

Exhibit No. ___T (JRS-1T)

Docket No. UE-050684

Witness: Joelle Steward

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

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

Respondent.

DOCKET NO. UE-050684

CROSS-ANSWER TESTIMONY OF

JOELLE STEWARD

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

RE: PACIFICORP GENERAL RATE CASE

December 7, 2005

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Joelle Steward. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is jsteward@wutc.wa.gov.

Q. Have you previously offered testimony in this proceeding?

A. Yes, I filed joint testimony on behalf of Commission Staff, along with Kathryn Iverson for Industrial Customers of Northwest Utilities and Jim Lazar for Public Counsel, on rate spread and rate design in Exhibit No. ___ (JT-1T). A statement of my qualifications is in Exhibit No. ___ (JT-2).

II. SCOPE OF TESTIMONY

Q. What is the scope of your testimony?

A. I respond to Mr. Cavanagh’s proposal, on behalf of the Natural Resources Defense Council (NRDC), for a true-up mechanism for utility fixed costs, which appears in his Exhibit No. ___ (RCC-1T).

1 III. SUMMARY OF TESTIMONY

2

3 **Q. Please summarize Staff’s testimony regarding the true-up mechanism**
4 **proposed by Mr. Cavanagh on behalf of NRDC.**

5 A. Staff takes no position on whether or not the true-up mechanism
6 recommended by Mr. Cavanagh should be developed for PacifiCorp’s
7 Washington service area. However, there are not clear benefits to ratepayers
8 from such a mechanism. PacifiCorp should identify tangible benefits for
9 ratepayers before any mechanism is considered and approved. Furthermore,
10 if the Commission agrees with Mr. Cavanagh that a mechanism is
11 reasonable, the Commission should set certain parameters.

12 1) The parties should have at least 90 days after the Commission issues a
13 final decision order in this case, to work out details of a mechanism.

14 The mechanism should then be made as a tariff filing by the
15 Company.

16 2) The mechanism should be a pilot program of a limited duration, for
17 example, three years.

18 3) An independent assessment should be made before the mechanism is
19 allowed to continue.

1

2 **Q. What is the purpose of the true-up mechanism proposed by Mr.**

3 **Cavanagh?**

4 A. The true-up mechanism is a decoupling mechanism. A decoupling
5 mechanism separates, or “decouples,” a utility’s revenues from its sales of
6 energy. A utility may have a disincentive to promote energy efficiency
7 because it reduces revenues. Revenues are largely generated through
8 volumetric charges; therefore, reducing energy use may result in lower
9 profits, and may compromise the ability of the utility to recover its fixed
10 costs. A decoupling mechanism would then, theoretically, allow the utility
11 to pursue energy efficiency without losing profits and recovering its fixed
12 costs. Cost-effective energy efficiency may benefit customers and society
13 through lower customer bills, reduced pollution, and lower rates, by avoid
14 or defer power supply purchases, new power projects, and infrastructure
15 investments.

16

17 **Q. Is this a reasonable purpose?**

18 A. Yes. However, at this point, the value of decoupling to PacifiCorp and its
19 ratepayers is unclear. Mr. Cavanagh has only provided a theoretical case to
20 show potential shareholder losses for the Company if it aggressively pursues

1 energy efficiency, and he has not identified specific benefits to ratepayers.
2 Indeed, Mr. Cavanagh’s proposed mechanism is rather generic. Many
3 details would need to be more fully developed and analyzed for
4 implementation by this Company, in its Washington service area.

5

6 **Q. Does Staff support the implementation of a decoupling mechanism by**
7 **PacifiCorp in Washington?**

8 A. Staff takes no position on whether or not a decoupling mechanism, in
9 general, is reasonable for Washington. If the Commission does not find
10 decoupling is in the public interest, then Staff will not spend additional time
11 on the issue. On the other hand, if the Commission finds that decoupling is
12 in the public interest, then Staff will work with the parties towards
13 developing a mechanism that is “just, fair, reasonable and sufficient” for
14 both ratepayers and shareholders.

15 In the rest of my testimony, I discuss several conditions the
16 Commission should impose that would help enable this outcome. The first
17 condition is crucial: the Company needs to commit to near-term benefits for
18 ratepayers.

19

1 Q. Please explain why PacifiCorp should commit to benefits for ratepayers.

2 A. Introducing a decoupling mechanism is not unambiguously positive for
3 ratepayers. A decoupling mechanism that did not result in actual increases
4 in energy efficiency and conservation would be harmful to ratepayers,
5 because it would simply make the Company's revenues more stable and
6 ratepayers' bills less stable. The Commission should require the proponents
7 of decoupling to identify and quantify the benefits of decoupling in order to
8 compensate ratepayers for stabilizing the Company's earnings.

9 Indeed, a primary benefit of a decoupling mechanism to the utility is
10 that it stabilizes the utility's earnings when energy efficiency and
11 conservation reduce the utility's kilowatt-hour sales. What is not clear from
12 Mr. Cavanagh's proposal is what the actual (as opposed to theoretical)
13 benefit is for ratepayers.

14 As I mentioned earlier, a decoupling mechanism may remove a
15 disincentive for the utility to pursue cost-effective energy efficiency, but
16 removing a disincentive does not, in and of itself, result in benefits to
17 ratepayers. In fact, the only effect customers may see from a decoupling
18 mechanism is increased rate volatility through annual true-ups.

19 Consequently, a utility should identify and commit to actual benefits for
20 ratepayers before a specific decoupling mechanism is implemented.

1 Otherwise, benefits may not be balanced between the Company and
2 customers.

3

4 **Q. What kinds of benefits for ratepayers should be considered with a**
5 **decoupling mechanism?**

6 A. The benefits should be equally tangible for ratepayers in the near-term, as
7 they are for the Company. One option is to reflect reduced risk to the
8 Company through a lower return on equity. However, Staff has not
9 analyzed the financial implications of Mr. Cavanagh’s proposal and the
10 effect of decoupling on capital costs should be studied.

11 Another option to deliver benefits to ratepayers may be to increase the
12 utility’s pursuit of cost-effective energy efficiency. Since the stated purpose
13 of the mechanism is to remove a financial disincentive to utility efforts to
14 increase energy efficiency, it seems reasonable for the Commission to expect
15 and require that PacifiCorp commit to a greater effort. The Company has, as
16 yet, offered no commitments as to what additional efforts can be expected
17 from it if a decoupling mechanism is adopted.

18

1 **Q. Please explain your concerns about the likelihood of additional energy**
2 **efficiency efforts by the Company?**

3 A. It is unclear, at this time, what additional efforts the Company could
4 undertake. The Company already has an existing public service obligation to
5 pursue least-cost resource strategies to serve customers. The Company
6 prepares and files extensive integrated resource plans every two years,
7 pursuant to WAC 480-100-238. The resource plans are required to include an
8 assessment of the supply-side as well as the demand-side resources, which
9 together, will enable the Company to serve customers at the least cost. For
10 the last few years, the Company has been pursuing and capturing the cost-
11 effective demand-side programs that it has identified for Washington in its
12 integrated resource plans.

13
14 **Q. What are PacifiCorp's current demand-side management programs?**

15 A. The Company offers rebates, financial incentives and education to customers
16 to encourage and facilitate installation of energy efficient measures. For
17 instance, the Company funds a weatherization program for low-income
18 customers; provides rebates to residential customers who purchase high-
19 efficiency appliances, such as washing machines; and offers incentives for
20 commercial and industrial projects that improve energy efficiency, such as

1 lighting retrofits. In 2004, the Company acquired 28.7 million kilowatt-hours
2 in energy savings from these programs, at a cost of \$4.5 million.

3

4 **Q. How does PacifiCorp currently recover the direct costs of its energy**
5 **efficiency programs?**

6 A. PacifiCorp annually recovers all cost-effective energy efficiency expenditures
7 through a system benefits charge, which is a separate tariff rate. By using a
8 separate tariff rate to fund energy efficiency programs, the Company is able
9 to true-up its expenditures on a more regular basis outside of a rate case if
10 programs expand or are eliminated. This type of funding mechanism
11 minimizes regulatory lag for cost recovery of the energy efficiency programs.

12

13 **Q. How does PacifiCorp currently recover the reduction in revenue (net of the**
14 **reduction in energy costs), if any, that may result from its energy efficiency**
15 **programs?**

16 A. If there is a net reduction in revenue as a result of decoupling, the Company
17 currently recovers those through general rate case proceedings. The purpose
18 of a decoupling mechanism is to protect a company from this loss of net
19 revenue between general rate cases. The disincentive that would be
20 addressed through a decoupling mechanism is much larger when rate cases

1 are infrequent. In PacifiCorp's case, it is not clear that this effect has been or
2 will be substantial, because recently, it has regularly filed general rate cases.

3

4 **Q. If the Company committed to expand its assessment of available demand-**
5 **side management opportunities, would that be a sufficient basis for**
6 **justifying decoupling?**

7 A. No. While it might be useful for PacifiCorp to conduct a more extensive
8 assessment of energy efficiency potential in its Washington service area,
9 there would still be no basis for concluding that the Company would pursue
10 more demand-side management resources if the decoupling mechanism
11 were adopted.

12

13 **Q. What sorts of quantifiable benefits might be reasonable to expect in this**
14 **case to compensate ratepayers through the course of a pilot program?**

15 A. It may be reasonable to have a contribution from shareholders for low-
16 income bill-assistance programs for the duration of a decoupling pilot, in
17 order to ensure ratepayers will receive some sort of benefit. Although low-
18 income programs are tangential to the purposes of decoupling, they do,
19 arguably, produce benefits for other ratepayers through improved payment

1 practices.¹ A low-income contribution could also mitigate the effect of any
2 rate increases on low-income customers.

3 There may be other reasonable benefits the Company could commit
4 for ratepayers that Staff would find acceptable in the near-term, but the
5 Company should identify and quantify these benefits before the Commission
6 allows a decoupling mechanism to go into effect.

7

8 **Q. If the Company commits to acceptable benefits for ratepayers, and the**
9 **Commission finds that a decoupling mechanism is warranted, what**
10 **should happen then?**

11 A. The Commission should direct the parties to work through the details, and
12 the Company should make a tariff filing, or file a status report if consensus
13 has not been reached, within 90 days after a Commission decision in this
14 case.

15

16 **Q. Why should this be a tariff filing, rather than a compliance filing?**

17 A. As I previously mentioned, the mechanism proposed by Mr. Cavanagh is
18 rather generic. A compliance filing would be appropriate only if the

¹ For instance, an evaluation of PacifiCorp's Low-Income Bill Assistance Program found that collection costs decreased by \$330,000 as a result of the program. See, Khawaja, M and Krale, S. (2003) Washington Low-Income Bill Assistance Program: Phase II, Impact Analysis. Quantec, LLC.

1 Commission were able to authorize a specific mechanism, including the
2 accounting treatment, the timing of adjustments, the specific calculation of
3 the revenue requirement per customer, and other details necessary to
4 implement a mechanism. Without those details, it would be impossible to
5 determine whether PacifiCorp's filing complied with the Commission's
6 order. Therefore, the best approach, if the Commission concludes that a
7 decoupling mechanism is in the public interest, is for it to authorize
8 PacifiCorp to implement the mechanism through a separate tariff filing.
9

10 **Q. What are the other conditions should the Commission impose?**

11 A. If the Commission decides a decoupling mechanism is warranted, then it
12 should be implemented as a pilot program limited to three years, subject to
13 an independent assessment, and restricted to distribution and retail costs.
14 Costs related to generation and transmission should not be incorporated into
15 a mechanism until the interjurisdictional cost allocation issue is resolved, if at
16 all.
17

18 **Q. First, please explain why this should be a three-year pilot.**

19 A. Three years is a reasonable amount of time to study the initial effects of a
20 decoupling mechanism. Three years provides at least two full years of

1 implementation, while in the third year the mechanism can be evaluated for
2 continued implementation.

3

4 **Q. Second, what is the purpose of the independent assessment?**

5 A. An independent assessment would evaluate the effectiveness of the
6 mechanism, examine implications, and assess alternatives. An independent
7 entity would provide more confidence that the evaluation is objective than if
8 the proponents or opponents of the mechanism conducted the assessment. I
9 recommend that the parties work together and with an independent entity to
10 develop an evaluation plan to be submitted to the Commission.

11

12 **Q. Third, why should a pilot be limited to distribution and retail costs?**

13 A. A pilot should be limited to distribution and retail costs² because these costs
14 are less affected by interjurisdictional cost allocations, and they are more
15 easily determined. By contrast, generation and transmission costs are
16 heavily affected by interjurisdictional cost allocations. Therefore, these costs
17 should not be incorporated into a decoupling mechanism that provides a
18 certain, on-going revenue recovery for the Company, until the Commission

² Distribution costs are associated with the distribution system, such as lines, poles, meters, transformers and substations. Retail costs are the customer service-related costs, such as customer accounts and meter reading expenses.

1 establishes an allocation method for Washington. Until the allocation issue is
2 resolved, there is no confidence around the appropriate costs PacifiCorp
3 incurs to serve Washington ratepayers.

4

5 **Q. Please continue your explanation why generation and transmission costs**
6 **should not be included in a decoupling mechanism at this time.**

7 A. Fixed generation costs comprise a significant portion of PacifiCorp's costs
8 that are allocated between jurisdictions. As Staff witness Mr. Buckley
9 explains in his testimony, the Company's Revised Protocol allocation method
10 is not in the public interest. Staff proposes, for this case only, a compromise
11 for allocating the interjurisdictional costs until an acceptable solution is
12 developed. For instance, Staff removes from Washington rates several
13 generation resources the Company included in its case. Accordingly, fixed
14 generation costs should not be included in a decoupling mechanism until
15 there is a clear resolution on which PacifiCorp plants are appropriately
16 allocated to Washington.

17 Similarly, since transmission costs are allocated on a system-wide
18 basis under the disputed Revised Protocol, Staff recommends that they also
19 be excluded from a decoupling mechanism. Staff uses the Company's
20 transmission-related allocation methodology for this case only, pending

1 further work on a more acceptable allocation model. Mr. Buckley addresses
2 Staff's concerns with the transmission cost allocation on pages 181-183 of his
3 testimony, Exhibit No. ___ TC(APB-1TC).

4 Finally, it is possible that generation and transmission fixed costs can
5 be dealt with in the context of a power cost adjustment mechanism, should
6 one be developed after resolution of the interjurisdictional issues.

7

8 **Q. Do interjurisdictional cost allocations also affect distribution and retail**
9 **costs?**

10 A. Yes, but to a smaller extent. Distribution and retail costs are, for the most
11 part, directly assigned to the state where they are located. Distribution and
12 retail costs include some allocations for administrative and general expenses.
13 The allocation of these expenses across states is affected by an
14 interjurisdictional allocator, the system overhead factor, which Staff disputes
15 in this case. Mr. Schooley discusses this inter-state allocation related to
16 administrative and general costs and proposes an alternative to calculate
17 Washington's share.³ However, the overall impact of this dispute on a
18 decoupling mechanism is relatively small. With a Commission decision and
19 direction on cost allocation issues, the parties could more easily work

³ See pages 62-69 in Exhibit No. ___ T(TES-1T).

1 through the details for a decoupling mechanism that encompasses
2 distribution and retail costs.

3

4 **Q. Finally, is there any harm to ratepayers or the Company if a decoupling**
5 **mechanism is not pursued?**

6 A. No. The Company still has a public service obligation to pursue a least-cost
7 strategy that includes both demand-side and supply-side resources to serve
8 customers. The Company still recovers its cost-effective energy efficiency
9 expenditures in the System Benefits Charge. And the Company continues to
10 have the ability to pursue operational efficiencies to maintain profits, or to
11 seek relief through rate case filings.

12

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

14 A. Yes.