth element discusses additional benefits from full decoupling:

20 4. *Accounting for Off-System Sales and Avoided Costs.* A description of the  
21 method the company intends to use to determine the financial benefits  
22 associated with off-system sales or avoided costs attributable to the  
23 utility's conservation efforts and then to net these benefits against the  
24 true-up provided in this mechanism.

25 The Commission recently approved a multi-party settlement implementing a  
26 power cost adjustment mechanism (PCAM). The PCAM contains sharing bands that

1 true up actual power costs with related revenue. Therefore, any off-system sales are  
2 directly addressed through the PCAM.

3  
4 **Q. Does Staff propose changes to any of these elements?**

5 A. No. Staff supports the Company's proposed true-up mechanism, ROE, earnings test,  
6 and PCAM. Each of these mechanisms are in line with recent Commission decisions  
7 and provide reasonable protections for ratepayers while increasing the Company's  
8 opportunity to achieve its authorized rate of return.

9 However, as we have noted previously, the Company's case was predicated  
10 on a May 1, 2016, effective date. With the currently expected effective date of July  
11 1, 2016, the first true-up period would be aligned with the implementation date of the  
12 mechanism and contain 12 months of data.

13  
14 **2. Criteria – Seven criteria for approval of a full decoupling**  
15 **mechanism**  
16

17 **Q. Please discuss whether the Company's proposal meets the first criterion.**

18 A. The first criterion for approval discusses customer classes:

- 19 1. *Application to Customer Classes.* Generally, a full decoupling proposal  
20 should cover all customer classes. However, where in the public interest  
21 and not unlawfully discriminatory or preferential, the Commission will  
22 consider a proposal that would apply to fewer than all customer classes.

23 The Company's proposal implements full decoupling for residential (schedules 16,  
24 17, 18), Small General Service (schedule 24), Large General Service (schedule 36),  
25 and Irrigation (schedule 40).<sup>53</sup> However, Large General Service (Schedule 48),

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<sup>53</sup> Steward, Exh. No. JRS-1T 11:1-3.

1 Large General Service partial requirements customers (Schedule 47), and Lighting  
2 (Schedule 15, 51, 52, 53, 54, and 57) customers are excluded from decoupling. The  
3 exclusion of larger customers is based on two premises: first, usage by these  
4 customers is minimally affected by weather and, second, these customers are served  
5 by schedules that recover fixed costs through fixed charges already.<sup>54</sup>

6 Staff supports the Company's proposed application of decoupling to a limited  
7 set of customer classes. However, the non-decoupled schedules must be shown to  
8 appropriately recover the costs of serving those customers and the rate design for  
9 non-decoupled customers should mirror, as closely as possible, the effects of  
10 decoupling. Therefore, Staff proposes the aforementioned cost of service study  
11 collaborative and addressing rate design changes to both schedule 47 and 48  
12 customers in the proposed collaborative.<sup>55</sup>

13 Additionally, the Commission expressed an interest in three energy blocks for  
14 residential customers in the previous rate case:

15 While we hope to see in the Company's next case a proposal from Pacific  
16 Power, Staff, or other parties for a third block rate that is not tied to a  
17 higher basic charge for residential customers, we remain concerned about  
18 the impact of adding a third block on low-income customers. . . . We  
19 expect the Company and others to continue developing data and  
20 undertaking analyses of low-income customer usage patterns in Pacific  
21 Power's service territory. These can inform thoughtful consideration in  
22 testimony in the Company's next general rate case concerning the price  
23 signals a third block rate design will likely have on such customers.<sup>56</sup>

24 As discussed by Staff witness Ms. Van Meter, the present case's time frame limited  
25 the number of issue Staff could review. Rather than propose a new issue

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<sup>54</sup> *Id.* at 11:22–13:13.

<sup>55</sup> Van Meter, Exh. No. TMV-1T, section III.

<sup>56</sup> Pacific Power 2014 GRC Order at 92, ¶ 219.

1 surrounding third blocks and low-income usage in responsive testimony, Staff  
2 proposes a collaborative approach to develop the third energy block for residential  
3 rates. This allows all interested parties to present their data and opinions on a three  
4 block structure with the hope to implement the change with the second year rate  
5 adjustment.

6  
7 **Q. Please discuss how the Company's proposal meets the second criterion.**

8 A. The second criterion for approval discusses weather:

9 2. *Weather adjustment mechanism.* We generally would support including  
10 the effects of weather in a full decoupling proposal.

11 The Company's proposed mechanism inherently satisfies this criterion by including  
12 the effects of weather through the use of the unadjusted data for determining the  
13 monthly deferrals.

14  
15 **Q. Please discuss how the Company's proposal meets the third criterion.**

16 A. The third criterion for approval addresses conservation:

17 3. *Incremental Conservation.* Evidence describing any incremental  
18 conservation the company intends to pursue in conjunction with the  
19 mechanism.

20 The Company states that it "aggressively pursues cost-effective conservation and  
21 will continue to do so once the decoupling adjustment mechanism is implemented."<sup>57</sup>

22 Further, the Company states that it already exceeds its conservation targets.<sup>58</sup>

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<sup>57</sup> Steward, Exh. No. JRS-1T 20:32-33.

<sup>58</sup> *Id.* at 20:34-21:2.

1 Staff recommends the Company's annual conservation targets be increased  
2 by five percent during the period of decoupling subject to the same EIA penalty that  
3 is applicable to current conservation targets. However, since the Company's  
4 conservation program operates on a bi-annual basis the incremental conservation  
5 should only be applied to the 2017–2018 conservation year with half the standard  
6 increment (2.5 percent). Staff recognizes the Company's aggressive conservation  
7 efforts, which are especially significant in the absence of decoupling. However,  
8 strong requirements for conservation remain important.

9  
10 **Q. Please discuss how the Company's proposal meets the fourth criterion.**

11 A. The fourth criterion for approval addresses low-income conservation:

- 12 4. *Low-income.* A utility proposing a full decoupling mechanism must  
13 demonstrate whether or not its conservation programs provide benefits to  
14 low-income ratepayers that are roughly comparable to other ratepayers  
15 and, if not, it must provide low-income ratepayers targeted programs  
16 aimed at achieving a level of conservation comparable to that achieved  
17 by other ratepayers, so long as such programs are feasible within cost-  
18 effectiveness standards.

19 Pacific Power currently offers low income conservation programs to customers of  
20 Schedule 111. According to Company witness Joelle R. Steward, this program  
21 accounted for 21 percent of all residential efficiency program costs in 2014.<sup>59</sup> Staff  
22 recommends that as a condition of approving the Company's proposed decoupling  
23 mechanism, the Company commit at least \$50,000 in shareholder funding to  
24 conservation programs specifically targeted at low-income customers. This is

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<sup>59</sup> *Id.* at 19:25-27.

1 consistent with the Commission's approval of the PSE decoupling mechanism in  
2 2013.<sup>60</sup>

3  
4 **Q. Please discuss how the Company's proposal meets the fifth criterion.**

5 A. The fifth criterion for approval addresses duration:

6 5. *Duration of Program.* The Commission will generally approve a full  
7 decoupling mechanism for the period required to achieve its objectives or  
8 until the filing of a utility's next general rate case. Under either  
9 circumstance, the burden is upon the utility to demonstrate the continued  
10 need for the mechanism.

11 The proposal by Pacific Power provides a five-year term for the decoupling  
12 mechanism starting from the date the mechanism is implemented. Further, the  
13 Company proposes a review after three years similar to the Avista mechanism.

14 Staff agrees that five years is a reasonable time period for evaluating a  
15 decoupling mechanism. A review of decoupling after three years is an appropriate  
16 time frame that allows the mechanism to operate before evaluating its effectiveness.  
17 Further, this review keeps the burden of continuing the mechanism with the  
18 Company.

19 Additionally the three-year review should include the components addressed  
20 in the Avista order approving decoupling, as discussed in the next section.<sup>61</sup>

21  
22 **Q. Please discuss how the Company's proposal meets the sixth criterion.**

23 A. The sixth criterion for approval addresses reporting:

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<sup>60</sup> PSE 2013 Decoupling Order at 78, ¶ 182.

<sup>61</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-140188, Order 05, 13-14, ¶¶ 27-28 (Avista 2014 GRC).

1           6. *Reports.* For companies authorized to implement full decoupling, the  
2 Commission may require the utility to file periodic reports so the  
3 Commission may evaluate the success and impact of the program. The  
4 reported information must be made available to representatives of  
5 customer groups, and other interested parties, so they too can evaluate the  
6 program and its impact on the utility and its ratepayers.

7 Pacific Power offers to file quarterly reports “showing pertinent information  
8 regarding the status of the current deferral.”<sup>62</sup>

9           Staff considers quarterly reporting to be a basic requirement when a company  
10 is operating under a decoupling mechanism, but there is important information  
11 related to decoupling that may not be reflected in quarterly reports on the deferral  
12 account. Therefore Staff recommends specific items described in the next section of  
13 my testimony be included in the mechanism’s three-year review. The inclusion of  
14 these items would align Pacific Power’s decoupling mechanism with those approved  
15 for PSE and the filings made by Avista in Docket UE-140188.<sup>63</sup>

16  
17 **Q. Please discuss how the Company’s proposal meets the seventh criterion.**

18 **A.** The seventh criterion for approval looks at other factors:

19           7. *Other Factors Impacting the Public Interest.* The criteria listed above are  
20 not intended to limit the Commission’s authority to review other factors  
21 affecting its analysis of full decoupling as a regulatory tool, including  
22 whether it remains in the public interest to continue its use by a particular  
23 utility.

24 Staff’s proposal to accept the Company’s rate plan is in alignment with the

25 Company’s decoupling proposal and minimizes the frequency rate changes.

26 However, the use of this tool is relatively new and therefore must be carefully

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<sup>62</sup> Steward, Exh. No. JRS-1T 20:5-6.

<sup>63</sup> PSE 2013 Decoupling Order at 88–90, ¶¶ 211–215; *Wash. Utils. & Transp. Comm’n v. Avista Corp.*, Docket UE-140188, Direct Testimony of Patrick Ehrbar, Exh. No. PDE-1T 67:12-13 (Feb. 05, 2014).

1 designed, weighing both the benefits and burdens that come with it, and  
2 incorporating mitigating requirements where appropriate.

3 To this end Staff has one additional recommendation as described in the next  
4 section.

5  
6 **D. Staff Recommendations on Proposed Decoupling Mechanism**

7  
8 **Q. Please summarize Staff's recommendations regarding the Company's proposed**  
9 **decoupling mechanism.**

10 Staff recommends the Commission approve the Company's proposed decoupling  
11 mechanism subject to the following:

- 12 1. Conservation – Increase the Company's annual conservation targets by five  
13 percent subject to current applicable penalties. For the current biennium, the  
14 conservation targets should increase by 2.5 percent for the second year  
15 (2017–2018).
- 16 2. Low Income Funding – The Company should commit at least \$50,000 in  
17 additional shareholder funding to conservation programs that specifically  
18 target low-income customers.
- 19 3. Deferral Trigger – Similar to the trigger mechanism for power cost  
20 mechanisms, the total deferral in the balancing account should reach a certain  
21 level before triggering a rate surcharge or credit. Additionally, Staff  
22 recommends increasing the Company's proposed rate cap to 5 percent.
- 23 4. Reliability – Staff recommends that Pacific Power participate in the Staff  
24 investigation on reliability metrics in Docket U-151958.
- 25 5. Customer Guarantees – Staff recommends that the Commission require the  
26 Company to continue to offer Customer Guarantees related to service quality.
- 27 6. Reporting and Review – Finally, Staff recommends that the three year review  
28 should be consistent with the review approved for Avista and PSE.



1                   **1. Conservation Targets**

2  
3 **Q. Please describe Staff's proposed changes to Pacific Power's conservation target.**

4 A. Staff recommends the Company's annual conservation target be increased by five  
5 percent for the period when decoupling is in effect. The increased amount will be  
6 subject to the same penalty as current conservation described by the EIA.

7 Conservation is one of the principle reasons for implementing a decoupling  
8 mechanism as discussed by the Commission:

9                   Implementation of decoupling to remove any financial disincentive to  
10 conservation in a fair and balanced manner was the motivation behind  
11 our Policy Statement.<sup>64</sup>

12 However, the Company's current biennium will be six months gone by the expected  
13 effective date of the present case. Therefore, Staff recommends that the first  
14 biennium's increase be limited to 2.5 percent for only the second year.

15  
16 **Q. Is the Company currently achieving its conservation targets?**

17 A. Yes, in fact the Company is exceeding them.<sup>65</sup> It is important, however, that the  
18 Company continue to pursue as much cost-effective conservation as possible  
19 especially when implementing a broad-reaching proposal such as decoupling. The  
20 Decoupling Policy Statement directly discusses this issue:

21                   Revenue recovery by the company under the [full decoupling]  
22 mechanism will be conditioned upon a utility's level of achievement  
23 with respect to its conservation target.<sup>66</sup>

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<sup>64</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-111048, Order 08, 167, ¶ 455 (May 07, 2012).

<sup>65</sup> Steward, Exh. No. JRS-1T 20:34–21:4.

<sup>66</sup> Decoupling Policy Statement at 17, ¶ 28.

1 **Q. Are increased conservation efforts consistent with other decoupling proposals?**

2 A. Yes. The decoupling mechanism approved for PSE included a five percent adder per  
3 biennium of cost-effective electric efficiency resources.<sup>67</sup> The recently approved  
4 decoupling mechanism for Avista also included a five percent adder for its annual  
5 conservation targets, as proposed by the company and supported by Staff.<sup>68</sup>

6 Decoupling removes the through-put incentive for a utility and therefore  
7 should encourage more open investment in conservation. Requiring an additional  
8 five percent beyond the Company's target is a good method of conditioning recovery  
9 on the Company's level of achievement.

10  
11 **2. Low Income Funding**

12  
13 **Q. Why does Staff advocate increasing funding for conservation programs**  
14 **targeting low income customers?**

15 A. Staff's recommendation brings the Company's proposed decoupling mechanism in  
16 line with the PSE and Avista versions approved by the Commission. Staff has  
17 supported decoupling mechanisms in the past when there is a concentrated effort to  
18 improve low income conservation. As an example, PSE's decoupling mechanism  
19 resulted from a multi-party settlement, wherein PSE agreed to increase low income  
20 conservation funding by \$500,000. In approving the mechanism, but not the  
21 settlement, the Commission stated:

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<sup>67</sup> PSE 2013 Decoupling Order at 49, ¶ 108.

<sup>68</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-140188, Direct Testimony of Thomas E. Schooley, Exh. No. TES-1T, 22:25-26 (filed July 22, 2014) (The proposed decoupling mechanism was approved in the Avista 2014 GRC Order).

1 We determine that the disparate impact of any rate increases on low  
2 income customers warrants additional support for those customers beyond  
3 what is included in the Amended Decoupling Petition. Considering the  
4 impact of a three-year rate plan, as demonstrated in Mr. Eberdt's response  
5 testimony, we determine that an additional amount of \$1.0 million per  
6 year should be added to PSE's low income bill assistance program. We  
7 accordingly will condition our approval of the ERF, decoupling, and the  
8 rate plan on this additional level of funding being provided.<sup>69</sup>

9 Staff has also supported decoupling mechanisms when the Company provides direct  
10 evidence of the effectiveness of its low income conservation programs. In the Avista  
11 2014 GRC, Staff testified:

12 Avista currently offers enhanced weatherization programs to qualifying  
13 low-income residents. Mr. Ehrbar notes that the electric limited-income  
14 DSM budget accounts for 47 percent of the overall residential DSM  
15 budget for 2014. Thus, it appears that Avista's conservation programs  
16 provide benefits comparable to, or better than, other customers.<sup>70</sup>  
17

18 **Q. Why is the current level of funding insufficient?**

19 A. According to Company witness Joelle R. Steward, this program accounted for 21  
20 percent of all residential efficiency program costs in 2014.<sup>71</sup> This is well under the  
21 47 percent Avista was achieving when it requested a decoupling mechanism.

22 Additionally, the Company has presented no study in the current proceeding  
23 to analyze the impact a two-year rate plan and decoupling mechanism would have on  
24 Pacific Power's low income customers. Without such an analysis, Staff is concerned  
25 about the impact of several different regulatory mechanisms on low income  
26 customers.

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<sup>69</sup> PSE 2013 Decoupling Order at 78, ¶ 182.

<sup>70</sup> *Supra* note 68 at 23:12-16.

<sup>71</sup> Steward, Exh. No. JRS-1T 19:26.

1           Finally, the Company's current Low Income Bill Assistance plan is in its  
2 fourth year and was approved before the Company proposed a decoupling  
3 mechanism.<sup>72</sup> Therefore, it is impossible to say whether the current level of funding  
4 for these programs is sufficient without a detailed analysis.

5           Because the Company has not shown that its low-income program is  
6 achieving a reasonable level of success in meeting the conservation needs of its low-  
7 income customers, Staff recommends that low income conservation funding be  
8 increased by \$50,000. In a future rate filing, the total funding for low-income  
9 conservation can be adjusted depending upon demonstrated need.

### 11           3.       **Deferral Trigger**

12  
13 **Q.     Please describe Staff's proposed deferral trigger.**

14 **A.**     Rate adjustments due to a non-zero amount in the deferral balancing account should  
15 only trigger rate changes when amounts are sufficiently high to justify them –  
16 regardless of whether the change is in the surcharge or rebate direction. This  
17 increases rate stability and avoids minute adjustments to rates that may be confusing  
18 for customers.

19  

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<sup>72</sup> *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-111190, Order 07, 8, ¶ 17 (Mar. 30, 2012).

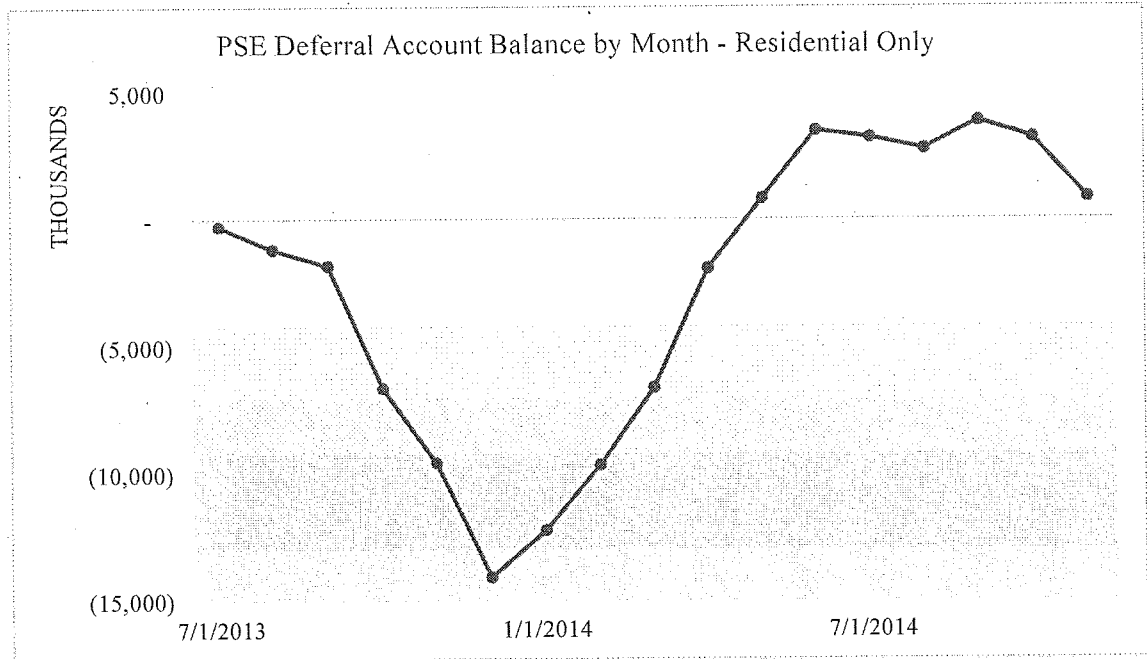
1 **Q. Have you prepared an exhibit illustrating Staff's proposal?**

2 A. Yes. Attached as Exhibit No. JLB-4 is an illustrative example of how a deferral  
3 trigger would work. This exhibit is based principally upon Company witness Joelle  
4 Steward's illustration of the deferral mechanism in Exhibit No. JRS-7.

5 Staff proposes setting the initial threshold for the trigger at plus or minus \$2  
6 Million for residential customers, plus or minus \$1 Million for large general service  
7 customers, plus or minus \$750,000 for small general service customers, and plus or  
8 minus \$250,000 for Schedule 40 irrigation load. These amounts represent  
9 approximately 2.5 percent of allowed decoupled revenue for each class. It is  
10 appropriate to use a lower percentage of the allowed decoupled revenue to ensure  
11 that customers will not face significant changes in rates when the deferral balance  
12 becomes too high or low.

13  
14 **Q. Why is a trigger mechanism necessary?**

15 A. The single biggest factor affecting the Company's load (and thereby its revenue via  
16 volumetric rates) is weather. The graph below illustrates the variation that has  
17 occurred over a period of 18 months from July 2013 through December 2015 for the  
18 PSE decoupling mechanism deferral account for residential customers:



1

2

3

Curing the cyclical tendency of revenues is one of the goals of decoupling.

4

However, it may lead to frequent rate revisions that may be unnecessary. Staff's

5

proposed trigger mechanism limits the timing of these frequent rate revisions while

6

at the same time limiting rate shock.

7

8 **Q.**

**What would happen if a deferral account reached a trigger level?**

9 **A.**

If the balance in any specific deferral account (deferral accounts are divided by

10

customer class) exceeds the trigger value in either the surcharge or credit direction at

11

the end of the decoupling period (June of each year), then the Company would

12

include in its Annual Decoupling Filing a proposed adjustment to Schedule 92

13

(Decoupling Revenue Adjustment) rates. However if the balance in any of the

14

deferral accounts does not exceed the trigger amount then there would be no change

15

in the decoupling rates.

1 **Q. How does Staff's proposed trigger mechanism affect the Company's proposed**  
2 **three percent cap on annual decoupling rate increases?**

3 A. While not inconsistent, the trigger mechanism and the cap may conflict if the  
4 deferral balance becomes too large. Therefore, Staff would recommend the  
5 Commission set the cap at five percent instead of three percent for rate surcharges.  
6 Staff supports the Company's proposal for no rate cap on surcredits.

7

8 **4. Reliability**

9

10 **Q. What is Staff's recommendation regarding reliability?**

11 A. Staff recommends the Company participate in Staff's investigation of reliability  
12 metrics in Docket U-151958. We are concerned that the current reliability  
13 benchmarks for the Company's metrics may not be sufficient. Fundamentally,  
14 decoupling disconnects the sale of energy from revenues. This impedes an important  
15 direct incentive for the Company to maintain a reliable system – keeping the meters  
16 rolling.

17 However, it is difficult to use existing measurements of reliability to  
18 determine if the Company is providing sufficient reliability for its customers. The  
19 differences among each utility's service territory, and the operating conditions that  
20 each utility faces, make it difficult to judge the appropriate benchmarks for static  
21 measures of reliability.

22

1 **Q. Has Staff discussed the issues facing current reliability metrics before?**

2 A. Yes. In the previous Avista GRC, Staff witness Bradley T. Cebulko summarized  
3 Staff's position on Avista's reliability metrics. In particular he noted:

4 It is possible for the service to be consistently, year-after-year, reliable  
5 beyond what is necessary, and for customers to be satisfied with that  
6 aspect of service, but paying too much. It is also possible that the company  
7 is consistently providing inadequate reliability but the customers are  
8 conditioned to accept the current quality of service or are simply not aware  
9 service should, or could, be improved.<sup>73</sup>

10  
11 Pacific Power may be facing a similar issue in the present case. The key problem  
12 lies in measuring reliable service. Staff's investigation in Docket U-151958 is an  
13 attempt to develop an econometric model capable of producing company-specific  
14 reliability benchmarks.<sup>74</sup> To achieve this, it is imperative that companies provide  
15 input on how to develop realistic and accurate reliability benchmarks. The  
16 companies' input will also help in developing achievable reliability benchmarks that  
17 lead to stronger, more useful metrics.

18

19 **Q. Is Staff proposing to release Pacific Power from its current reliability**  
20 **commitments?**

21 A. No. The Company must still file annual reliability reports consistent with WAC  
22 480-100-393. Pacific Power's last report, for 2014, was provided in docket UE-  
23 150717.

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<sup>73</sup> *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-150204, Direct Testimony of Bradley T. Cebulko, Exh. No. BTC-1T 6:13-18 (filed July 27, 2015).

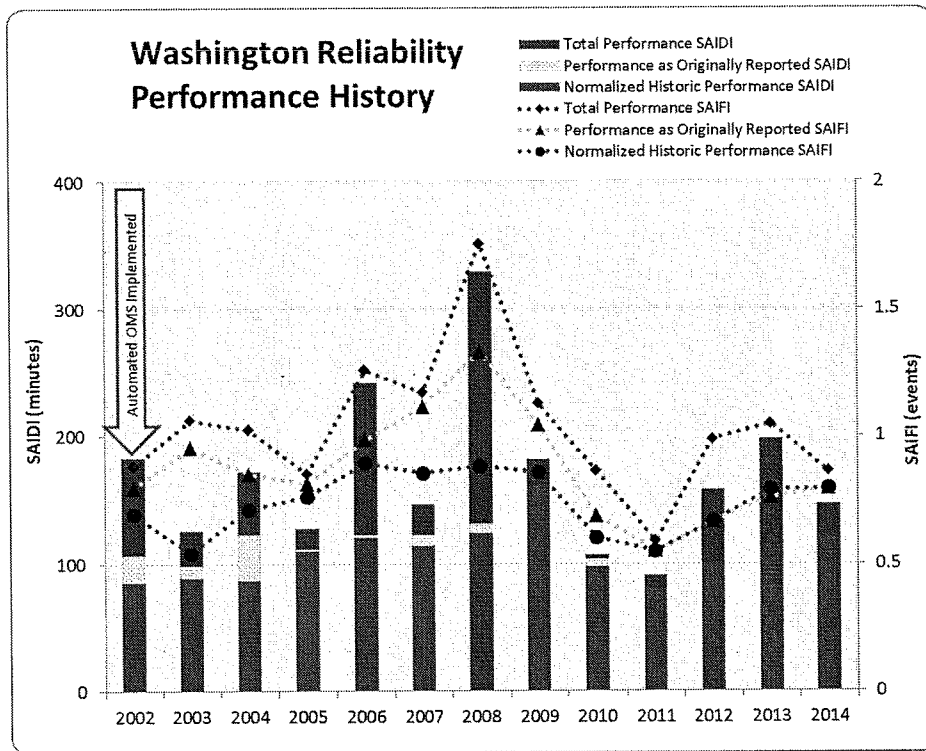
<sup>74</sup> Staff is focusing on developing an econometric model to look at the various attributes of utility service as it would apply to each company. Using as many data points as possible, from utilities across the country, such a model would be able to identify statistically significant relationships between a utility's service territory and reliability metrics. Importantly, an econometric model will be able to provide unique scores for each company rather than produce static scores that do not necessarily reflect the uniqueness of a particular service area.



1                   Importantly, the Company is still under a general obligation to provide safe  
 2 and reliable service. Staff's recommendation is related only to how the Company  
 3 reports and monitors its reliability.

4  
 5 **Q. Did Staff review the Company's current reliability metrics?**

6 A. Yes. Staff reviewed the Company's previously filed reliability reports and sought  
 7 additional data through the discovery process. The Company has met its State  
 8 reliability requirements for the last five years.<sup>75</sup> As the chart below summarizes, the  
 9 Company's reliability performance history has been trending up in the last few years  
 10 but is about average with the last 14 years of data.<sup>76</sup>



<sup>75</sup> Pacific Power response to Staff Data Request 137.

<sup>76</sup> 2014 Electric Service Reliability Report, Docket UE-150717, 9 (dated May 1, 2015).

1 **Q. Why is Staff not proposing to modify any of the Company's reliability**  
2 **benchmarks in the present case?**

3 A. Again, Staff is unsure of what to replace the existing reliability benchmarks with.  
4 The currently available information is insufficient and suffers from a chicken-or-the-  
5 egg problem – the system is only reliable when compared to itself in a previous  
6 period. Staff hopes to develop an econometric model in Docket U-151958 to  
7 confront this issue, and Pacific Power's engagement would help the project bear  
8 fruit.

9

10 **5. Customer Guarantees**

11

12 **Q. Please describe Customer Guarantees.**

13 A. Customer Guarantees provide certain service requirements that the Company agrees  
14 to meet with regard to individual customers. For example, if the Company fails to  
15 keep an appointment with a customer, it will provide a credit to the customer as  
16 compensation.

17

18 **Q. Does Pacific Power currently offer Customer Guarantees?**

19 A. Yes. The Commission required Pacific Power to offer Customer Guarantees in  
20 Docket UE-042131 for a minimum period of three years.<sup>77</sup> This date was

---

<sup>77</sup> *In Re Application of Pacific Power & Light For Changes to and Continuation of Customer Guarantee Program and Network Performance Standards*, Docket UE-042131, Order 01 (Jan. 26, 2005).

1 subsequently extended to 2011 in Docket UE-051090.<sup>78</sup> The Company has  
2 continued to offer the Customer Guarantees through tariff even though it is under no  
3 formal obligation to do so.<sup>79</sup>

4  
5 **Q. What is Staff's recommendation regarding the Company's Customer**  
6 **Guarantees?**

7 A. Staff recommends the Company's Customer Guarantees be made permanent. Since  
8 Pacific Power is currently not obligated to continue the Customer Guarantees, they  
9 could be discontinued through a filing with the Commission at any time. This is  
10 problematic when combined with the Company's proposal to implement decoupling;  
11 the Company has a direct incentive to reduce or eliminate its Customer Guarantees.  
12 This problem is exacerbated when decoupling is implemented in conjunction with a  
13 rate plan, since the Company would no longer have an avenue to seek additional  
14 revenue.

15 Staff firmly believes the Company should not degrade customer service  
16 quality as a method to achieve higher earnings. The Customer Guarantees should be  
17 a permanent staple of Pacific Power's service.

18  

---

<sup>78</sup> *In Re Joint Application of MidAmerican Energy Holdings Company and PacifiCorp, For an Order Authorizing Proposed Transaction*, Docket UE-051090, Order 07, 5, ¶ 15 (Feb. 22, 2006) (the merging companies agreed that "the guarantees and standards will not be modified after 2008, or eliminated after 2011, without Commission approval").

<sup>79</sup> WN U-75, Original Sheet No. R25.1 through Original Sheet No. R25.4.

1 **Q Did Staff review the Company's current customer guarantee metrics?**

2 A. Yes. In response to several data requests, Staff was able to review the Company's  
3 method for determining customer satisfaction with customer call centers and field  
4 technicians. Importantly, the Company has maintained an average 30 second  
5 Average Speed of Answer when responding to customer telephone inquiries since  
6 2010.<sup>80</sup>

7

8 **6. Decoupling Reporting and Review**

9

10 **Q. What does Staff recommend be included in the three-year review of**  
11 **decoupling?**

12 A. The Commission's order approving Avista's Decoupling mechanism<sup>81</sup> and the  
13 petition presenting the PSE<sup>82</sup> decoupling mechanism included several items that  
14 should be included in the final review of the mechanism. To be consistent, Staff  
15 proposes the same items be presented in the review of the Pacific Power mechanism.

- 16 1. an analysis of the mechanism's impact on conservation achievement;
- 17 2. an analysis of the mechanism's impact on Company revenues (i.e., whether  
18 there has there been a stabilizing effect);
- 19 3. an analysis of the extent to which fixed costs are recovered in fixed charges  
20 for the customer classes excluded from the decoupling mechanisms;
- 21 4. an evaluation of the impact of the decoupling mechanism on Pacific Power's  
22 low-income customers including:
  - 23 a. A summary of the annual deferrals and rate impacts of the decoupling  
24 tariff tracker adjustments (cents per kWh, total dollars and percent of

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<sup>80</sup> Pacific Power response to Staff Data Request 139.

<sup>81</sup> Avista 2014 GRC Order 05, 13-14, ¶¶ 27-28.

<sup>82</sup> *In the Matter of the Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms*, Docket UE-121697, Joint Petition, 17 (filed Oct. 25, 2012) (Petition approved in PSE 2013 Decoupling Order).

- 1 monthly bills) on the group of customers receiving bill assistance  
2 through Pacific Power's low-income programs;  
3 b. A summary of annual low-income conservation program savings,  
4 expenditures and customers served compared with the rest of the  
5 residential class;  
6 c. A description of any modifications to conservation programs targeted  
7 at low-income customers since the inception of the decoupling  
8 mechanism; modifications include changes to funding levels as well  
9 as changes to specific measures or programs;  
10 d. A comparison of the effect of the decoupling tariff tracker adjustment  
11 on the average customer receiving bill assistance through Pacific  
12 Power's low-income programs relative to the impact on Pacific  
13 Power's average residential customer;  
14 5. Pacific Power should consult with the DSMAG on the selection of the entity  
15 to perform the evaluation, including the development of the evaluation's  
16 request for proposals (RFP), and incorporate the input from the DSMAG in a  
17 draft RFP. Additionally, Pacific Power should file a draft RFP for  
18 Commission approval that includes the scope of evaluation query, allowing  
19 sufficient time for Commission consideration.

20  
21 **VIII. DECOMMISSIONING AND REMEDIATION REPORTING**

22  
23 **Q. What are Staff's recommendations on decommissioning and remediation**  
24 **reporting?**

25 A. There is a need for reporting decommissioning and remediation (D&R) expenses and  
26 revenues. Specifically, the Company should include with future commission basis  
27 reports (CBRs) a report showing the following for any plant the Company expects to  
28 need remediation action:

- 29 1. The most recently estimated salvage value for the asset.  
30 2. The current depreciation expense related to D&R for the asset being collected  
31 through rates.

1           3.     The total amount of depreciation related to D&R for the asset that has been  
2                     collected through rates.

3           4.     Any expenditures the Company has made related to D&R for the asset with a  
4                     brief explanation of each action.

5           5.     Any updates to the Company's Asset Retirement Obligations related to the  
6                     specific asset.

7

8     **Q.     Please describe how D&R is currently reflected in rates.**

9     A.     Decommissioning is included in the Company's depreciation study through negative  
10            salvage percentages. A negative salvage percentage implies that it will cost more to  
11            remove a plant than exists in the residual value of the scrap metal and other parts.

12           The Company recovers these expenses through increased depreciation expense as a  
13            result of the negative salvage values. The Commission has also established that  
14            these negative salvage values should include estimates for future remediation costs.

15           Remediation liabilities and costs are identified in the asset retirement account.

16

17     **Q.     Why does Staff believe it is important to provide more transparency for these  
18            costs and revenues?**

19     A.     Staff's proposal is a mirror of the recommendation in the final report for the recent  
20            Colstrip Investigation:

21                     Staff further concludes that significant uncertainty exists regarding the  
22                     ultimate costs of decommissioning and remediation, including the cost of  
23                     activities that are already planned or underway. ... Staff recommends that  
24                     the Commission ask PSE to provide detailed information about the  
25                     planned decommissioning and remediation activities, the activities already  
26                     underway, the actions and assumptions the company relied upon to

1 determine its remediation obligations, and the reasonable alternatives the  
2 company considered.<sup>83</sup>

3  
4 The primary driver behind Staff's recommended report is to provide additional  
5 information to the Commission and help eliminate uncertainty around the current  
6 amount of D&R.

## 7 8 IX. TRANSMISSION ASSET ALLOCATIONS

### 9 10 A. Overview

11  
12 **Q. Why does Pacific Power propose to change the allocations of certain  
13 transmission assets in the present filing?**

14 A. On October 30, 2015, Pacific Power and Idaho Power Company executed an  
15 exchange of certain transmission assets (Idaho Power Asset Exchange) in order to  
16 "update or replace a series of legacy transmission agreements through a combination  
17 of ownership exchanges and open access transmission tariff service."<sup>84</sup> Due to this  
18 exchange, the Company undertook a detailed review of the inter-jurisdictional cost  
19 allocation of its transmission assets, and identified several changes it believes are  
20 appropriate.<sup>85</sup> Those changes are reflected in the Company's filing in this case. Staff  
21 has grouped these assets into three categories, as explained below.

22  

---

<sup>83</sup> *Investigation of Coal-fired Generating Unit Decommissioning and Remediation Costs*, Docket UE-151500, Staff Investigation Report, 23 (Feb. 2, 2016).

<sup>84</sup> McCoy, Exh. No. SEM-1T 10:1-3.

<sup>85</sup> McCoy, Exh. No. SEM-1T 11, n.10.

1 **Q. Please identify the three categories of assets.**

2 A. The first set of assets, which I refer to as the "Exchange Assets," includes the  
3 transmission property that the Company newly acquired in the Idaho Power Asset  
4 Exchange. The effect of the Exchange Assets is reflected in the Company's  
5 Adjustment 8.13.

6 The second set of assets, which I refer to as the "Reassignment Assets,"  
7 reflects a change of allocation between the WCA and Pacific Power's Non-WCA  
8 operating jurisdictions. The Reassignment Assets are included in the Company's  
9 inputs to the supporting model of its proposed revenue requirement, and not in an  
10 explicit adjustment.

11 The third set of assets, which I refer to as the "WCA Correction Assets,"  
12 includes the addition of several assets that have always been part of the Company's  
13 WCA, but which the Company mistakenly neglected to account for in previous  
14 WCA cost allocations. The WCA Correction Assets, like the Reassignment Assets,  
15 are included in the Company's inputs to the supporting model of its proposed  
16 revenue requirement, and not in an explicit adjustment.

17

18 **Q. Why did the Company include the WCA Correction Assets and Reassignment**  
19 **Assets in the model supporting the revenue requirement, instead of as an**  
20 **explicit adjustment?**

21 A. The Company included the WCA Correction Assets and Reassignment Assets in the  
22 model because it is not possible to isolate the changes resulting from this different  
23 allocation through a specific pro-form adjustment. This is owing to the fact that



1 Pacific Power is a multi-jurisdictional utility that provides retail electric service in  
2 six states, and those six states do not all use identical cost allocation methodologies  
3 for ratemaking. In particular, Washington uses the West Control Area (WCA)  
4 methodology, as approved by the Commission.<sup>86</sup> To show the results of operations  
5 based on the WCA, the Company must develop numerous allocation factors, which  
6 are relative percentages among different levels of accounts, asset types, generation,  
7 and several other factors.

8 To reflect the results of including the WCA Correction Assets and  
9 Reassignment Assets, the Company updated the inputs that yield these allocation  
10 factors. These changes to the inputs result in a change to the allocation factors,  
11 which ultimately impact the entire revenue requirement model, as well as the  
12 Washington specific results of operations.

13 To be clear, Staff agrees with the manner in which the Company presents the  
14 results of the Idaho Power Asset Exchange. The Company's operations across six  
15 states makes the assignment of assets between jurisdictions necessarily challenging.  
16

17 **Q. What is the impact of the Company's proposal to change certain transmission**  
18 **asset allocations?**

19 A. Below is a breakout of the adjustment and the impacts of the Company's proposals  
20 based on the Company's response to Public Counsel Data Request 5. Due to the way  
21 the input data affects the Company's revenue requirement model, several additional  
22 adjustments were affected by the change.

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<sup>86</sup> *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-061546, Order 08, 13, ¶ 43 (June 21, 2007).

<b>Adjustment</b>	<b>Assets Causing Change</b>	<b>Impact</b>
Adj. 8.13 – Idaho Asset Exchange	Exchange Assets	\$350,838
Input data (Reassignment)	Reassignment Assets and WCA Correction Assets	\$1,294,243
Adj. 8.11 – End-of-Period Plant Bal.	Reassignment Assets and WCA Correction Assets	\$8,213
Adj. 6.1 – End-of-Period Reserves	Reassignment Assets and WCA Correction Assets	\$(157,549)
Adj. 6.2 – Annualized Depr/Amrt Exp.	Reassignment Assets and WCA Correction Assets	\$1,451
Adj. 8.10 – Investors Supplied Working Cap.	Reassignment Assets and WCA Correction Assets	\$32,398
<b>Total Impact of Asset Reassignment/Exchange</b>		<b>\$1,529,594</b>

1

2

3 **Q. Overall, what are Staff's recommendations regarding the Company's proposal**  
4 **to change certain transmission asset allocations?**

5 A. Staff recommends that the portion of the Company's adjustment related to WCA  
6 Correction Assets should be allowed. However, the Commission should reject the  
7 Reassignment Assets and the Exchange Assets. The effect of Staff's  
8 recommendation is reflected through Staff Adjustment 8.13 in Exhibit JLB-2, and is  
9 explained in detail below.

10

11 **Q. Please describe the specific *WCA Correction Assets* that were not included in the**  
12 **Company's Adjustment 8.13, but *were* embedded into the Company's revenue**  
13 **requirement model.**

14 A. The WCA Correction Assets consist of four resources that the Company mistakenly  
15 excluded from the WCA, including:

	Net Rate Base	Washington Allocated
POPULUS-BORAH #2 345 KV ID	\$8,279	\$1,868
POPULUS-BORAH #1 ID 345KV	\$3,663	\$827
BORAH SUBSTATION TELEMETERING	\$15,589	\$3,518
HEMINGWAY SUBSTATION(JOINT OWNED)	\$11,595	\$2,616

\$(000)'s

1

2 I recommend that the Commission accept this portion of Adjustment 8.13.

3

4 **Q. Please describe the specific *Reassignment Assets* that were not included in the**  
5 **Company's Adjustment 8.13, but were embedded into the Company's revenue**  
6 **requirement model.**

7 A. The Company also included four assets in the WCA that were not originally assigned  
8 to the WCA. These include:

	Net Rate Base	Washington Allocated
GOSHEN SUBSTATION AND MAINT SHOP	\$2,798	\$631
BRIDGER-GOSHEN LOOP-THREEMILE KNOLL 345K	\$1,127	\$254
GOSHEN - KINPORT 345 KV LINE	\$1,139	\$257
KINPORT TELEMETERING	\$1,549	\$350

\$(000)'s

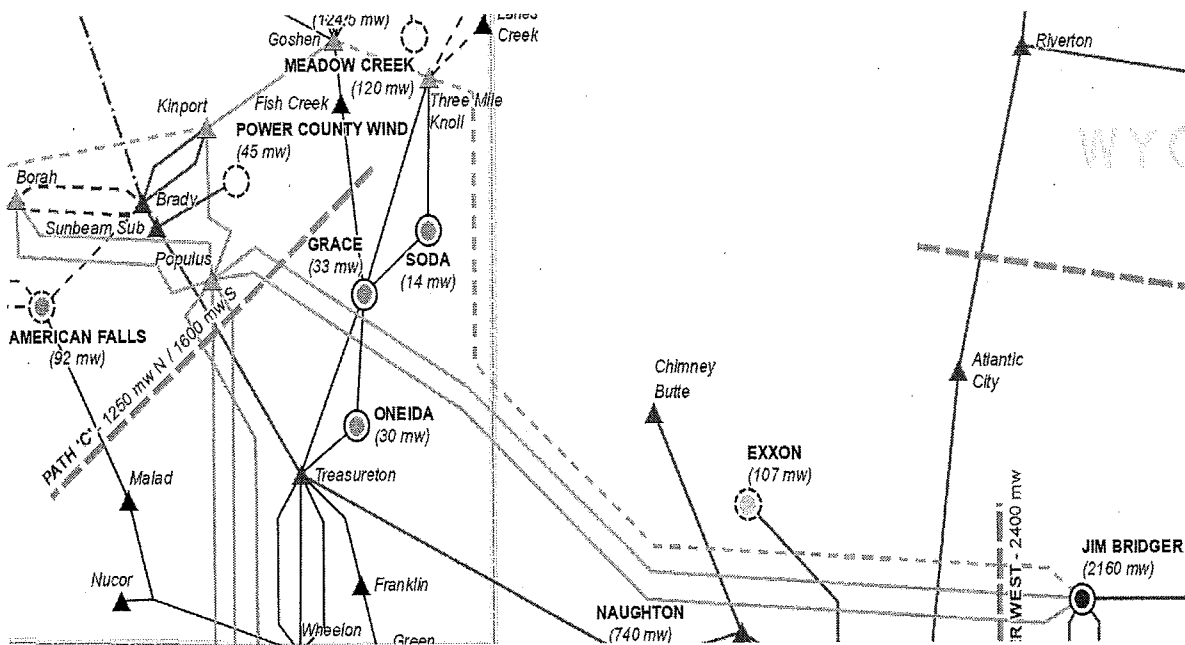
9

10 I recommend that the Commission reject the Reassignment Assets because the  
11 Company failed to demonstrate that the costs of these assets to Washington  
12 customers are commensurate with the benefits that they provide.

13

1 Q. Why does the Company propose to include the Reassignment Assets in the  
2 WCA?

3 A. The Company claims that the Idaho Power Asset Exchange augmented its ability to  
4 serve WCA load, and therefore certain assets previously excluded from the WCA  
5 should now be included based on the Company's ability to use those assets to serve  
6 customers in the WCA.<sup>87</sup> Specifically, the Reassignment Assets are related to the  
7 assets the Company already owned on a third transmission line carrying power out of  
8 the Jim Bridger plant. As the graphic below shows, the third-line (green dashed)  
9 moves power out of Jim Bridger, into Goshen, and then toward Kinport.<sup>88</sup>



10  
11 Originally, the Company owned transmission only along the two lines headed  
12 west towards Populus (solid green from Jim Bridger in lower right corner), and  
13 Idaho Power owned the third transmission line (dashed green from Jim Bridger in

<sup>87</sup> McCoy, Exh. No. SEM-1T 10:14-21.

<sup>88</sup> A high resolution version of this map is attached as Exh. No. JLB-5.

1 lower right corner). As a result of the Idaho Power Asset Exchange, the Company  
2 now owns a two-thirds interest in all three lines. The new ownership interest in this  
3 line is reflected in the Exchange Assets. The Reassignment Assets are for property  
4 that Pacific Power already owned along this route and were not previously assigned  
5 to the WCA, but now, according to the Company are being used to serve Washington  
6 area load.

7  
8 **Q. Please describe the *Exchange Assets* that are included in the Company's**

9 **Adjustment 8.13 – Idaho Power Asset Exchange.**

10 A. The Exchange Assets include the set of new assets that Pacific Power acquired in the  
11 Idaho Power Asset Exchange. I discuss this exchange in detail below.

12  
13 **B. History**

14  
15 **Q. Please elaborate on the background of the Idaho Power Asset Exchange, which**  
16 **ultimately led to the acquisition of the Exchange Assets included in the**  
17 **Company's proposed adjustment.**

18 A. Pacific Power and Idaho Power entered into the Idaho Power Asset Exchange to  
19 simplify historical operating agreements between the two companies. Specifically,  
20 Pacific Power and Idaho Power jointly own the Jim Bridger coal plant located in  
21 Wyoming, including the plant's transmission lines. The close proximity of the  
22 Pacific Power and Idaho Power's service areas require the sharing of several

1 facilities, primarily to provide power and reliability services.<sup>89</sup> To accomplish the  
2 sharing of these facilities, Pacific Power and Idaho Power had several sharing  
3 agreements supporting tariffs, which are collectively referred to as the Legacy  
4 Agreements.<sup>90</sup>

5 The use of the Legacy Agreements was grandfathered into the Company's  
6 modern Open Access Transmission Tariffs (OATT) under FERC Order 888.

7 However, the numerous Legacy Agreements led to unnecessary logistical and  
8 administrative complications, as well as other challenges related to meeting FERC  
9 Order 888's non-discriminatory pricing goals.<sup>91</sup> To address this, Pacific Power and  
10 Idaho Power transferred possession of several transmission assets of approximately  
11 offsetting worth. As a result, the prior Legacy Agreements between the two  
12 companies were no longer applicable; use of the facilities previously governed by the  
13 Legacy Agreements is now subject to standard OATT contracts, as approved by  
14 FERC.<sup>92</sup>

15  
16 **Q. Please describe the procedural history relating to the Commission's approval of**  
17 **the Idaho Power Asset Exchange.**

18 A. Pacific Power filed a petition to effect the Idaho Power Asset Exchange with the  
19 Commission on December 19, 2014.<sup>93</sup> At the September 24, 2015, Open Meeting,

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<sup>89</sup> *In Re Petition of Pacific Power & Light Co. For an Order Approving the Exchange of Certain Transmission Assets with Idaho Power Company*, Docket UE-144136, Direct Testimony of Richard A. Vail, 4:18-5:17 (Dec. 19, 2014) (the Commission approved this petition in Order 01 on Sept. 24, 2015).

<sup>90</sup> *Id.*

<sup>91</sup> FERC Order 888, Docket No. RM95-8-000 and RM94-7-001, 277-278 (Apr. 24, 1996).

<sup>92</sup> FERC Order Accepting Joint Ownership and Operating Agreement, Docket No. ER10-1217-000 (July 9, 2010).

<sup>93</sup> *Petition of Pacific Power & Light Co., For an Order Approving the Exchange of Certain Transmission Assets with Idaho Power Company*, Docket UE-144136 (filed Dec. 19, 2014).

1 Mr. Jeremy Twitchell presented Staff's recommendation to approve Pacific Power's  
2 petition. He analyzed the petition under the Commission's no-harm standard, which  
3 considers four factors:

- 4 1. The rates and risks faced by ratepayers;
- 5 2. The balance of interests among customers, shareholders, and the broader  
6 public;
- 7 3. The effect of the transaction on competitive markets; and
- 8 4. Protection of the interests of Washington ratepayers.

9 Mr. Twitchell concluded that the Company's proposal met the no-harm standard.  
10 This conclusion was principally based on the Company's representations of what the  
11 transaction would do versus what it would not do.<sup>94</sup>  
12

13 **Q. Please elaborate on the representations that the Company made to the**  
14 **Commission concerning the effect of the Idaho Power Asset Exchange.**

15 A. The Company made several specific representations on the effects of the Idaho  
16 Power Asset Exchange, including:

- 17 1. Pacific Power witness Greg N. Duvall stated that the transaction would be  
18 "financially neutral" to retail customers.<sup>95</sup> Through discovery, Staff  
19 determined the Company estimated a modest decrease in Washington rate  
20 base of \$175,000 and an increase to net power costs of \$750,000. The

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<sup>94</sup> Docket UE-144136, Staff Open Meeting Memo, 6-7 (Sept. 24, 2015).

<sup>95</sup> Docket UE-144136, Direct Testimony of Gregory N. Duvall Exh. No. GND-1T, 2:21-22 (filed Dec. 19, 2014).

1 Company claimed that any increase would be offset by other non-quantifiable  
2 benefits.<sup>96</sup>

3 2. The Company, responding in discovery, stated that “there will be no change  
4 in paths used to move power from Jim Bridger to the Pacific Northwest.”<sup>97</sup>

5 Further, the Company stated that there would be no changes in how Pacific  
6 Power modeled or dispatch power generation in the WCA.<sup>98</sup>

7 3. The Company represented in the direct testimony of Gregory Duvall that one  
8 of the primary benefits of the transaction was the increase in dynamic transfer  
9 rights between Pacific Power’s BAAs.<sup>99</sup>

10 However, in the petition that the Company filed in Wyoming, Pacific Power stated  
11 that the reason for the exchange was reliability concerns in its Idaho Service  
12 territory. Specifically, the Company sought out the exchange to better serve its  
13 Idaho territory—a service area which is *not* located in the western balancing area  
14 authority *nor* included in the WCA Cost Allocation Methodology.<sup>100</sup>

15  
16 **Q. Did the Commission approve the Company’s petition?**

17 A. Yes. The Commission approved the Idaho Power Asset Exchange based on the  
18 following rationale:

19 We agree with Staff that Pacific Power’s exchange of assets with Idaho  
20 Power does not appear to be harmful to Washington ratepayers. As Staff  
21 noted, the potential for a minor rate increase is balanced by the potential

---

<sup>96</sup> *Infra* note 100 at 4.

<sup>97</sup> Ball, Exh No. JLB-6, 1.

<sup>98</sup> Ball, Exh No. JLB-6, 2.

<sup>99</sup> *Supra* note 95 at 2:6-8.

<sup>100</sup> *In Re Application Of Rocky Mountain Power For An Order Authorizing The Exchange Of Certain Transmission Assets With Idaho Power Company*, Wyoming PUC Docket No. 20000-465-EA-14 and 20005-35-EA-14, Order, 2, ¶ 8 (Aug. 7, 2015).



1 benefits, such as improved operational efficiency, increased reliability,  
2 and reduced wheeling expenses. Furthermore, the Commission's practices  
3 ensure that any cost increases arising from this transaction will only be  
4 passed on to ratepayers if the Company can identify commensurate  
5 benefits.<sup>101</sup>

6  
7 **C. Standard of Review**

8  
9 **Q. What standard of review did Staff use to evaluate the Company's Adjustment**  
10 **8.13 – Idaho Power Asset Exchange?**

11 A. As discussed early in my testimony, Staff focuses on the principles of cost causation  
12 and the matching of benefit with burden. The matching of benefit with any burden  
13 of an asset ensures that customers are paying for costs commensurate with the  
14 benefit they receive. This important regulatory objective prevents the creation of an  
15 intergenerational inequity or the transfer of risk between generations of ratepayers.

16  
17 **D. Concerns Associated with the Company's Adjustment 8.13**

18  
19 **Q. Staff is recommending that the Commission exclude the Exchange Assets**  
20 **(Adjustment 8.13) and Reassignment Assets. Please explain Staff's concerns.**

21 A. The Company's proposal is incomplete because it does not contain the full level of  
22 costs or benefits that result from the Idaho Power Asset Exchange. Staff does not  
23 support the inclusion of costs associated with the Exchange Assets or Reassignment

---

<sup>101</sup>*In Re Petition of Pacific Power & Light Company, For an Order Approving the Exchange of Certain Transmission Assets with Idaho Power Company, Idaho PUC Docket UE-144136, Order 01, 3, ¶ 9 (Sept. 24, 2015).*

1 Assets without the Company demonstrating appropriate associated benefits. Only  
2 when the full measure of costs are known and measurable can they be approved for  
3 inclusion in rates — this is consistent with Staff’s other proposals in this case.

4 In addition, Staff seriously questions whether the benefits of this transaction  
5 are commensurate with the costs. The information that Pacific Power provided in  
6 support of this adjustment indicates that the cost of Idaho Power Asset Exchange to  
7 Washington ratepayers is higher than Pacific Power originally represented. As far as  
8 Staff can determine, the benefit of the transaction to Washington ratepayers is the  
9 increased dynamic overlay — which is being used for the Energy Imbalance Market  
10 (EIM) — and the simplification of administering the operating agreements between  
11 Pacific Power and Idaho Power.<sup>102</sup>

12  
13 **Q. What benefits resulting from the Idaho Power Asset Exchange does the**  
14 **Company’s proposal not include?**

15 A. The Company does not include the benefits associated with increased flexibility in  
16 resource dispatch and wheeling across the PACW and PACE systems because there  
17 is no change in baseline power costs. Reliability benefits would appear as avoided  
18 market purchases, and therefore decreased relative powers costs, from dispatch of  
19 cheaper Jim Bridger power. However, as I discuss earlier in my testimony, Staff  
20 does not support changing the baseline power cost rate in the present case.

21 Further, the benefit of the dynamic overlay, in the form of EIM market  
22 transactions, has not been included in the power cost baseline up to this point.<sup>103</sup>

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<sup>102</sup> Ball, Exh. No. JLB-6, 3–4.

<sup>103</sup> Pacific Power 2014 GRC Order at 38, ¶ 89.

1 **Q. What cost information is the Company's proposal missing?**

2 A. The Company's proposal is missing the additional net power costs resulting from the  
3 transaction, which have not yet been quantified by the Company.

4  
5 **Q. Please elaborate on your concerns that the benefits of the Idaho Power Asset  
6 Exchange may not be commensurate with their cost to Washington customers.**

7 A. The Exchange Assets and the Reassignment Assets are new rate base for the WCA,  
8 but provide the same 1600 MW of service the Company provided before the asset  
9 exchange took place. As explained by the Company:

10 PacifiCorp uses the following Western Electricity Coordinating Council  
11 (WECC) transmission paths under normal operational circumstances to  
12 move power from the Jim Bridger plant to the Pacific Northwest:

- 13 • Bridger West (WECC Path 19)
- 14 • Borah West (WECC Path 17)
- 15 • Idaho to the Northwest (WECC Path 14)
- 16 • Hemingway – Summer Lake (WECC Path 75, a subset of Path  
17 14)

18  
19 There will be no change in paths used to move power from Jim Bridger to  
20 the Pacific Northwest with the approval of the proposed Joint Ownership  
21 and Operating Agreement.<sup>104</sup>

22 The Idaho Power Asset Exchange, therefore, did not necessarily improve the service  
23 to Washington customers; it resulted in functionally the same service that the  
24 Company provided before. This is consistent with the Company's representation  
25 through numerous data requests that the Company's operation of its system will not,  
26 and did not, change.<sup>105</sup> Consequently, the Idaho Power Asset Exchange does not  
27 justify the addition of the Exchange Assets and Reassignment Assets at the expense

---

<sup>104</sup> *Supra* note 97.

<sup>105</sup> *Id.*; Pacific Power response to Staff Data Request 104

1 level that is now being shown in this case. In essence, the Company is asking  
2 Washington customers to pay approximately \$500,000 more per year for the same  
3 service they was receiving before the transaction.

4 Further, the Company has stated the reason for acquiring the Exchange  
5 Assets was not to serve an entity located in the WCA:

6 Following the exchange, PacifiCorp has ownership on the Jim Bridger to  
7 Goshen line that facilitates service to the Goshen area load. PacifiCorp did  
8 not have this ability before the exchange.<sup>106</sup>

9 In discussing what prompted the exchange in a Wyoming docket, the Company's  
10 witness stated:

11 [T]he proposed asset exchange was prompted by a 2013 power outage  
12 which limited PacifiCorp's ability to serve the Goshen load. Fritz  
13 explained that obtaining ownership of the Goshen line through the asset  
14 exchange will eliminate issues serving the Goshen load.<sup>107</sup>

15 The Company's Goshen Service area is not part of the West Control Area. The  
16 Company's proposal allocates high-voltage transmission lines and substations newly  
17 acquired under the Idaho Power Asset Exchange agreement to the WCA simply  
18 because they are connected to Jim Bridger. Without a showing of the benefits that  
19 the Exchange Assets provide to Pacific Power's Washington jurisdiction, it is  
20 impossible to determine if their benefits are commensurate with their costs.  
21

---

<sup>106</sup> Pacific Power response to Staff Data Request 105.

<sup>107</sup> *Supra* note 100 at 2, ¶ 8.

1           **E.     Staff's Recommendations Regarding Adjustment 8.13 – Idaho Power**  
2                           **Asset Exchange**  
3

4   **Q.     Please summarize Staff's recommendations regarding the Idaho Power Asset**  
5           **Exchange adjustment.**

6   A.     Staff recommends including the WCA Correction Assets in the WCA methodology  
7           because they are a part of the primary transmission path for the Jim Bridger plant,  
8           which serves WCA load. Essentially, Staff supports correcting asset allocation  
9           errors that should have always been included in the WCA rate base.

10                 Staff recommends rejecting the Company's proposal to allocate the  
11           Reassignment Assets to Washington, and Staff's Adjustment 8.13 excludes these  
12           assets. In keeping with the matching of benefit with burden, and as discussed above,  
13           Staff also recommends excluding the Exchange Assets in the Company's Adjustment  
14           8.13.

15  
16   **Q.     Have you prepared an exhibit detailing the impact of Staff's recommendations**  
17           **regarding this adjustment?**

18   A.     Yes. The effects of this adjustment have been included in Staff's revenue  
19           requirement model, which is attached as Exhibit No. JLB-2. The impact of including  
20           WCA Correction Assets but excluding the Exchange Assets and the Reassignment  
21           Assets is an increase to Staff's revenue requirement by \$1,042,164. This is lower  
22           than the Company's proposed revenue requirement increase of \$1,529,594 by  
23           \$487,430.

1 **Q. How did Staff calculate this impact?**

2 A. Given the complications presented by the modeling issues discussed above, Staff  
3 adjusted the Company's input data for the supporting model to the Company's  
4 revenue requirement to determine the exact impact of the Company's proposal.  
5 Using this information, Staff calculated an explicit change to the per-books results of  
6 operations included in Staff's modification of Adjustment 8.13. However, Staff's  
7 proposal impacts several other adjustments that are not reflected in Exhibit JLB-2  
8 because the net impact is so small that it fell within the rounding error in this case.  
9 After the Company files rebuttal testimony if Adjustment 8.13 remains in dispute, or  
10 if the Commission requests clarification on the differences in modeling, Staff will  
11 request leave to file supplemental testimony explaining how Staff used the  
12 Company's models to develop the Staff recommendation.

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

15 A. Yes.