Exhibit T-___ (JH-1T)
Docket No. UE-032065
Witness: Joanna Huang

**BEFORE THE WASHINGTON STATE**
**UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,<br><br>Complainant,<br><br>v.<br><br>PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY,<br><br>Respondent. | DOCKET NO. UE-032065 |

**TESTIMONY OF**

**Joanna Huang**

**STAFF OF**
**THE WASHINGTON UTILITIES AND**
**TRANSPORTATION COMMISSION**

**July 2, 2004**

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

A. I am Joanna Huang. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504.

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

A. I am employed by the Washington Utilities and Transportation Commission as a Regulatory Analyst.

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

A. Since June 1996.

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

A. I received a Master of Accounting degree from Washington State University in 1991 and a B.B.A. degree majoring in Accounting from National Chung-Hsing University in 1987. Prior to my employment at the Washington Utilities and Transportation Commission, I was employed by the Washington State Department of Revenue as an Excise Tax Examiner, where I performed desk audits on Business & Occupation tax returns.

I attended the National Association of Regulatory Utility Commissioners Annual Utility School in October 1996 and August 2001. In addition, I have attended various other training seminars and conferences regarding utility regulations and operations.

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

A. I am responsible for the following adjustments as shown in Exhibit ___ (TES-2) and Exhibit ___ (TES-3):

- Blue Sky Program (Adjustment 4.3)
- Miscellaneous General Expenses (Adjustment 4.4)
- General Wage Increase (Adjustment 4.5 & 4.6)
- Pro-Forma General Wage Increase (Adjustment 4.7 & 4.8)
- FICA Adjustment (Adjustment (4.9)
- Severance Accrual Adjustment 4.13)
- International Assignees Removal (Adjustment 4.14)
- Depreciation Expense (Adjustment 6.1)
- Accumulated Depreciation (Adjustment 6.2)
- Pro-Forma Depreciation (Adjustment 6.3)
- Pro-Forma Accumulated Depreciation (Adjustment 6.4)
- Asset held for Future Use (Adjustment 8.7)
- Trojan Investment Amortization (Adjustment 8.8)
- Hydro Relicensing Costs (Adjustment 8.9)

**Q. Do you concur with the Company's presentation regarding any of the above-mentioned adjustments?**

A. As conditioned below, I agree with the substance of the Company's presentation regarding the following adjustments:

- Blue Sky Program (Adjustment 4.3)
- Severance Accrual Adjustment 4.13)
- General Wage Increase (Adjustment 4.5 & 4.6)

- Pro-Forma General Wage Increase (Adjustment 4.7 & 4.8)
- FICA Adjustment (Adjustment (4.9)
- Depreciation Expense (Adjustment 6.1)
- Accumulated Depreciation (Adjustment 6.2)
- Pro-Forma Depreciation (Adjustment 6.3)
- Pro-Forma Accumulated Depreciation (Adjustment 6.4)
- Asset held for Future Use (Adjustment 8.7)
- Trojan Investment Amortization (Adjustment 8.8)
- Hydro Relicensing Costs (Adjustment 8.9)

There is a caveat to my agreement with the Company on these adjustments, however. While I do not contest these adjustments as to substance, the Staff treats them a bit differently than the Company because Staff does not recognize any state income tax effect and Staff applies a control area based allocation method instead of the Washington Protocol method proposed by PacifiCorp, to the extent an allocation is involved.

**Q. Are you proposing other adjustments to the Results of Operations?**

A. Yes. I propose a "Bonus Adjustment" and a "Normalizing Severance Paid Adjustment" as shown in Exhibit No.____ (TES-2), columns (4.15) and (4.16). I will describe these later in my testimony.

## Miscellaneous General Expense Adjustment

**Q. What are the miscellaneous general expense accounts that you reviewed?**

A. I reviewed FERC Accounts 920 – Administrative and General Salaries, 921 – Office Supplies and Expense, 923 – Outside Services Employed, and 930 – Miscellaneous General Expenses.

**Q. What is the purpose for your Miscellaneous General Expense Adjustment?**

A. The purpose of my adjustment is to remove expenses that should have been charged "below the line" as non-regulated expenses, for out-of-period or non-recurring items, and for other expense items not applicable to Washington operations.

**Q. Where should the Company record expenses that should be charged below the line?**

A. Pursuant to the Commission's accounting system requirements rule, WAC 480-100-203, all electric utilities in the state of Washington must follow the Uniform System of Accounts (USOA) applicable to major and non-major electric utilities as published by the Federal Energy Regulatory Commission (FERC) in Title 18 of the Code of Federal Regulation, Part 101. A company may deviate from the USOA "only after due notice and order of this commission." WAC 480-100-203.

Pursuant to the USOA, Account 426.1 – Donations, through Account 426.5 – Other deductions, shall include expenses that are non-operating in nature. These expenses include membership dues (e.g., dues paid to the Rotary Club, Lions Club, and athletic clubs), contributions, and expenditures for certain civic, political and related non-operating activities. It is not just and reasonable for electric utilities to recover these expenses from ratepayers. These expenses should be included in Account 426.1 through Account 426.5 in accordance with the USOA.

I have included a copy of WAC 480-100-203 and the USOA accounting instructions for non-operating expense accounts 426.1 through 426.5 in Exhibit ___ (JH-2)

**Q. Did the Company properly record those expenses that are required to be charged below the line?**

A. No. Rather than comply with WAC 480-100-203, the Company recorded these operating expenses to Accounts 920, 921, 923, 930, and other operating accounts instead of to the appropriate accounts for non-regulated, or non-operating expenses.

**Q. Are there any other accounts also affected by the Company's failure to comply with WAC 480-100-203?**

A. Yes. Accounts 535, 583, 588, 508, 910, and 935, and possibly others that have not been identified.

**Q. Did you review those accounts for compliance with WAC 480-100-203?**

A. No. However, in my review I noticed several non-operating expenses booked to these accounts.

**Q. Did PacifiCorp remove those non-operating miscellaneous expenses from the test year expenses?**

A. No. The Company failed to remove all of the non-operating miscellaneous charges from the test year expenses. The Company removed miscellaneous charges from Account 930 in the amount of $681,622 (system wide) from the total balance $46.3 million in the test period. The percentage is less than 1.5 percent. The Company's adjustments to other accounts showed similar patterns of adjustment amounts.

**Q. What is your adjustment in Account 920?**

A. I briefly reviewed this account and removed labor and benefits related to non-regulated trading activities

**Q. What methodology did you use to single out expenses that should have been charged below the line for Account 921?**

A. In reviewing Account 921, I applied a sampling technique to derive the estimated amount of disallowance due to the extreme volumes of transactions in this account. I reviewed two months of data and calculated the percentage of disallowance. Then I applied the same percentage to the whole account. I removed the portion that should be disallowed according to the outcome of this sampling technique.

**Q. What is your adjustment in Account 923?**

A. I reviewed this account and removed some expenses that should have been charged "below the line" as non-regulated expenses, out-of-period or non-recurring expenses, and expenses associated with Blue Sky Programs.

**Q. What is your adjustment in Account 930?**

A. In Account 930 I removed $1.1 million (system wide) from the total balance of $46.3 million of the test period. The expenses I removed include membership dues paid, contributions, out-of-test-period expenses, and expenditures for certain civic, political and related activities.

**Q. What is the total of your miscellaneous adjustment?**

A. My adjustment reduces the total operating expenses in Washington by $285,653 as shown in Exhibit -___ (JH-3).

**Q. Do you have any recommendation to the Commission with regard to PacifiCorp's non-compliance with the USOA?**

A. Yes, given the volume of transactions that violate USOA accounting requirements, I would recommend that the Commission consider imposing a penalty against PacifiCorp for each violation of WAC 480-100-203 during the test period. The Commission cannot properly perform its mandated function with when a regulated company commits these kinds of USOA violations. The Commission should require PacifiCorp to file a report setting forth its intended course of action to remedy these infirmities.

## International Assignee Adjustment

**Q. Please describe your adjustment related to International Assignees Removal.**

A. This adjustment removes salary and other benefits associated with international assignees that have returned to Scotland. Thirty-one international assignees returned to Scotland by the end of March 2004. This change is known and measurable and should be reflected to the PacifiCorp's results of operations. This adjustment reduces the total operating expenses in Washington by $544,598 as shown in Exhibit -___ (JH-4).

**Q. Why is there a difference between your adjustment and the Company's adjustment?**

A. Four reasons cause the discrepancy between my adjustment and the Company's adjustment. First, my adjustment on this issue reflects the current number of international assignees who have returned to Scotland. The Company's response to WUTC Staff Data Request No. 206 indicates that 31 international assignees have returned to Scotland by the end of March 2004. I made the adjustment to update the current changes. The Company proposed to reflect the return to Scotland of only 23 international assignees by the end of the test period, which is March 2003.

Second, the Company's adjustment on worksheet 4.14 contains a formula error in its calculation. Though the allocation factor displays the correct percentage to allocate to Washington, the total Company amount to be removed from results of operation was multiplied by an incorrect percentage to compute the Washington portion. I applied the correct allocation factor to the calculation.

Third, my adjustment also removed personal taxes paid to international assignees remaining in the U.S. through March 2004. Paying personal taxes is an individual's personal responsibility. The Washington ratepayers should not be burdened with the tax liabilities of individual employees.

Fourth, I removed club dues paid to international assignees remaining in the U.S. through March 2004. These club dues are for the personal benefit of the employees and payment of these dues should be their personal responsibility as well. The Washington ratepayers should not be burdened with these costs.

**<u>Bonus Adjustment</u>**

**Q. Please describe PacifiCorp's bonus plan.**

A. PacifiCorp's Annual Incentive Plan for fiscal year 2003 contains three categories. They are the PacifiCorp Scorecard (20%), the Business Unit Balanced Scorecard (30%), and the Individual Performance (50%) categories.

**Q. Please describe the PacifiCorp Scorecard category.**

A. This measurement accounts for 20 percent of the overall award. PacifiCorp Scoreboard is measured in Earning Before Income Taxes (EBIT). If certain percent of the EBIT target is not met, the PacifiCorp Scorecard rating will be zero and no bonus payment will be given out under this component of the plan. Examples of the goals are meeting the EBIT target, maximizing net margin, optimizing capital expenditure, earning up to the allowable rate of return, and optimizing operating maintenance and administrative and general expenses. Ratepayers should not bear the cost of this portion (20%) of bonuses based on prior Commission decisions regarding these types of bonuses.

**Q. Please describe the Business Unit Balanced Scorecard category.**

A. This measurement accounts for 30 percent of the overall award. This portion of the plan consists of four elements: Financial, Stakeholder/Customer, Employee, and Process. The financial elements are tied to EBIT, the Company's cash flow position, and earning up to the allowable rate of return. The process elements are to ensure that filings or costs can be recovered through the regulatory process. The financial and process element approximately equates to 50 percent of this component of the award. Ratepayers should not bear the costs of these two portions of the bonus.

**Q. Please describe the Individual Performance category.**

A. Individual performance accounts for up to 50 percent of the incentive award. Managers have the ability to award a discretionary percentage of bonuses to individual employees. Goals and measures established for individual employees are focused on line-of-sight goals. Examples of the goals are successfully resolving jurisdictional allocation issues, and delivering an allocation method that allows for the potential of 100 percent recovery of prudently incurred costs. Customer service is weighted for only 30 percent of the Individual Performance component. Both ratepayers and shareholders benefit from the good customer service portion of this goal. Therefore, the Commission should allow for ratemaking purposes only 30 percent of the costs of this portion of PacifiCorp's bonus plan (i.e. 30 percent of the 50 percent).

**Q. Please summarize PacifiCorp's bonus plan.**

A. PacifiCorp's strategy regarding its annual incentive plan is to promote a higher level of performance through great emphasis on line-of-sight goals. These goals are more than 50 percent tied to EBIT, maximizing net margin, optimizing capital expenditure, earning up to the allowable rate of return, optimizing operating maintenance and administrative and general expenses, or ensuring that costs can be recovered through the regulatory process.

**Q. What is your recommendation regarding PacifiCorp's bonus plan for officers and non-union employees?**

A. Shareholders should bear the costs of bonus plans that are tied to EBIT, not the captive ratepayers. Bonus plans that are tied to EBIT directly and clearly benefit shareholders. The goals that benefit ratepayers as well as shareholders include promoting energy efficiency, providing good customer service, and promoting safety. I recommend the Commission allow one half of PacifiCorp's incentives payout. I strongly believe that the whole structure of PacifiCorp's plan benefits shareholders as much as, or more than, it benefits ratepayers. Shareholders should share at least half of the costs of the bonus. My adjustment reduces Washington O & M expense and rate base by $1,659,194 and $306,905, respectively, as shown in Exhibit -___ (JH-5).

**Q. Do have a different recommendation regarding union employee's bonus payout?**

A. Yes, I do. There is a double counting issue with regard to bonus payout to union employees in the Company's filed case. Since the Company did not propose to remove bonus payouts to union employees in any adjustment, bonus payouts to union employees remain in the "test period" amount. The Company also includes incentives paid to union employees in the calculation of its wage increase adjustments (Adjustments 4.5, 4.6, 4.7, and 4.8). To eliminate the double counting issue, I simply removed the "per Book" bonus payout to union employees and allowed bonuses to be included in the calculation of wage increases.

**Q. What were the Commission decisions with regard to similar types of bonus plans?**

A In Docket Nos. UE-991606 and UG-991607, the Commission disallowed Avista's Team Incentive Plan because it was tied to earnings goals. The Commission also disallowed the cost of US WEST's incentive bonuses in Docket No. UT-950200. US WEST's bonus plans focused more on financial goals than good customer service. In Docket No. UG-920840, the Commission ruled that bonus plans that do not tie payment to goals that clearly and directly benefit ratepayers will face disallowance in future proceedings. In Puget Sound Power & Light's general rate case, Docket No. UE-921262, the Commission disallowed incentive awards with profit sharing components.

**Q. What other adjustment did you make to PacifiCorp's bonus plan?**

A In the Company's response to WUTC Staff Data Request No. 151, it clearly indicates that none of the $47.7 million total bonus was allocated to non-utility operations. Since a portion of PacifiCorp's wages was allocated to non-utility operations, bonus payouts should be allocated to non-utility operations as well. I used the same percentage that was used to allocate wages to non-utility operations to allocate bonuses to non-utility operations.

## Normalizing Severance Paid Adjustment

**Q. Please explain your proposed Severance Adjustment.**

A. The severance paid varies from year to year. The amount of severance paid included in the test year was $1.9 million higher than the average of the previous three-years (1999-2002). The higher than normal amount of severance pay should not be considered as a routine normal business expenses. I used the average of the previous three-years (1999-2001) of severance pay to reduce the test year total company operating expenses by $2 million. This adjustment reduces the total operating expenses in Washington by $152,775 as shown in Exhibit -___ (JH-6).

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

A. Yes.