BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, Respondent.	DOCKET UE-152253 COMMISSION STAFF'S REPLY TO PACIFICORP'S RESPONSE

I. INTRODUCTION

1 Commission Staff (Staff) of the Washington Utilities and Transportation Commission (Commission) submits this Reply pursuant to the Commission's Notice dated January 22, 2018, in Docket UE-152253.

II. BACKGROUND

2 On September 9, 2016, the Commission issued Order 12 in Docket UE-152253.[1] In that Order, the Commission approved a decoupling mechanism for Pacific Power and Light Company's (Pacific Power or the Company) but also ordered a specific timeline for the decoupling mechanism.[2] That timeline required that the Company file its decoupling update on December 1 of every year, which would have an effective date of February 1 of every year.[3] See the table, reproduced from Order 12, below.

[1] *Wash. Utils. & Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-152253, Order 12 (Sept. 9, 2016) [hereinafter "Order 12"].
[2] Order 12 at 49-50, ¶139, Table 1.
[3] Order 12 at 50, ¶139, Table 1.

Table 1: Timeline for Decoupling:

Year 1 (Sept. 15, 2016 – Sept. 14, 2017)	
Sept. 15	Effective date of filing. Start of first deferral period.
Oct. 31	CBR filed for results of operations July 1, 2015 – June 30, 2016
Sept. 14	End of first deferral period
Years 2-5 (Sept. 15, 2017 – Sept. 14, 2021)	
Sept. 15	Start of deferral period
Oct. 31	CBR filed
Dec. 1	Proposed rate adjustment to Schedule 93
Feb. 1	Effective date of Schedule 93 rate adjustment
Sept. 14	End of deferral period (12 months)*

*Pacific Power has committed to conducting an evaluation of its decoupling mechanism at the end of Year 3, ending on September 14, 2019.

The Company's decoupling filing on December 1, 2017, complied with the timing ordered by the Commission, but Staff does not think the substance of that filing complies with the Commission's order. Staff does not dispute the rate calculation for Schedule 40.

III. REPLY

A. The Earnings Test is the Same as Those Approved for PSE and Avista

3 In Order 12, the Commission ordered that the "proposed earnings test, described below, is the same as the earnings test approved for both PSE and Avista."[4] While, as Pacific Power points out, neither PSE nor Avista's decoupling mechanisms have a 2.5 percent trigger, the Commission noted that the *earnings test* would be the same.[5] PSE's earnings test shares 50 percent of any over-earning with customers, with the customers' share being returned over the next year. In its order approving PSE's decoupling mechanism, the Commission stated:

> we determine that to the extent PSE's earnings exceed its currently authorized rate of return (ROR) of 7.80 percent (which will be adjusted slightly downward on its compliance filing due to lower long-term debt costs), the Company and consumers should share 50 percent each of such potential over-

[4] Order 12 at 46, ¶133.
[5] *See id.*

> earning. The balance should be returned to customers over the subsequent 12-month period.[6]

Just like PSE's earnings test, the one imposed by the Commission on Pacific Power as a condition of being allowed its decoupling mechanism requires that 50 percent of any excess earnings be returned to customers over the subsequent year.

B. The Plain Language Supports Staff

4 Pacific Power argues, in its Response to Staff's Motion, that the plain language supports a finding that their filing complies with Order 12.[7] Staff disagrees. The plain language of paragraph 134 in Order 12 is:

> If the actual ROE exceeds the most recently-authorized ROE:
> - any proposed decoupling surcharge will be reduced or eliminated by up to 50 percent of the excess earnings, and
> - any proposed decoupling surcredit will be returned to customers as well as 50 percent of the excess earnings.[8]

5 First, the plain language indicates that this paragraph was written to address what to do with excess earnings when a decoupling surcharge or surcredit exists. It is not written as a summary of all circumstances under which excess earnings must be returned to customers. The decoupling mechanism improves the Company's opportunity to recover its fixed costs. This allows the Company to focus on controlling costs and operating efficiently. When the Company exceeds its authorized return, the Commission has determined that the existence of a decoupling mechanism requires that customers also benefit from the Company's excess

[6] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-121697, Order 07, 71, ¶165 (June 25, 2013). *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-121697, Order 15, 71-72, ¶¶158-161 (June 29, 2015).
[7] Pacific Power's Response at 3-4, ¶¶6-11.
[8] Order 12 at 47, ¶134.

earnings.[9] This sharing is not dependent upon whether there is a decoupling surcharge or surcredit, but upon whether excess earnings exist at all.

6 Second, nowhere in this paragraph is the 2.5 percent trigger mentioned. The Company's reliance on the connection between the plain language in this paragraph and the 2.5 percent trigger is, therefore, misplaced. Nowhere in Order 12 did the Commission state that the Company could keep the excess earnings owed to a decoupled class when that class had a surcredit but the amount of that surcredit failed to exceed the 2.5 percent trigger. Doing so would treat that class differently than another class with a surcredit that did exceed the 2.5 percent trigger. The disadvantaged class would fail to see the benefit from the sharing of any excess earnings, while the other classes would share in the benefit of excess earnings. Staff disagrees that this is consistent with Order 12.

7 Last, the plain language in the second clause of this paragraph indicates most clearly the way that the earnings test is designed to work. It instructs the Company, in the case of a decoupling surcredit, to return that surcredit to customers as well as 50 percent of excess earnings. Staff understands this to mean that 50 percent of excess earnings are always returned to customers, but in the circumstance where a surcredit is due to customers the surcredit must *also* be returned to customers. Reading the first clause consistently with the second, Staff believes the plain language indicates that 50 percent of excess earnings are always returned to customers, but in the circumstance where a surcharge is due to the Company from customers that surcharge may be reduced or eliminated by applying the customers' share of excess earnings to that surcharge, but that any remaining balance of the excess earnings due to customers after the elimination of the surcharge continues to be

[9] *See Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-121697, Order 07, 70-71, ¶¶159-165 (June 25, 2013); *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-121697, Order 15, 71-72, ¶¶158-161 (June 29, 2015).

returned to customers. No other reading of the plain language makes sense, and this reading is supported by the purpose and function of the decoupling mechanism.

C. It is Fair to Return Excess Earnings and Decoupling Surcredit to Customers

8 While separate, a deferral surcredit and excess earnings indicate something similar: more was collected from customers in the previous year than was anticipated or allowed. It is fair for ratepayers to have their share of these returned. Staff believes that excess earnings should always be returned, consistent with the Commission's order. Additionally, Staff notes that for the period of September 15, 2016, to June 30, 2017, the residential customer class (Schedules 16/18) has a cumulative deferral balance of $1,377,224 surcredit. Its share of the Company's excess earnings was $1,330,982. Taken together, these two amounts total $2,708,206 (an amount that exceeds the trigger of 2.5 percent of allowed revenue). Staff believes it is consistent with the Commission's order, as well as fair to the Company and its ratepayers, that this total amount (of $2,708,206) be returned to the residential customer class effective February 1, 2018.

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IV. CONCLUSION

9 Commission Staff reiterates its request that the Commission grant its motion to reject the Company's decoupling submission and require the Company to refile its decoupling submission in compliance with Order 12 and Commission guidance. Staff does not dispute the rate calculation for Schedule 40.

DATED this 29th day of January 2018.

Respectfully submitted,

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