BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, Respondent.	DOCKET UE-152253

POST-HEARING BRIEF OF PUBLIC COUNSEL

June 22, 2016

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I. INTRODUCTION

1. Pacific Power initially characterized its 2015 rate filing as an Expedited Rate Filing (ERF). The Commission declined to recognize it as such, appropriately so, since it is not a simple or straightforward "make whole" or "update" filing as contemplated for an ERF. Instead, the Company presents at least three major new issues in the docket: a significant change in its depreciation rate for coal plants premised on reduced life; a request for a prudence determination for selective catalytic reduction equipment (SCR); and a two-year rate plan. In addition, the Company is requesting approval of a new decoupling mechanism.

2. Public Counsel's response case focuses on three areas of concern for customers: (1) the depreciation issue; (2) the two-year rate plan proposal; and (3) selected revenue requirement issues with a major impact on rates.

3. Public Counsel recommends that Pacific Power's depreciation request be rejected. The proposed acceleration in depreciation recovery has no supporting depreciation study and no other empirical support in the record. The Company presents no evidence that the Jim Bridger or Colstrip 4 plants are planned for closure and, to the contrary, acknowledges it expects to continue plant operation beyond the proposed Washington end-of-life dates, with the plants likely to continue to serve Washington customers. The Pacific Power request asks the Commission to disregard fundamental accounting and ratemaking principles and threatens to create both intergenerational and interjurisdictional inequity between Pacific Power customers. If the Commission wishes to act in this area, Public Counsel proposes the creation of a regulatory liability as a preferable alternative.

4. The request for a two-year rate plan should also be denied. The removal of the accelerated depreciation costs from Pacific Power's rate case more than cancels out any revenue need for the Company in the rate year (Year One), and indeed shows excess revenues for the Company, even at the Company's requested rate of return. Pacific Power's case for a Year Two increase is weak at best, relying on an "attrition" argument with no attrition study, and contradicted by unrebutted evidence of declining costs, shrinking rate base, and improving earnings.

5. Finally, Public Counsel identifies a number of key revenue requirement and rate base adjustments, which further cast doubt on the Company's claims that added revenue is needed.

II. ACCELERATED RECOVERY OF DEPRECIATION

A. Overview.

6. In this case, Pacific Power is proposing to significantly shorten the depreciation period over which it recovers from Washington ratepayers the capital costs of the four coal generation units at the Jim Bridger facility and Unit 4 of the Colstrip coal generation plant. Specifically, the Company proposes to shorten the capital recovery period of the Jim Bridger units from 2037 to 2025, reducing the recovery period by 12 years. The capital recovery period for Colstrip Unit 4 would be shortened from 2046 to 2032, reducing the recovery period by 14 years. Accordingly, under the Company's proposal, recovery of the plant costs would be significantly accelerated from the current Commission-approved depreciable lives of the plant assets.

7. Alone, the Company's accelerated depreciation adjustment increases the revenue requirement by $9,907,232.[1] Applying the accelerated depreciation to the pro forma major plant

[1] Shelly E. McCoy, Exhibit No. SEM-2 at 1:28.

addition for the Jim Bridger Unit 3 Overhaul Project further increases the revenue requirement by $1.2 million for a total impact of $11.1 million.[2] This exceeds the full amount requested by Pacific Power for its Year One increase. Absent this request, there would be no Pacific Power rate case.

B. Depreciation Principles.

8. Pacific Power's proposal should be evaluated in the light of well-settled underlying principles that regulatory commissions have applied to depreciation cases:

> The basic purpose of depreciation accounting is to recover through revenues the costs invested in the physical plant that contribute to the production of those revenues. *By matching capital recovery with capital consumption, a more accurate measure of current costs of operations is possible.* Stated another way, depreciation accounting is necessary to reimburse those supplying the capital used to purchase the related assets and should be properly charged to customers as a cost of the service they receive. "It is the exhaustion of service life, not the particular cause of retirement, that is important."[3]

9. Pacific Power appears to agree with these principles. In Pacific Power's most recent Washington depreciation case in 2013,[4] Company witness Henry E. Lay described depreciation and explained its importance to an electric utility:

> There are many definitions of depreciation. The following definition was put forth by the American Institute of Certified Public Accountants in its Accounting Research Bulletin #43:
>
> > Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.

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[2] Direct Testimony of Donna M. Ramas, Exhibit No. DMR-1T at 13:1-9. Citations to Ms. Ramas' testimony in the brief refer to her Revised Direct (4/1/16), as Corrected (4/4/16).

[3] Charles F. Phillips, Jr., The Regulation of Public Utilities at 270 (Public Utility Reports, Inc., 3rd ed. 1993) (Phillips) (footnote omitted).

[4] *In the Matter of the Petition of Pacific Power & Light Co. For An Accounting Order Authorizing a Revision to Depreciation Rules*, Docket UE-130052.

> The actual payment for an electric utility plant asset occurs in the period in which it is acquired through purchase or construction. Depreciation accounting spreads this cost over the useful life of the property. *The fundamental reason for recording depreciation is to provide for accurate measurement of a utility's results of operations.* Capital investments in the buildings, plant, and equipment necessary to provide electric service are essentially a prepaid expense, and annual depreciation is the part of that expense applicable to each successive accounting period over the service life of the property. *Annual depreciation is an important and essential factor in informing investors and others of a company's periodic income. If it is omitted or distorted, a company's periodic income statement is distorted and would not meet required accounting and reporting standards*.[5]

10. Lay went on to explain:

> Regulated electric prices are expected to allow the utility to fully recover its operating costs, earn a fair return on its investment and *equitably distribute the cost of the assets to the customers using these facilities. If depreciation rates are established at an unreasonably low or high level for ratemaking purposes, the utility will not recover its operating costs in the appropriate period, which will shift either costs or benefits from current customers to future customers*.[6]

The FERC Uniform System of Accounting (USOA) instructions for depreciation provide:

> A. *Method*. Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property.
>
> B. *Service lives*. Estimated useful service lives of depreciable property must be supported by engineering, economic, or other depreciation studies.
>
> C. *Rate*. Utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property.[7]

11. Pacific Power's proposal in this case does not adhere to these fundamental principles.

After being shown the FERC instructions at the hearing, Mr. R. Bryce Dalley was asked if Pacific Power's new depreciation proposals for both Jim Bridger and Colstrip were based on the Company's "current best estimate" of the service lives of the plants. He responded in each

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[5] Ramas, Exhibit No. DMR-1T, at 15:18-23; Exhibit No. RBD-8CX (Henry Lay testimony).

[6] Exhibit No. RBD-8CX at 5:11-6:4 (exhibit pagination) (emphasis added).

[7] Dalley, Exhibit No. RBD-7CX at 3.

instance that that they were.[8] This appears directly contrary to the Company's actual position. In discovery, Pacific Power was asked by Public Counsel to state "the current best estimate" for the date when the Jim Bridger and Colstrip units will be retired from service. The Company responded that the dates were those upon which *current* depreciation rates are based, 2037 for Jim Bridger, and 2046 for Colstrip 4.[9] Mr. Dalley, at the hearing, sought to distinguish between operational and economic lives, but conceded that Pacific Power did not provide any economic or other type of depreciation study to support its shortened service lives, and acknowledged ultimately that the changes are simply based on "policy considerations."[10]

12. The Washington Supreme Court addressed depreciation issues in a 1997 decision regarding U.S. West depreciation rates for telecommunications equipment.[11] The decision has a number of parallels to the Pacific Power case. U.S. West sought to change its recently set depreciation rates to reflect shorter service lives, arguing that the rates failed to recognize "the current technological and market realities of the increasingly competitive telecommunications industry."[12] The Commission rejected the request, finding that the industry changes were clearly foreseeable when the existing rates were set three years earlier.[13] The Commission found that "the proposed service lives were not supported by any empirical evidence of reduced service life [.]" The generic studies presented by U.S. West were "based largely on conjecture, subjective assumptions, and assertions as to rates of plant obsolescence, technological innovation, and new

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[8] Dalley, TR. 158:15-160:7.
[9] Ramas, Exhibit Nos. DMR-9 (Jim Bridger) and DMR-10 (Colstrip).
[10] Dalley, TR. 159:1-2, 162:4-163:2.
[11] *U.S. West Commc'ns, Inc., v. Wash. Util.'s & Transp. Comm'n*, 134 Wn.2d 48, 949 P.2d 1321 (1997).
[12] *Id.* 134 Wn.2d 63.
[13] *Id.* 134 Wn.2d 64.

service requirements that are incapable of test or verification."[14] The Commission also found that the company's proposal to change its service lives "would create inequity among generations of ratepayers."[15]

13. Depreciation determinations are not simply a discretionary policy call. They are based on a systematic and rational accounting rule designed to determine the appropriate costs to be borne by ratepayers, during a specific time period to most accurately reflect the costs of assets which provide service to those customers. Pacific Power's request in this docket is not based on that principle.

C. Pacific Power's Request Is Not Consistent With The FERC USOA Requirements For Depreciation.

1. The Company did not prepare or file a depreciation study to support its request.

14. In Washington, depreciation rates are ordinarily set by the Commission on the basis of depreciation studies filed by the requesting utility company.[16] At least one court has held that

[14] *Id.* In a similar case involving GTE, the Commission rejected a request by the company to shorten service lives on the ground that GTE had departed from the Commission's ordinary process of relying on a depreciation study, and instead relied on generic industry studies not specific to Washington or to GTE. *In the Matter of the Petition of GTE NORTHWEST INC., For Depreciation Accounting Changes*, Docket UT-961632, Fourth Supplemental Order, 1997 WL 35263563 (Dec. 12, 1997).

[15] *U.S. West Commc'ns, Inc., v. Wash. Util.'s & Transp. Comm'n*, 134 Wn.2d 61, 949 P.2d 1321 (1997).

[16] *See, e.g., In the Matter of the Petition of Cascade Nat. Gas Corp. For An Accounting Order Authorizing a Revision to Depreciation Rates*, Docket UG-150762, Order 01 ¶ 2 (Nov. 25, 2015) (petition approved based on updated Depreciation Study); *Wash. Util.'s & Transp. Comm'n v. Avista Corp.,* Dockets UE-120436/UG-120437, UE-110876/UG-110877, Orders 09 and 14 ¶¶ 19, 34 (Dec. 26, 2012) (approving settlement of depreciation rates based on Avista depreciation study); *In the Matter of the Petition of Puget Sound Energy, Inc., for a Declaratory and Accounting Order Regarding the Classification of Certain Facilities and Accounting Treatment Consistent Therewith*, Docket UE-010010, Declaratory Order (Apr. 5, 2001) (approving reclassification of distribution and transmission facilities, but holding that depreciation rates will not be changed until company filed a depreciation study and a petition to change rates).

where there is only opinion testimony and no empirical support, an increase in depreciation rates is improper.[17]

15. As the FERC USOA guidelines just quoted indicate, the estimated useful service lives of the property to be depreciated "must be supported by engineering, economic, or other depreciations studies."[18] Pacific Power's current rates are based on such a study, submitted to the Commission only three years ago. In this case, as noted, Pacific Power has submitted no such studies to support the proposed new service lives.

16. The Company typically performs its depreciation studies every five years and on that schedule would file a new study in 2018 for rates in 2019.[19] The Company has discretion about when it files, however, and could file a study for a change in rates sooner than five years if the situation warranted it.[20] The Company's next Integrated Resource Plan (IRP) is due to be filed in 2017, so the Company could file a depreciation study in that time frame. Mr. Dalley admitted that a new depreciation study in 2017 could take into account all the policy considerations presented in this docket, as well as a full depreciation analysis and a new IRP analysis.[21]

17. It is important to periodically re-evaluate the appropriate depreciation rates through full depreciation studies to ensure that the depreciation rates are still on-track to recover the capital costs over the service life of the underlying assets. If the Company determines that the coal generation facilities will be removed from service earlier than the dates currently incorporated in

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[17] *Parker v. South Carolina Pub. Serv. Comm'n*, 281 S.C 215, 314 S.E. 2d 597, 598-599 (1984) (reversed Commission order approving increase in depreciation rate to recover anticipated nuclear decommissioning costs based solely on opinion testimony, "no empirical basis" for new rate, no major nuclear plant had been decommissioned and no plan for decommissioning had been formulated by the company).

[18] Exhibit No. RBD-7CX at 3.

[19] Dalley, TR. 163:3-10.

[20] Dalley, TR. 163:14-164:4.

[21] Dalley, TR. 164:21-166:1.

the most recent depreciation study, it can address the changed life of the facilities in its next depreciation study.

2. No "requirement of public authority" exists to justify the proposed modification of coal plant service lives.

18. While acknowledging that it has not provided any depreciation study to support its request, Pacific Power attempts to rely on the fact that one of the "forces" of depreciation listed in the USOA is the "requirements of public authorities."[22] This is offered to buttress the general policy argument in Mr. Dalley's testimony that various governmental initiatives regarding carbon emissions require a change in depreciation rates for the Company. The difficulty with the argument is that Pacific Power did not identify in testimony any specific "requirement of public authority" that mandates closure of the Jim Bridger or Colstrip plants on or before the new proposed end-of-life dates, or by any other date certain.[23] Given the opportunity during examination at the hearing, Mr. Dalley was still unable to do so and acknowledged there is no such requirement.

D. Pacific Power Has No Plans Of Its Own To Retire Jim Bridger Or Colstrip By The Accelerated Dates.

19. Pacific Power's depreciation request is at odds with its own internal planning and operation expectations. In response to discovery, as already noted, the Company stated that its "current best estimate for planning purposes of the date each of the Jim Bridger units will be retired from service is 2037, which aligns with the currently approved depreciable lives for those resources in the majority of PacifiCorp's states."[24] Similarly, "the Company's current best

[22] Dalley, TR. 160:17-161:24.
[23] Dalley, TR. 196:15-199:2 (examination by Commissioner Rehndahl).
[24] Ramas, Exhibit No. DMR-9.

estimate for planning purposes of the date that the Colstrip units will be retired from service is 2046, which aligns with the currently approved depreciable lives for those resources in the majority of PacifiCorp's states."[25]

20. In the Company's 2015 IRP Update, the assumed end of life date for the Jim Bridger Units remains as 2037 and the assumed end-of-life date for Colstrip Unit 4 remains 2046.[26] Thus, for Integrated Resource Planning purposes, the Company has not shortened the plant lives to the depreciation lives it is requesting in this case.

21. It is not disputed that Pacific Power expects that it will be free to keep the coal plants in service and use them to generate coal-based energy for Washington and other states' customers for the service period reflected in the current lives, even if the Commission grants its request in this docket. The Company states, in part, as follows: "Changing depreciable lives, however, would not restrict the Company from using generation from these resources to serve Washington customers after the end of the facilities' depreciable lives, nor would it prevent the Commission from revisiting the depreciable lives in a future proceeding."[27] Similarly, Pacific Power states that "adjusting depreciable lives for coal-fueled generation facilities included in Washington rates would not restrict Pacific Power from operating those generation units to serve Washington customers or customers in other states after the end of those depreciable lives."[28] Mr. Dalley confirmed this at the hearing, acknowledging that it is quite possible that both the plants would

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[25] Ramas, Exhibit No. DMR-10.
[26] Ramas, Exhibit No. DMR-11.
[27] Ramas, Exhibit No. DMR-12.
[28] Ramas, Exhibit No. DMR-13.

be running after the accelerated useful lives proposed here and would be serving Washington customers.[29]

E. Pacific Power's Proposal Risks Inequitable Results.

1. The proposal will potentially create intergenerational inequity.

22. Absent plans to actually remove Jim Bridger and Colstrip from service earlier, there is no justification for accelerating the recovery of the plant costs from ratepayers at this time. The very purpose of including depreciation expense in rates is to allow the Company to recover the capital costs of the associated assets over the period the assets are used to provide service to customers, i.e., the life of the plant, in order to obtain "a more accurate measure of current costs of operation."[30] By allowing the recovery through depreciation over the life of the plant, the customers that receive energy from the plant are paying for the capital cost of the plant that is being used to serve them. If the Company is permitted to accelerate recovery of the plant costs over a period of time that is shorter than the anticipated period in which the plant will be providing service to customers, current ratepayers will be paying for capital costs that will be used to serve future customers.[31] This would result in intergenerational inequity. Under the Company's proposal, the Washington jurisdictional capital costs of the Jim Bridger coal generation units would be fully recovered from Washington ratepayers by 2025, yet Pacific Power currently anticipates the generation units will continue providing service to customers through 2037. Thus, Washington ratepayers receiving service in the period 2026 through 2037 would not be paying towards the capital costs for the Jim Bridger units that provide service to

[29] Dalley, TR. 166:2-166:13.
[30] Phillips at 270.
[31] This is an example of the improper distortion referred to in Henry E. Lay's testimony for Pacific Power in its last depreciation docket. Dalley, Exhibit No. RBD-8CX at 6:1-4 (exhibit pagination).

them; these costs would have been prepaid by other Washington customers between 2016 through 2025.

2. The proposal could create interjurisdictional inequity.

23. The depreciation lives for the Jim Bridger Units are through 2037 in Washington, California, Utah, Wyoming, and Idaho.[32] The depreciation lives for the Colstrip Units are currently through 2046 in Washington, California, Utah, Wyoming, and Idaho.[33] Only Oregon is currently using the shorter depreciation period for ratemaking purposes for the Jim Bridger Units (2025) and the Colstrip Units (2032), based on an order entered in August 2008.[34]

24. Under the Company proposal, certain potential future situations or scenarios could also create *interjurisdictional* inequity. For example, assume that the Company's request in this case is granted and the Jim Bridger units continue to operate after the proposed depreciation life in this case (i.e., after 2025), but the energy generated from those facilities ceases to be utilized in providing electric service to customers in the State of Washington after 2025. In other words, after 2025 the electricity generated from the Jim Bridger plants is only sold to jurisdictions outside of Washington. In this scenario, the Washington ratepayers, between 2016 and 2025, would be subsidizing customers in other jurisdictions that continue to receive power from the Jim Bridger units after 2025. This is because the recovery of the coal facility costs in Washington would no longer be aligned with the anticipated service life of the coal facilities.

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[32] Ramas, Exhibit No. DMR-8.
[33] *Id.*
[34] *PacifiCorp Petition to File Preliminary Depreciation Study*, Docket UM 1329, Order No. 08-427 (P.U.C. of Oregon, Aug. 20, 2008).

3. Washington and Oregon depreciation rates for customers would not be aligned under Pacific Power's request.

25. As noted in the prior section, Washington depreciation rates are currently aligned with the majority of Pacific Power states. Pacific Power, however, argues that it makes sense to exchange this broad alignment with a two-state alignment between Washington and Oregon. Even with a Washington-Oregon alignment, however, it is important to recognize that the rates will not be the same in the two states. The Company is proposing to significantly increase the depreciation rates currently authorized in Washington applicable to the Jim Bridger and Colstrip facilities so that the capital costs would be fully recovered by the earlier recovery dates or "depreciation lives" authorized in Oregon. However, since Oregon has been using the shorter recovery life since 2008 to determine the depreciation rates, the depreciation rates in Oregon are considerably lower than the depreciation rates proposed by Pacific Power in this case.

F. Establishing A Regulatory Liability For Retirement Costs Would Be A Preferable Approach Should The Commission Wish To Act.

26. If the Commission determines it is desirable at this time to approve pre-collecting some of the coal generation facility costs from Washington ratepayers, then Public Counsel recommends that a separate regulatory liability be established as described in the testimony of Ms. Donna M. Ramas.[35]

27. Under this recommendation, the current Commission approved depreciation rates that are based on a full depreciation study and incorporates the current anticipated lives of the Jim Bridger and Colstrip facilities would remain in place until such time as the next depreciation study is conducted by the Company for the Commission's consideration. A separate coal facility

[35] Ramas, Exhibit No. DMR-1T at 25:14-29:4.

early retirement fund expense could be established in rates by the Commission for the purpose of funding a regulatory liability.

28. The Company would increase the regulatory liability account by the amount of coal facility early retirement fund expense collected from customers in base rates. Entries to increase the liability account would occur on a regular basis as the amounts are collected from customers. The regulatory liability collected from customers, which would be reflected as an offset to rate base in future cases, would be used in the future to apply towards prudently incurred, unrecovered coal plant costs should circumstances change and it be determined that one or more coal facilities serving Pacific Power's Washington customers will be removed from service before the currently anticipated plant retirement date(s).

29. An advantage of this approach is the flexibility for the Commission. The funds collected from customers and set aside in the new regulatory liability account could be directed towards specific prudently-incurred, unrecovered coal facility costs at the Commission's discretion, for example, if only one or two of the four Jim Bridger units were retired before the current projected retirement dates. If unused funds remain at the end of the useful lives of the plants, the Commission could direct that the amounts be returned to Washington ratepayers.

30. The Public Counsel proposal does not contemplate that the amount collected under the regulatory liability would have to be the same as the amount requested by Pacific Power in this proceeding for new depreciation. If the Commission determines that a regulatory liability should be established, it should do so through a separate proceeding, since the current record is not sufficient for this purpose.[36] The Commission could open the proceeding or ask PacifiCorp to

[36] Ramas, TR. 381:18-382:25.

file a request to establish a regulatory liability and hold a separate adjudicative proceeding. The proceeding would determine both the appropriate amount of target funding for the regulatory liability account and the appropriate period over which to recover the targeted amount from Washington customers. This would allow for a more thorough vetting of the determination of the appropriate amount of funds to be collected.

III. RATE BASE AND COST OF CAPITAL

A. The Commission Should Continue To Use AMA For Rate Base.

31. In Pacific Power's last rate case, the Company requested that rate base be determined on the "End-of-Period" (EOP) rate base approach. The Commission explicitly rejected the request and determined that rate base instead be on its "most favored" Average of Monthly Averages (AMA) approach.[37]

32. In addressing the issue, the Commission quoted from several prior orders in which it discussed the limited circumstances in which it has found the EOP rate base approach to be an appropriate regulatory tool:

> The Commission has traditionally required that utility rates be established relying on the measurement of rate base using the AMA approach. The Commission, however, has occasionally recognized that the alternative approach of utilizing end-of-test period rate base may be appropriate in a variety of circumstances. In a 1981 case, *WUTC v. Washington Natural Gas,* the Commission drew on its early experience evaluating the relative merits of the two approaches and drew the following conclusions:

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[37] *Wash. Util.'s & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140762 (*Consolidated)*, Order 08 ¶ 151, (Mar. 25, 2015) (*Pacific Power 2014 GRC)*. The AMA approach results in rate base (or investment used to serve customers) being better matched to the test year revenues and expenses. Use of AMA approach avoids the distortion between each of these components of the revenue requirement equation. *Id.* ¶ 150; Ramas, Exhibit No. DMR-1T at 8:6-11. Public Counsel has supported use of EOP in appropriate cases to address regulatory lag. Here, however, Public Counsel agrees with the concern raised by the Commission in the last case that Pacific Power's frequent rate filings make it difficult to determine whether use of EOP results in violations of the matching principle.

> (1) Average rate base is the most favored,
>
> (2) Year-end rate base is an appropriate regulatory tool under one or more of the following conditions:
>
> > (a) Abnormal growth in plant
> > (b) Inflation and/or attrition
> > (c) As a means to mitigate regulatory lag
> > (d) Failure of utility to earn its authorized rate of return over an historical period.[38]

Order 08 went on to find that these circumstances were not present for PacifiCorp. The Commission stated as follows:

> In this case, we have some evidence of capital additions during relevant periods but it does not demonstrate abnormal growth in plant. Inflation remains very low in the current economic environment in the United States. The Company did not present persuasive evidence that it is suffering attrition in earnings. In particular, the Company did not present an attrition study. Moreover, the fact that the Company failed in the past to earn its authorized return cannot justify use of EOP absent a showing that, due to factors beyond the Company's control, the Commission can expect this condition to continue into the future. There is no such evidence in the record of this case.[39]

33. There has been no material change in the these factors since the last case was decided less than 18 months ago. The Company has not demonstrated unusual or abnormal growth in plant. The Company has not indicated that we are in a period of high inflation; in fact, the United States continues to be in a low inflation period. The Company once again has not presented an attrition study. The Company has not demonstrated that it is suffering attrition in earnings. In short, the Company has failed to present evidence demonstrating that it meets the limited conditions under which the Commission has adopted the EOP rate base approach.

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[38] *Pacific Power 2014 GRC*, Order 08 ¶ 145 (footnotes omitted).
[39] *Pacific Power 2014 GRC*, Order 08 ¶ 146.

34. At the hearing, Mr. Dalley suggested that various capital additions in the Company's case might be seen as substantial enough to constitute abnormal growth.[40] In fact, the evidence shows that the Company's Washington rate base has declined since the last case. The Company's unadjusted Washington jurisdictional rate base in the prior rate case for the test year ended December 31, 2013, was $788,256,372 on an AMA basis.[41] In the current rate case, the Company's original filing shows an unadjusted Washington jurisdictional rate base for the test year ended June 30, 2015, of $781,321,066[42] on an AMA basis, lower than the unadjusted rate base in the prior case. In the last rate case, the Company made adjustments to reflect EOP plant balances and included certain projected major pro forma plant additions through March 31, 2015. In the original filing in that case, the Company requested an adjusted rate base of $849,625,443.[43] In the original filing in this case, the Company made adjustments to reflect EOP plant balances and included an adjustment for certain pro forma major plant additions, resulting in an originally requested rate base of $838,124,164,[44] lower than the adjusted rate base requested by the Company in its last rate case.[45]

B. The Commission Should Reduce Pacific Power's Cost Of Capital.

35. Notwithstanding Pacific Power's attempt to present this case as an "expedited rate filing," its cost of capital is at issue in the case, as parties and the Commission recognized at the

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[40] He conceded that he had not made the argument in testimony. Dalley, TR. 171:24-172:6.
[41] Ramas, Exhibit No. DMR-1T at 10:5-7.
[42] McCoy, Exhibit No. SEM-3 at 2.2.
[43] Ramas, Exhibit No. DMR-1T at 10:12-17.
[44] McCoy, Exhibit No. SEM-3 at 2.2.
[45] Ms. Ramas' testimony and exhibits detail the revisions required to the Company adjustments if the Commission adopts the AMA approach. Ramas, Exhibit No. DMR-3.

prehearing conference.[46] The Company and other parties filed cost of capital testimony. Public Counsel did not present cost of capital testimony due to resource constraints.[47]

36. Although Pacific Power requests that its cost of capital simply remain at the same level, its cost of capital was last evaluated and set by the Commission in the 2013 general rate case. It must be updated in this case to reflect the changes in the Company's situation since 2013 and any changes in the capital markets. In this case, Pacific Power is now seeking adoption of a decoupling mechanism and a two-year rate plan, both of which reduce the Company's financial risk and warrant a reexamination of Pacific Power's cost of capital. Staff witness, Mr. David Parcell recognizes the risk reduction effect of the new mechanisms, factors that were not present in the last case.[48] This causes him to recommend an ROE at the middle of his range of 9.25 percent.[49] Public Counsel agrees with Mr. Parcell that Pacific Power faces less financial risk than it did in 2013[50] and, therefore, supports Staff's recommendation.[51]

IV. OTHER REVENUE ADJUSTMENTS

A. Overview.

37. Witness Donna Ramas presents Public Counsel's revenue requirement recommendations. Ms. Ramas addressed selected issues with the most significant impact on rates, but was not retained to perform a comprehensive revenue requirement analysis due to Public Counsel resource constraints. She provides a detailed road map at the beginning of her testimony

[46] Order 03 Prehearing Conference Order; Notice of Hearing ¶ 13.
[47] For that reason, Public Counsel's recommended revenue requirement is calculated for presentation purposes at the Company's currently authorized ROE and capital structure.
[48] Testimony of David C. Parcell, Exhibit No. DCP-1T at 36:10-19.
[49] *Id.* at 37:1-2.
[50] Pacific Power has also implemented a new Power Cost Adjustment Mechanism.
[51] Mr. Parcell's recommendation is conservative. He stated in testimony that he felt constrained in recommending a "specific downward adjustment to PacifiCorp's ROE to reflect the risk-reducing impacts of these mechanisms" because of his understanding that the Commission does not consider such an adjustment appropriate. Exhibit No. DCP-1T at 36:14-18.

describing the organization of her adjustment schedules.[52] Based on the Ms. Ramas' analysis, public counsel recommends a revenue reduction of $3.79 million.[53]

B. The Company Has Agreed To A Revision To Reflect Passage Of The PATH Act.

38. A major revision required in the Company's case was the need to reflect the Protecting Americans From Tax Hikes Act of 2015 (PATH Act), signed into law by President Obama on December 18, 2015. Included in the PATH Act was the extension of bonus depreciation with the 50 percent bonus depreciation provisions being effective retroactively to the beginning of 2015 through 2017, and additional bonus depreciation provisions phasing-down through 2019, as well as other tax provisions. Since the PATH Act was signed into law subsequent to the filing of the Company's rate case, the impacts of the PATH Act were not incorporated in the Company's filing. The known and measurable impacts of this new law became effective less than a month after the Company submitted its filing and impacts to the test year should be incorporated in this case. Pacific Power does not contest this revision.

39. In addition, as discussed above, Public Counsel recommends maintaining consistency with the ruling in the Company's last rate case and employing the AMA approach for determining the appropriate rate base for setting rates in this docket.

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[52] Ramas, Exhibit No. DMR-1T at 3-4. Public Counsel's brief does not address each technical issue of Ms. Ramas' revenue requirement analysis. The Issues Matrix filed by the parties is a guide to Public Counsel's specific positions on various technical issues.

[53] In the Issues Matrix, Public Counsel's Year One revenue reduction is listed as $3.389 million. The revised figure on brief incorporates the following subsequent changes: Issue 4.1 (Company rebuttal not contested); 4.2 (agree with Company actual salary and wage increases if 3/16 employee levels rejected); 4.9 (concur with Staff/Company agreement); 4.11 (reflects March 31, 2016, FTE levels, Company agreed); 5.2 (do not oppose Company acceptance of Boise adjustment to remove Colstrip 3 O&M). This figure is based on Public Counsel's use of Pacific Power's current cost of capital. If the Staff recommended cost of capital (7.18 percent) is used, Public Counsel's recommended revenue reduction would be approximately $5.4 million. The revised total revenue reduction figures were provided to counsel by Ms. Ramas, and are not currently part of the record.

40. For the ease of the Commission in being able to compare impacts of the PATH Act, EOP, and AMA approaches on the individual components of the revenue requirement equation, Ms. Ramas included the three "Per Company" columns on her Revenue Requirement presentation.[54] The first "Per Company" column presents the amounts contained in the Company's original November 25, 2015, filing which uses an EOP rate base approach. The second column presents the revised EOP rate base approach amounts with the impacts of the PATH Act incorporated. Finally, the third column presents the AMA approach with impacts of the PATH Act incorporated.[55] The revenue requirement that would result if the PATH Act impacts are reflected and the AMA approach to rate base is used is $9,116,220, which is $1,379,158 lower than the revenue requirement under the EOP approach with the PATH Act impacts reflected.

C. Pacific Power Has Agreed To Update Major Pro Forma Plant Additions To Actual Amounts.

41. The Jim Bridger Unit 3 overhaul and SCR system were placed into service in November 2015. The Company's pro forma major plant addition adjustment added this plant to rate base and also included the impacts of the additions on accumulated depreciation, accumulated deferred income taxes and depreciation expense. The total amount added to test year plant in service for the combination of the Jim Bridger Unit 3 overhaul costs and SCR system was $127,544,646 on a total Company basis and $28,617,198 on a Washington jurisdictional basis.[56]

[54] Ramas, Exhibit No. DMR-3 at 1.
[55] The impact of the PATH Act on the Company's filing was provided in response to Boise Data Request No. 9, provided as Exhibit No. DMR-6. The impact of reflecting both the AMA rate base approach and the PATH Act were provided by the Company in response to Boise Data Request No. 13, provided as Exhibit No. DMR-7.
[56] Ramas, Exhibit No. DMR-1T at 31:16-22.

42. In response to Public Counsel discovery, the Company provided the actual amounts placed in service for the Jim Bridger Unit 3 overhaul and SCR system projects.[57] Subsequently, in response to Boise discovery, the Company provided a revised version of its pro forma major plant addition adjustment that incorporated the impacts of the actual amounts placed into service for the projects as of December 31, 2015.[58] These responses indicate that the actual amount placed into service for the projects was $117,233,290 on a total Company basis, which is $10.3 million less than the amount incorporated in the Company's filing. Public Counsel recommended in testimony that the Company's Adjustment - Pro Forma Major Plant Addition Adjustment be revised to reflect the actual known and measurable project costs instead of the estimated amounts incorporated in the Company's filing. It is Public Counsel's understanding that Pacific Power agrees with this update. Ms. Ramas recommended revised Adjustment 8.4 – Pro Forma Major Plant Additions, includes the impacts of the PATH Act as well as the actual project costs instead of the projected costs included by the Company.[59]

43. Additionally, as previously discussed, Public Counsel recommends that the proposed accelerated recovery proposed by the Company for the Jim Bridger Unit 3 overhaul and SCR system additions be rejected and the associated depreciation expense instead be based on the current Commission authorized depreciation rates. This results in an additional $1,129,621 reduction to depreciation expense and a $764,871 reduction to accumulated depreciation based on the actual Jim Bridger Unit 3 overhaul and SCR system plant additions.[60]

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[57] Ramas, Exhibit No. DMR-16 (redacted version).
[58] Ramas, Exhibit No. DMR-17 (redacted version).
[59] Ramas, Exhibit No. DMR-3 at 28.
[60] Ramas, Exhibit No. DMR-3 at 29.

44. The Jim Bridger Unit 3 overhaul projects also resulted in certain existing plant assets being retired. This impacts depreciation expense because the plant assets being retired are removed from the plant in service balances to which the depreciation rates are applied. In response to Public Counsel discovery, the Company indicated that the test year included $69,429 on a Washington jurisdictional basis for the retired assets and agreed that the depreciation expense associated with the retirements related to the installation of the pro forma plant additions should be removed from the test year.[61] This is reflected in Adjustment PC-5, which reduces test year depreciation expense by $69,429.[62] This is based on Public Counsel's recommendation to maintain current depreciation rates. If the Commission adopts the Company's proposed accelerated depreciation rates, then the recommended adjustment to depreciation expense would need to be increased from $69,429 (NOI impact $45,129) to $162,036 (NOI impact $104,104).[63]

D. Rates Should Reflect The Decline In The Company's Current Employee Levels.

45. In the last Pacific Power general rate case, the Commission adopted Ms. Ramas' recommended adjustment to reflect a reduction in Company employee levels. In Order 08, the Commission addressed the issue, in part, as follows: "[T]he full time equivalent (FTE) employee count for Pacific Power declined significantly during the test year and continued to decline measurably through October 2014, just prior to the evidentiary hearing in this case (*i.e.,* December 16-19, 2014)."[64]

[61] Ramas, Exhibit No. DMR-18.
[62] Ramas, Exhibit No. DMR-3 at 18.
[63] Exhibit No. DMR-3 at 18, line B.3 for Adjustment PC-5. *See also,* Exhibit No. DMR-3 at 7.
[64] *Pacific Power 2014 GRC*, Order 08 ¶ 36 (footnote omitted).

46. At page 20 of the Order, the Commission found that "[t]he record demonstrates that the reductions in workforce reflect a continuing trend over several years."[65] In the decision, the Commission agreed with Public Counsel's recommended adjustment to reflect the impacts of the test year and post test year actual reduction to the employee complement.

47. The evidence in this case shows that the decline in employee count has both continued and accelerated. The average test year ended December 31, 2013. The full time equivalent (FTE) employee count in the last rate case was 5,375 and the FTE employee count as of June 2014 was 5,308 employees.[66] The FTE employee count has continued to steadily decline since the last rate case. The average test year FTE employee count in this case is 5,247.[67] The FTE employee count as of the end of the test year (June 30, 2015) was 5,231.5 employees and the FTE employee count as of December 2015 was 5,128 employees. Thus, the actual FTE employee count as of the most recent date provided by the Company (December 2015) is 180 FTEs lower than the June 2014 level reflected in rates resulting from the last Pacific Power rate case.[68]

48. Pacific Power's adjusted test year labor costs are based on the employee complement in place during the test year ended June 30, 2015. However, Ms. Ramas' testimony shows that the FTE employee level declined from 5,280 at the beginning of the test year (July 2014) to 5,231.5 as of the end of the test year (June 2015), and declined even further to 5,128 as of December 2015.[69] The schedule further shows that the actual December 2015 employee complement is 119 FTEs or 2.27 percent lower than the average test year employee complement

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[65] *Id.*
[66] *Pacific Power 2014 GRC,* Order 08 ¶ 43.
[67] Ramas, Exhibit No. DMR-3 at 9 (Schedule 8, page 2 of 4).
[68] Calculated as 5,308 FTEs as of June 2014 less 5,128 FTEs as of December 2015 (5,308 – 5,128 = 180).
[69] Ramas, Exhibit No. DMR-3 at 9 (Adjustment PC-1 at PC-1.2),

that is incorporated in the Company's adjusted test year labor costs. Public Counsel recommends that this known and measurable reduction in employees that occurred both during and subsequent to the test year be reflected in determining the appropriate labor costs to include in rates.

49. The labor and incentive costs, employee benefit costs (i.e., medical, dental, vision, 401K, etc.), and payroll tax costs in the Company's labor cost adjustment would all be impacted by the employee level. The amount of labor costs included in the Company's labor cost adjustment that are impacted by the employee level as $676,492,294.[70] Application of the 2.27 percent FTE employee reduction to the labor costs impacted by the employee level results in a $15,356,375 reduction to labor costs.[71] Thus, Public Counsel recommends that test year labor costs be reduced by $15,356,375. As shown on Adjustment PC-1, after removing the portion that is capitalized and the portion allocated to non-utility, test year expenses should be reduced by $10,457,510 on a total Company basis and by $655,673 on a Washington jurisdictional basis. This adjustment to reflect the actual known and measurable reduction in employee levels is calculated using the same methodology Ms. Ramas employed in the prior Pacific Power rate case, which was approved by the Commission.[72]

E. The Company's Pension Expense Should Be Reduced.

50. In Pacific Power's last rate case, the Commission accepted Ms. Ramas' recommendation that the impact of the most recent pension and Other Post-Employment Benefits (OPEB)

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[70] Ramas, Exhibit No. DMR-3 at 10 (Adjustment PC-1 at PC-1.3)

[71] Ramas, Exhibit No. DMR-3 at 8 (Adjustment PC-1 at PC-1.1).

[72] In its rebuttal filing, the Company updated Public Counsel's recommended adjustment to be based on the FTE employee count as of March 2016. Public Counsel agrees that this is reasonable. As reflected in Public Counsel cross-examination exhibit, Exhibit No. SEM-14CX, the Company also agreed to reflect the revised FTE levels in the salary and wage increases as shown on pages 4.2 and 4.11 of Exhibit No. SEM-8.

actuarial reports be reflected in rates as a known and measurable post test year adjustment.[73] Ms. Ramas has adopted the same approach in this docket.

51. Company Exhibit No. SEM-3, page 4.2.2, identifies the test year pension costs as $24,712,488. This amount is based on six months of pension costs associated with the pension actuarial reports for 2014 and six months of pension costs associated with the pension actuarial reports for 2015 plus $937,209 of pension administration costs.[74] Thus, the actual recorded test year pension costs based on the 2014 and 2015 pension actuarial reports are $23,775,279, once the administrative cost is removed.

52. In response to Public Counsel discovery, the Company provided the most recent pension actuarial report for the 2016 plan year.[75] The actuarial assumptions for use in the 2016 plan year would have been selected by the Company in December 2015 and are now known and measurable. These known and measurable actuarial assumptions, as well as the known and measurable impacts of the actual 2015 plan experience, would be incorporated in the 2016 actuarial report provided by the Company. The response, at Attachment PC 52-3, shows that the pension expense based on the most recent actuarial report is $21,935,427.[76] Thus, the most recent known and measurable pension cost is $1,839,852 less than the amount included in the test year.[77]

53. As shown on Adjustment PC-2, test year pension costs should be reduced from the $23,775,279 contained in the Company's filing to $21,935,427, which is a reduction of

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[73] *Pacific Power 2014 GRC,* Order 08 ¶ 46.

[74] Ramas, Exhibit No. DMR-20.

[75] Ramas, Exhibit No. DMR-21.

[76] Excludes $920,000 of pension administration costs shown on the response, resulting in pension costs excluding administration costs of $21,935,427.

[77] Ramas, Exhibit No. DMR-3 at 12 (Adjustment PC-2 at PC-2.1).

$1,839,852. After removing the portion allocated to capital and non-utility, the impact is a reduction to pension expense of $1,252,917 on a total Company basis and $78,556 on a Washington jurisdictional basis.

F. OPEB Expense Should Be Reduced.

54. Consistent with the recommendation above regarding pension expense, as well as with the Commission's finding in the last Pacific Power rate case, Ms. Ramas recommends that the OPEB expense be updated to reflect the impacts of the known and measurable actuarial assumptions and actual 2015 plan experience reflected in the most recent actuarial report.

55. Company Exhibit No. SEM-3, page 4.2.2 identifies the test year OPEB costs as ($4,043,010). However, the 2015 OPEB actuarial report included a significant reduction to OPEB costs as compared to the 2014 OPEB actuarial report.[78] Similarly, in discovery, the Company provided the OPEB costs based on the actuarial report for the 2016 plan year.[79] These included the known and measurable actuarial assumptions that were selected in December 2015 as well as the impacts of the actual OPEB plan experience for 2015. This information showed that the OPEB expense declined fairly substantially as compared to the amount recorded by the Company during the test year. Specifically, the OPEB costs declined from the ($4,043,010) recorded during the test year to ($8,222,739) based on the most recent actuarial report, which is a reduction of $4,179,729.[80] Accordingly, as shown on Adjustment PC-3, OPEB costs should be reduced by $4,179,729 to reflect these known and measurable changes. After removal of the amounts allocated to capital and non-utility, the result

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[78] Ramas, Exhibit No. DMR-22.
[79] Exhibit No. DMR-23.
[80] Ramas, Exhibit No. DMR-3 at 14 (Adjustment PC-3 at PC-3.1).

is a $2,846,346 reduction to OPEB expense on a total Company basis and a reduction of $178,462 on a Washington jurisdictional basis.[81]

G. Other Salary Overhead Should Be Normalized.

56. Pacific Power includes $1,742,747 for "Other Salary Overheads/Oncosts" in its test year labor costs.[82] Public Counsel recommends an adjustment to this amount. Test year expense for Other Salary Overheads/Oncosts has increased from $510,778 in the Company's last rate case to $1,742,747 in this case, an increase of $1,231,969.[83] The Company recorded expense for Other Salary Overheads/Oncosts for calendar year 2014 of $1,437,813 and for calendar year 2015 of $1,191,391.[84] Based on the significant increase since the last rate case, as well as the fact that the test year expenses in this case are so much higher than the expenses incurred in both calendar years 2014 and 2015, the test year costs do not appear reflective of a normal annual cost level. This could be the result of timing of the charges being recorded on the Company's books.

57. Public Counsel recommends that the test year costs be normalized to reflect the two-year average of the costs recorded during 2014 and 2015. The recommended normalization of the Other Salary Overhead costs results in a $428,145 reduction to the costs recorded during the test year ended June 30, 2015.[85] After removing the portion allocated to capital and non-utility, the impact is a reduction to Other Salary Overhead expense of $291,562 on a total Company basis and $18,281 on a Washington jurisdictional basis.

[81] *Id.*
[82] Ramas, Exhibit No. DMR-25.
[83] *Id.*
[84] Ramas, Exhibit No. DMR-24.
[85] Ramas, Exhibit No. DMR-3 at 16 (Adjustment PC-4 at PC-4.1).

H. Interest Synchronization.

58. Adjustment 7.1 – Interest True Up[86] presents the calculation of the interest deduction and resulting impact on test year income tax expense based on: 1) the Company's as-filed amounts; 2) the Company's revised amounts based on impacts of the PATH Act; 3) the Company's revised amounts based on impacts of the PATH Act and AMA rate base; and 4) Public Counsel's recommended position in this case.

59. The interest synchronization or interest true-up adjustment allows the adjusted rate base and the weighted cost of debt to coincide with the income tax calculation. Since interest expense is deductible for income tax purposes, any revisions to the rate base or the weighted cost of debt will impact test year income tax expense. The adjusted test year rate base Public Counsel is recommending differs from the Company proposed rate base. Thus, the resulting interest expense deduction for determining the test year income tax expense differs from the interest expense deduction used by Pacific Power in its filing.

V. THE RATE PLAN IS UNSUPPORTED

A. Pacific Power's Earnings Erosion Evidence Has Already Been Rejected By The Commission.

60. As addressed in earlier sections of this brief, because there is no reasonable basis for its depreciation adjustment, Pacific Power has failed to demonstrate a revenue deficiency in Year One of its Two-Year Rate Plan. The support offered for a Year Two increase also falls short.

61. In support of the Year Two rate increase, Mr. Dalley argues that the Company is "experiencing a ten-year trend of earnings attrition."[87] Mr. Dalley relies on a table intended to

[86] Ramas, Exhibit No. DMR-3 at 24.
[87] Direct Testimony of R. Bryce Dalley, Exhibit No. RBD-1T at 15:19.

show that the Company has under-earned its authorized return on equity in Washington by an average of 500 basis points since 2006 and that for nine consecutive years, through 2014, it did not earn its authorized rate of return in Washington.[88] The failure to achieve its authorized rate of return in Washington is apparently the evidence the Company is relying on, asserting that it has been experiencing earnings attrition.[89]

62. The Company made the same argument in the last rate case. Mr. Dalley presented the same table in his testimony in this docket with the only apparent difference being that it includes two more years of results. Tellingly, the more recent table shows that Pacific Power's earnings are improving. The prior table showed an average of actual per books below authorized of 6.04 percent for the seven-year period, 2006 through 2012, which exceeds the nine-year average of 5.49 percent presented in the updated table in this case.

63. The Commission rejected the prior version of this evidence in the last case:

> In this case, we have some evidence of capital additions during relevant periods but it does not demonstrate abnormal growth in plant. Inflation remains very low in the current economic environment in the United States. The Company did not present persuasive evidence that it is suffering attrition in earnings. In particular, the Company did not present an attrition study. Moreover, the fact that the Company failed in the past to earn its authorized return cannot justify use of EOP absent a showing that, due to factors beyond the Company's control, the Commission can expect this condition to continue into the future. There is no such evidence in the record of this case.[90]

64. The Company has made no real effort to show that its financial situation is affected by factors beyond its control. The Company analysis in this case is essentially identical to that

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[88] *Id*. at 8 and 9.

[89] Table 1 presented on page 9 of Mr. Dalley's Direct Testimony calculates the amount by which the unadjusted per books return on equity in Washington has been below the authorized return on equity, showing an average of actual per books below authorized of 5.49 percent for the nine year period 2006 through 2014. The most recent year presented in the table, 2014, showed the per books return on equity being 2.55 percent less than the authorized return in that year.

[90] *Pacific Power 2014 GRC,* Order 08 ¶ 146.

presented in the 2014 docket and is even less persuasive. If the Commission found this earnings analysis wanting in the last case, Pacific Power cannot expect it to reach a different conclusion using data that actually shows improvement in the intervening period.

B. Pacific Power's Declining Costs Do Not Support The Existence Of Attrition.

65. As discussed previously, absent the Company's request to accelerate the recovery of its coal facility capital costs from Washington ratepayers in this case, there would be no basis to increase in rates for Year One. The impact of the accelerated recovery request exceeds the entire amount of Year One rate increase being sought by the Company. This is true even if the EOP rate base approach is used.[91] The evidence in this record shows that current base rates result in revenues that are sufficient to cover operating expenses and the requested return on rate base. This is not demonstrative of a company experiencing earnings attrition or regulatory lag.

66. Moreover, on a Washington jurisdictional basis, the total rate base presented by the Company for the test year in this case (test year ended June 30, 2015) is lower than the total rate base presented by the Company for the test year in its last rate case (test year ended December 31, 2013) on both an adjusted and an unadjusted basis.[92] Again, this is not demonstrative of a company experiencing earnings attrition due to abnormal growth in plant.

67. As discussed earlier in the brief, the Company's employee complement has continued to decline substantially since the last rate case. This is not consistent with a company experiencing earnings attrition due to cost escalation. Rather, the reduction in employee complement would be more indicative of declining costs.

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[91] The EOP approach would reflect the test year capital additions in their entirety and the requested pro forma major plant additions associated with the Jim Bridger Unit 3 overhaul and SCR system would also be included in the test year.

[92] Ramas, Exhibit No. DMR-1T at 46:8-14.

68. The table below from Ms. Ramas' testimony presents a comparison of certain categories of expense on an adjusted Washington jurisdictional basis. The table compares expenses presented in the Company's current rate case as compared to the last filing.[93]

	Current Case Adjusted	Prior Case Adjusted	Change
Distribution Expense	11,115,084	12,252,659	(1,137,575)
Customer Accounting Expense	6,342,566	6,967,383	(624,817)
Customer Service & Info Expense	761,220	790,894	(29,674)
Administrative & General Expense	10,155,481	12,471,080	(2,315,599)
Total of Above	28,374,351	32,482,016	(4,107,665)

The reduction in various categories of expense between the 2013 test year in the last rate case and the test year ended June 30, 2015, in this rate case, does not support a conclusion that the company is experiencing earnings attrition.

69. In short, the Company has failed to demonstrate in this case that it is currently experiencing earnings attrition due to abnormal growth in plant or other expense growth beyond the Company's control. The evidence instead shows that rate base, employee levels, and other major expense categories have been declining since the last rate case, not increasing. Pacific Power did not rebut or contest this evidence in its rebuttal case, nor did it cross examine Ms. Ramas on this. The unrebutted evidence of declining cost is directly at odds with and refutes the Company's assertion that a rate plan is needed to address earnings erosion.

[93] Ramas, Exhibit No. DMR-1T at 47. Ms. Ramas testimony also includes a table comparing the Washington jurisdictional unadjusted expenses in the two cases. That table shows a decline in the costs listed of $5.2 million.

VI. PUBLIC COMMENT AND LOW-INCOME ISSUES

A. Public Comment.

70. Public comments received by the Commission and Public Counsel were made a part of the record in Bench Request No. 11. A total of 37 comments were included in the exhibit. Of these, 28 opposed the requested increase, one supported, and six did not take a position pro or con. The following are examples of the sentiment of customers opposing the rate increase:

> Again! Every single year this company complains they need another 10 or 20 million dollars. It is astounding to me as a State employee myself in which I went 7 years without a pay raise and even took a 3% pay cut to help the State budget, that you yourselves would even consider doing this again and again to the hard working people who struggle to raise a family. Please, there must be limits set on this company, perhaps limiting them to every 8 years that they can claim they need a rate hike. Enough is Enough! Thank you, [sic][94]

Another customer commented:

> What utility in the history of the state of Washington has submitted rate increase requests as frequently as Pacific Power? None that I can think of. This utility has the audacity to suggest that raising my rates yet again will save me money. Pacific Power already is guaranteed a rate of return of 7 percent. How much more do they need? I believe Pacific Power received an increase to pay off its investment in wind. Now an increase is requested to help the utility with coal-plant costs. I oppose this two-tiered rate request and urge the commission to deny the increases.[95]

Public comments were also received in hearings held in Yakima on April 25, and in Walla Walla on April 26, 2015, before Commission Chairman David Danner.

B. Low Income.

71. Public Counsel supports the recommendations of The Energy Project with regard to low-income programs and issues. Public Counsel is willing to participate in a stakeholder group

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[94] Bench Request No. 11, Attached Comments received by UTC at 7 (comment of Brad Warr).
[95] *Id.* at 1 (comment of David Lester).

to address the future of LIBA, weatherization, and other issues specified in The Energy Project's recommendation and believes such an effort would be valuable.

VII. CONCLUSIONS

72. For the foregoing reasons, Public Counsel respectfully recommends that the Commission reject Pacific Power's request for additional revenue in this case, as well as its request for a "two-year rate plan." Pacific Power has failed to carry its burden of proof with respect to the significant increase in depreciation costs for Washington customers. Should the Commission wish to address the important issues raised by coal-fired electric generation at this time for Pacific Power, Public Counsel recommends initiation of a docket to establish a regulatory liability account as an preferable path.

73. DATED this 22nd day of June, 2016.

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