Exh. AMT-1CT
Dockets UE-230172 and UE-210852
Witness: Alex M. Tellez
REDACTED VERSION

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP d/b/a PACIFIC POWER AND LIGHT COMPANY,** **Respondent.**	**DOCKETS UE-230172 and UE-210852 (consolidated)**
In the Matter of **ALLIANCE OF WESTERN ENERGY CONSUMERS'** **Petition for Order Approving Deferral of Increased Fly Ash Revenues**	

TESTIMONY OF

ALEX M. TELLEZ

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Decoupling, Fly Ash,
Pro Forma General Wage Increases,
& Pro Forma Pension and Retirement Benefits

September 14, 2023

CONFIDENTIAL PER PROTECTIVE ORDER IN DOCKET UE-230172
REDACTED VERSION

TABLE OF CONTENTS

LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Alex M. Tellez, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is alex.tellez@utc.wa.gov.

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

A. I work in the Energy Regulation Section of the Regulatory Services Division of the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst. I have worked at the Commission since April of 2022.

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

A. I graduated from the University of Richmond in 2013 with a B.A. in English Literature and a minor in Law and Liberal Arts. In 2020 I graduated from the University of Washington Evans School of Public Policy with an M.A. in Public Administration and the University of Washington School of Marine and Environmental Affairs with an M.S. in Environmental Affairs. In 2022, I completed the National Association of Regulatory Utility Commissioners' Fall Rate School and the Institute of Public Utilities' Annual Regulatory Studies Program Fundamentals Course. At the Commission, I present Staff's recommendations at open public meetings. Prior to my position at the Commission, I worked in compliance at

SanMar Corporation. I also worked as a consultant for Seattle Children's Hospital where I designed and conducted a climate resilience assessment for the hospital. I also worked for the Puget Sound Institute where I conducted a base program analysis of existing programs and regulations that govern toxics for the Puget Sound Partnership.

Q. Have you previously testified before the Commission?

A. No.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose and scope of your testimony?

A. My testimony addresses three distinct issues. First, I present Staff's recommendations on the following O&M adjustments:

- Years 1 & 2 Pro Forma General Wage Increase, Adjustment 4.3 & 13.2
- Year 1 Pension Related Non-Service Expense, Adjustment 4.4

Second, I respond to the Company's proposal to eliminate decoupling or replace the earnings test. Finally, I address AWEC's petition for an accounting order in Docket UE-210852 to defer revenue generated by the Company's increased Jim Bridger fly ash sales.

Q. Please summarize your recommendations on the issues addressed in your testimony.

A. Below I summarize Staff's recommendations for the three areas I address in my testimony.

O&M Adjustments.

- *Years 1 & 2 Pro Forma General Wage Increase, Adjustment 4.3 & 13.2*. Staff recommends rejecting PacifiCorp's pro forma adjustments for non-union employee benefits for Rate Years 1 and 2 and recommends the Company offset their wage adjustment proposal. In the meantime, Staff recommends reducing the Company's proposed adjustment for non-union wages by 3.89 percent for Rate Year 1 and 3.89 percent in Rate Year 2. Furthermore, Staff incorporates a correction for an error the Company made with the timing of wage increases for union group IBEW 57 and incorporates the Company's recently updated actuarial projections which impact pro forma pension and post-retirement benefits.
- *Year 1 Pension Related Non-Service Expense, Adjustment 4.4*. Staff recommends updating pension non-service expenses based on recently updated actuarial projections.
- *Proposal to eliminate decoupling or replacing the earnings test*. Staff recommends that the Commission reject PacifiCorp's request to eliminate its decoupling mechanism but recommends replacing their decoupling earnings test with the earnings test under the MYRP statute, RCW 80.25.425(6). Staff believes the Company's proposal to eliminate its decoupling mechanism

should be considered after the Commission has concluded its ongoing policy docket on performance-based ratemaking (PBR).

- *AWEC's petition for accounting order, Docket UE-210852*. Staff recommends that the Commission grant the petition for deferred accounting filed in Docket UE-210852,[1] and order PacifiCorp to establish a tracker to return to customers the cumulative deferral balance associated with excess revenues from the sale of fly ash at Jim Bridger.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibits AMT-2 through AMT-23C.

- Exh. AMT-2 is a copy of PacifiCorp's response to Staff DR 70
- Exh. AMT-3 is attachment WUTC 70 to PacifiCorp's Response to Staff DR 70
- Exh. AMT-4 is a comparison of approved and actual wage expenses for non-union employees from 2013-2023
- Exh. AMT-5C is Staff's proposed Year 1 Pro Forma General Wage Increases, Adj. 4.3
- Exh. AMT-6C is Staff's proposed Year 2 Pro Forma General Wage Increase, Adj. 13.2
- Exh. AMT-7 is a copy of PacifiCorp's response to Staff DR 68
- Exh. AMT-8 is a copy of PacifiCorp's response to Staff DR 71
- Exh. AMT-9C is Confidential Attachment WUTC 71-1 to PacifiCorp's response to Staff DR 71, which provides supporting actuarial reports for PacifiCorp's Adjustments 4.3 and 13.2
- Exh. AMT-10C is Confidential Attachment WUTC 71-2 to PacifiCorp's response to Staff DR 71, which provides the most recently updated actuarial reports

[1] *In re All. of Western Energy Consumers,* Docket UE-210852, Petition for Order Approving Deferral of Increased Fly Ash Revenues (Nov. 8, 2021).

- Exh. AMT-11 is a copy of PacifiCorp's response to Response to Staff DR 136

- Exh. AMT-12C is Confidential Attachment WUTC 136 to PacifiCorp's Response to Staff DR 136, which calculates post-retirement non-service expenses based on recently updated actuarial reports

- Exh. AMT-13 is Staff's proposed Pro Forma Pension Related Non-Service Expense, Adj. 4.4

- Exh. AMT-14 is an excerpt (page 5) of the following publication: Migden-Ostrander, J., and Sedano, R. (2016). Decoupling Design: Customizing Revenue Regulation to Your State's Priorities. Montpelier, VT: Regulatory Assistance Project. Full text available at: https://www.raponline.org/knowledge-center/decoupling-design-customizing-revenue-regulation-state-priorities/

- Exh. AMT-15 is a copy of PacifiCorp's 2021 Petition to Modify and Extend the Decoupling Mechanism

- Exh. AMT-16 is a copy of the following publication: Lazar, Jim. (2014). Performance-Based Regulation for EU Distribution System Operators. Pages 1. Also available at: https://www.raponline.org/knowledge-center/performance-based-regulation-for-eu-distribution-system-operators/

- Exh. AMT-17C is Confidential Attachment WUTC 134 to PacifiCorp's response to Staff DR 134, which is data showing the actual revenues from the sale of fly ash from 2020-2023

- Exh. AMT-18 is a copy of PacifiCorp's Response to Staff DR 134

- Exh. AMT-19C is Confidential Attachment WUTC 138 to Response to Staff DR 138, which is the Contract for the Sale of Fly Ash at Jim Bridger Prior to October 2020

- Exh. AMT-20 is a copy of PacifiCorp's Response to Staff DR 138

- Exh. AMT-21C is Staff's estimated calculation of the Fly Ash Excess Revenues from 10/1/20 to 07/31/23

- Exh. AMT-22 is PacifiCorp's Response to Staff DR 122

- Exh. AMT-23C is Confidential Attachment WUTC 122 to response to Staff DR 122, which is the current contract for the sale of fly ash at Jim Bridger

III. O&M ADJUSTMENTS

A. Years 1 & 2 Pro Forma General Wage Increase, Adjustments 4.3 & 13.2

1. Overview

Q. Please describe Staff's proposed Adjustment 4.3 and 13.2, Pro Forma General Wage Increase for Rate Year 1 and Rate Year 2.

A. Adjustment 4.3 reflects changes to union and non-union anticipated wage increases as well as changes to related costs including employee benefits payroll taxes and service-related pension and post-retirement expenses and for Rate Year 1. Adjustment 13.2 reflects these changes for Rate Year 2.

Q. What portions of PacifiCorp's adjustment 4.3 and 13.2 are at issue?

A. Staff disagrees with PacifiCorp's proposed 3.5 percent wage increase to the pro forma non-union wages for Rate Year 1 and Rate Year 2. Additionally, Staff corrects errors made to the wage increases for International Brotherhood of Electric Workers (IBEW) 57 Power Delivery (PD) and Power Supply (PS) labor groups. Finally, Staff updates pro forma pension and post-retirement service expenses based on updated actuarial projections.

2. Proposed Adjustments

Q. Please explain why Staff disagrees with PacifiCorp's 3.5 percent wage increase to the pro forma non-union wages for Rate Year 1 and Rate Year 2.

A. PacifiCorp has consistently overestimated wage expenses in the last 10 years. In response to Staff's DR 70,[2] the Company provided a comparison of approved wage increases to actual wage increases from 2013 to 2023 for non-union employees.[3] Staff found that the Company overestimated expenses for wages by approximately $1.8 million since 2013.[4] The Company does not appear to offset wage increases by accounting for lower-salaried employees replacing senior employees as they leave. Because of an absence of an offsetting factor, Staff recommends the Company develop an offset for their wage adjustment proposal.[5] In the meantime, Staff proposes to reduce the Company's proposed adjustment for non-union wages by 3.89 percent for Rate Year 1 and 3.89 for Rate Year 2 based on the average relative difference between approved wage increases and actual wages increases since 2013.[6]

Q. Please summarize your proposed adjustment for pro forma non-union wages for Rate Year 1.

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[2] Tellez, Exh. AMT-2.
[3] Tellez, Exh. AMT-3.
[4] Tellez, Exh. AMT-4.
[5] *See Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-200900, UG 200901, and UE 200894, Final Order 08/05, 61, ¶ 167 (Sept. 27, 2021) ("We expect offsetting factors in future wage adjustments or explanations in testimony regarding why inclusion is unnecessary.").
[6] *Id.*

A. The following table is a comparison of PacifiCorp and Staff's positions on pro forma labor expense increases for non-union employees for 2024 and 2025. These changes are reflected on Staff's Adjustment 4.3[7] and 13.2.[8]

Parties	2024	2025
PacifiCorp	3.5%	3.5%
Staff	3.36%	3.36%

Q. Please summarize your proposed adjustment for labor group IBEW (PS & PD) for Rate Year 1.

A. In response to Staff DR 68, PacifiCorp noticed an error in the effective dates for the contracted general rate increases for IBEW 57 (PS & PD) labor groups.[9] The effective dates for annual increases for these groups should be January 26 rather than December 26 for each year under contract. Staff's proposed Adjustments 4.3 and 13.2 updates these effective dates accordingly.[10]

Q. Please summarize your proposed adjustment to pro forma service-related pension and post-retirement expenses.

A. In its response to Staff's data request for supporting documentation for pro forma pension and post-retirement benefits for rate years 1 and 2,[11] PacifiCorp provided copies of supporting actuarial reports[12] and provided more recently updated actuarial reports.[13]

[7] Tellez, Exh. AMT-5C at 6.
[8] Tellez, Exh. AMT-6C at 5.
[9] Tellez, Exh. AMT-7.
[10] Tellez, Exh. AMT-5C at 6.
[11] Tellez, Exh. AMT-8.
[12] Tellez, Exh. AMT-9C.
[13] Tellez, Exh AMT-10C.

The most recent actuarial reports are reflected in Staff's proposed Adjustment 4.3[14] and 13.2.[15] The following table is a comparison of PacifiCorp and Staff's positions on pro forma adjustments to expense for service-related pension and post-retirement benefits.

	2024	
	Pension	Post-Retirement
PacifiCorp	$ 3,494,904	$ (891,868)
Staff	$ (8,538,898)	$ 192,991
	2025	
PacifiCorp	$ (2,915,685)	$ 656,674
Staff	$ 729,672	$ (9,351)

3. Impact to Pro Forma Non-Union Wages for Rate Years 1 & 2

Q. What is the overall impact of Staff's proposed adjustment to General Wage Expenses in Rate Year 1 and Rate Year 2, Adjustments 4.3 and 13.2 respectively?

A. Staff's proposed Adjustment 4.3 includes a general wage increase of $1,256,767 which is a $550,299 reduction relative to PacifiCorp's proposed Adjustment 4.3.[16] Staff's Adjustment 13.2 includes a general wage increase of $709,321, which is a $103,944 increase relative to PacifiCorp's Adjustment 13.2.[17] The following table is a comparison of PacifiCorp and Staff's positions on General Wage Expenses.

[14] Tellez, Exh. AMT-5C at 7.
[15] Tellez, Exh. AMT-6C at 6.
[16] Tellez, Exh. AMT-5C at 1.
[17] Tellez, Exh. AMT-6C at 1.

Parties	2024	2025
PacifiCorp	$ 1,807,066	$ 605,377
Staff	$ 1,256,767	$ 709,321
Difference	$ (550,299)	$ 103,944

Staff's proposed Adjustment 4.3 to pro forma general wage expense in RY 1 decreases NOI by $992,846 and increases revenue requirement by $1,320,590.[18] Staff's proposed Adjustment 13.2 to pro forma general wage expense decreases NOI by $560,364 and increases revenue requirement for Rate Year 2 by $745,343.[19]

B. Year 1 Pension Related Non-Service Expense, Adjustment 4.4.

1. Overview

Q. Please describe Staff's proposed Adjustment 4.4, Pension Related Non-Service Expense.

A. Where pension-related *service* expenses are included in Adjustments 4.3 and 13.2, Adjustment 4.4 is a new adjustment that reflects pension and post-retirement related *non-service* expenses for Rate Year 1 because these expenses are no longer eligible for capitalization.[20] Non-service expenses include interest costs related to plan

[18] Huang, Exh. JH-2 at 3.
[19] Huang, Exh. JH-3 at 2.
[20] Cheung, Exh. SLC-1T at 32:4-8.

liabilities, expected returns on plan assets, amortization of actuarial gains/losses, and amortization expenses related to previously deferred pension settlement accounting.

Q. What portions of PacifiCorp's Adjustment 4.4 are at issue?

A. Staff updates pro forma pension non-service expenses and post-retirement non-service expenses based on updated actuarial projections.

2. Proposed Adjustment

Q. Please explain the updates Staff recommends correcting with PacifiCorp's proposed Adjustment 4.4.

A. In its response to Staff DR 71,[21] the Company provided copies of the latest actuarial reports which flow into pro forma pension and post-retirement benefits.[22] In speaking with the Company, the Company indicated that those updated actuarial projections would impact pro forma non-service pension and post-retirement expenses. In response to Staff DR 136,[23] the Company provided calculated post-retirement non-service expenses based on the latest actuarial reports.[24] Staff recommends updating the non-service pension and post-retirement expenses accordingly.

[21] Tellez, Exh. AMT-8.
[22] Tellez, Exh. AMT-10C.
[23] Tellez, Exh. AMT-11.
[24] Tellez, Exh. AMT-12C.

Q. Please summarize your proposed adjustment for pension-related non service expenses.

A. On a Washington allocated basis, Staff's proposed adjustment reduces pension non-service expenses by $1,556,712, which is a $866,751 reduction relative to PacifiCorp's proposed adjustment.[25] Staff's proposed adjustment also increases post-retirement non-service expenses for the same period by $367,831 which is a $197,606 increase relative to PacifiCorp's proposed adjustment.[26] The following table is a comparison of PacifiCorp's and Staff's positions on a WA allocated basis.

	Company	Staff	Difference
Pension Non-Service Expense	$ (689,961)	$ (1,556,712)	$ (866,751)
Post-Retirement Non-Service Exp.	$ 70,225	$ 367,831	$ 197,606

3. Impact to Pro Forma Pension Related Non-Service Expenses

Q. What is the overall impact on NOI and Revenue Requirement of Staff's proposed adjustment to Pension Related Non-Service Expense, Adjustment 4.4?

A. Staff's proposed Adjustment 4.4 to pro forma pension related non-service expenses in RY 1 increases NOI by $856,104 and decreases revenue requirement by $1,010,107.[27]

[25] Tellez, Exh. AMT-13 at 1.
[26] *Id*.
[27] Huang, Exh. JH-2 at 3.

IV. DECOUPLING

A. Overview

Q. Does the Company address decoupling in its rate case?

A. Yes. In Company witness Meredith's direct testimony, the Company proposes to eliminate its decoupling mechanism effective March 1, 2024.[28] The Company proposes that the decoupling mechanism deferral period that began on January 1, 2023, be extended to February 29, 2024, with no further deferrals booked after that time.[29] The Company proposes that a final Schedule 93 rate adjustment would take effect from June 1, 2024, until May 31, 2025, after which any residual balances would be erased and Schedule 93 would be cancelled.[30] Furthermore, in Company witness McVee's direct testimony,[31] the Company proposes to discontinue the current earnings sharing mechanism tied to its decoupling mechanism for the duration of the mechanism and replace its existing earnings test with the one prescribed in RCW 80.28.425.

Q. Please provide an overview of the Company's proposal to eliminate its decoupling mechanism.

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[28] Meredith, Exh. RMM-1T at 39:2-3.
[29] *Id*. at 39:3-5.
[30] *Id*. at 39:7-9.
[31] McVee, Exh. MDM-1T at 33:4-6.

A. PacifiCorp argues that while its decoupling mechanism is meant to remove the throughput disincentive for conservation, it is unnecessary given that the Energy Independence Act (EIA), codified as RCW 19.285, already requires the Company to pursue all cost-effective conservation measures.[32] The Company also argues that its decoupling mechanism could be a disincentive for utilities to support electrification because electrification will require more energy sales and decoupling is meant to incentivize a reduction in energy sales.[33] However, this theory that decoupling disincentivizes electrification is unsupported in testimony. Finally, the Company argues that PBR policies under Washington's new MYRP legislation will advance Washington's objectives better than decoupling, though the Company does not support this argument either.[34]

Q. Please provide an overview of the Company's proposal to replace the current earnings sharing mechanism tied to its decoupling mechanism.

A. As part of its Multi-Year Rate Plan (MYRP) proposal, the Company proposes to follow the earnings test in the MYRP statute.[35] RCW 80.28.425(6) states:

> If the annual commission basis report for a gas or electrical company demonstrates that the reported rate of return on rate base of the company for the 12-month period ending as of the end of the period for which the annual commission basis report is filed is more than .5 percent higher than the rate of return authorized by the commission in the multiyear rate plan for such a company, the company shall defer all revenues that are in excess of .5 percent higher than the rate of return authorized by the commission for refunds to

[32] Meredith, Exh. RMM-1T at 39:11-17.
[33] *Id*. at 39:18-22.
[34] *Id*. at 39:22-40:3.
[35] McVee, Exh. MDM-1T at 32:20-23.

> customers or another determination by the commission in a subsequent adjudicative proceeding.

Because the Company proposes to follow this earnings test, PacifiCorp feels it would be impractical to have two different earnings tests applied simultaneously.[36] PacifiCorp proposes for the earnings review to occur when the Company files its annual Commission Basis Report.

Q. What is Staff's recommendation regarding PacifiCorp's proposal?

A. Staff recommends that the Commission reject PacifiCorp's request to eliminate its decoupling mechanism at this time. It would be premature to eliminate the mechanism before the Commission has an opportunity to evaluate the merits of decoupling mechanisms as a form of PBR in its ongoing policy docket, Docket U-210590. However, Staff recommends replacing the Company's decoupling earnings test with the earnings test under the MYRP statute, RCW 80.28.425, consistent with how the earnings test was modified for PSE and Avista in their most recent rate cases.[37]

B. Background on Decoupling

Q. What is decoupling?

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[36] McVee, Exh. MDM-1T at 32:20-21 and 33:4-6.

[37] *Wash. Utils .Transp. Comm'c v. Puget Sound Energy*, Docket UE-220066, Order 24/10, 24, ¶ 87 (Dec. 22 2022); *Wash. Utils. & Transp. Comm'c v. Avista Corp.*, Docket UE-220053 et al., Order 10/04, 45-46, ¶ 126 (Dec. 12, 2022).

A. Decoupling is a mechanism that breaks the link between a utility's energy sales and revenues. It was designed to remove utilities' energy throughput disincentive to invest in conservation and make utilities indifferent to reductions in sales associated with energy efficiency programs.[38]

Q. What is an energy throughput disincentive?

A. In traditional ratemaking and regulation, prices are set based on a test year period. Where energy sales usually differ from the test year due to weather, economic changes, and other factors, fixed costs associated with investment in power plants, pipeline, and transmission lines tend to be more predictable. These long-term investments make up a large portion of the utility's cost of service and make it difficult for utilities to increase profits by cutting costs. This means it is much easier for a company to increase revenues, and thereby profits, by increasing sales. Because a utility makes more revenue and more profit by increasing sales, theoretically, there is a disincentive to decrease throughput, or sales, by achieving more energy efficiency. In essence, increased energy efficiency means less energy sales, and therefore less profits when revenue is tied to energy sales.

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

A. In its 2015 limited-issue rate case, PacifiCorp proposed a five-year decoupling mechanism pilot as a means to avoid annual rate cases.[39] The Company's decoupling

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[38] Tellez, Exh. AMT-14.

[39] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, RBD-1T, 3:10-18 (Nov. 25, 2015).

mechanism, which was approved in the 2015 limited-issue rate case,[40] was designed to separate the recovery of costs from energy sales.[41] Doing so was meant to mitigate changes in usage (and therefore revenues) due to energy efficiency or weather,[42] and thereby provide revenue stability over time.

PacifiCorp's mechanism tracks the difference between allowed and actual revenue on a per-customer basis by rate class and defers the difference through a surcharge or credit to customers.[43] Specifically, the Company's mechanism targets all costs that are recovered through energy sales, except for the basic charge and variable power costs.[44]

In 2020, the Commission approved minor modifications to PacifiCorp's mechanism during the Company's 2019 GRC, which went into effect in 2021.[45] These modifications included changing the monthly calculation for decoupled revenue to include adding schedules for a Time-of-Use (TOU) pilot.

In accordance with Order 12 in Docket UE-152253, the Company filed its three-year evaluation of its pilot program in August of 2021.[46] In its evaluation, the Company analyzed the mechanism's impact on conservation, revenues, fixed cost recovery, cost of service recovery, and the Company's true up by rate class.[47] The

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[40] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, Order 12, 49, ¶ 139 (Sept. 1, 2016) (2015 PacifiCorp Order 12).
[41] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, RBD-1T, 21:13-16 (Nov. 25, 2015).
[42] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, Witness RBD-1T, 5:10-11 (Nov. 25, 2015).
[43] 2015 PacifiCorp Order 12 at 44, ¶ 124.
[44] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, Witness JRS-1T, 3:14-15 (Nov. 25, 2015).
[45] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-191024, et al., Order 09/7/12, 52-53, ¶ 135 (Dec. 14, 2020).
[46] Meredith, Exh. RMM-10.
[47] *Id*. at 6.

report recommended that the mechanism be continued in the near-term and that four modifications be made to improve the mechanism. The Company simultaneously petitioned the Commission to extend the mechanism beyond the five-year pilot period and approve four modifications to the mechanisms consistent with the recommendations in the evaluation.[48] These proposed modifications included adjusting the timing of the deferral period, removing Schedules 36 and 40 from the mechanism, tracking and truing up decoupled customers as one class, and modifying the earnings test so it is only based on earnings from the Company's decoupled customers. The Commission granted a temporary extension of the mechanism through the pilot deadline to give Staff and other interested parties additional time to evaluate PacifiCorp's proposed changes.[49]

At the Commission's December 9, 2021, Open Meeting, the Commission authorized PacifiCorp to extend and modify the decoupling mechanism as proposed subject to conditions.[50] One of the conditions required PacifiCorp to "evaluate decoupling in its next general rate case to better determine the relationship between an earnings test and the general purpose of decoupling."[51]

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

A. Yes. In 2010, the Commission issued a policy statement, "Report and Policy Statement on Regulatory Mechanisms, including Decoupling, to Encourage Utilities

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[48] Tellez, Exh. AMT-15.
[49] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, Order 17, 4, ¶ 18 (Sept. 9. 2021).
[50] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Docket UE-152253, Order 18, 5, ¶ 21 (Dec. 10, 2021) (2015 PacifiCorp Order 18).
[51] *Id.* at 3, ¶ 7(3).

to Meet or Exceed their Conservation Targets" in Docket U-100522. The policy statement provided guidance on the types and applications of decoupling mechanisms it would consider. For each type of decoupling mechanism, the Commission defined minimum elements and criteria for approval. The Commission outlined criteria for full decoupling mechanisms such as PacifiCorp's,[52] including the following statement regarding the duration of the mechanism: "The Commission will generally approve a full decoupling mechanism for the period required to achieve its objectives or until the filing of a utility's next general rate case. Under either circumstance, the burden is upon the utility to demonstrate the continued need for the mechanism."[53] The policy statement articulated the purpose of a full decoupling mechanism as follows: "Full decoupling [is] designed to minimize the risk to both the utilities and to ratepayers of volatility in average use per customer by class regardless of cause, including the effects of weather."[54]

The policy statement also addressed the impact of the EIA's conservation requirements on decoupling mechanisms. In a section related to direct conservation incentives, the policy statement says the following:

> The EIA mandates that electric utilities acquire all cost-effective conservation that is feasible and reliable, or face penalties for failure to do so. One may therefore ask legitimately why it would be desirable to provide incentives for electric IOUs to acquire more conservation than is already required by statute since the implication is that conservation beyond the target would not be available.

[52] *In re Wash. Utils. & Transp. Comm'n Investigation into Energy Conservation Incentives*. Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets, 18-19, ¶ 28 (Nov. 4, 2010) (hereinafter "Decoupling Policy Statement").
[53] *Id.*
[54] *Id.* at 8, ¶ 12; *see also Id*. at 16, ¶ 27 ("By reducing the risk of volatility of revenue based on customer usage, both up and down, such a mechanism can serve to reduce risk to the company, and therefore to investors, which in turn should benefit customers by reducing a company's debt and equity costs.").

> However, the EIA, in RCW 19.285.060(4), provides us with the express authority to provide such incentives: "The commission … may consider providing positive incentives for an investor-owned utility to exceed the targets established in RCW 19.285.040."[55]

Though the Company argues that decoupling is unnecessary given that the EIA already requires the Company to pursue all cost-effective conservation, the Commission's policy statement communicates that it supports additional methods to incentivize conservation beyond targets established in the EIA. The EIA passed long before PacifiCorp initiated its decoupling mechanism. Staff therefore does not see those EIA obligations as a persuasive argument that the decoupling mechanism is now unnecessary.

Q. Has the Company demonstrated the need for the mechanism?

A. Yes, the Company demonstrated the need to the Commission in previous dockets and Staff does not believe that circumstances have changed such that eliminating the decoupling mechanism is warranted. The justification for a decoupling mechanism has not changed since the Company's mechanism was approved. The EIA authorizes the Commission to provide positive incentives to exceed the targets established in RCW 19.285.040. Further, the Company does not allege (and Staff does not perceive) any changed circumstance that diminishes the decoupling mechanism's ability to minimize the risk of volatility in average use per customer, a key goal of full decoupling as articulated in the policy statement.[56] And because PacifiCorp does

[55] *Id.* at 20, ¶ 31 (citations omitted).

[56] Meredith, Exh. RMM-1T, 39:10-40:5. Decoupling Policy Statement at 8; *see also* 2015 PacifiCorp Order 12 at 45, ¶ 128 ("The purpose of a decoupling mechanism is to allow for more stable cost recovery over time, even as revenues fluctuate.")

not propose a conservation performance incentive mechanism in this case and has not evaluated its mechanism and its impact on conservation or rate stability as the Commission ordered at its December 10, 2021 Open Meeting,[57] Staff believes that the mechanism should stay in place until an alternative conservation related performance incentive mechanism is put in place. Staff also notes as an aside that, had a conservation-related incentive mechanism been preferable to full decoupling at the time that PacifiCorp first proposed the mechanism in 2015, the Commission could have invited the Company to propose a "direct conservation incentive" instead.[58] Presumably, the Commission did not do so because incentivizing conservation was not the only goal.

C. Recommendations

Q. Does Staff feel that this is the appropriate time to consider eliminating the Company's decoupling mechanism?

A. Because Staff considers PacifiCorp's decoupling mechanism to be a form of performance-based ratemaking (PBR), Staff believes that the Company's proposal to eliminate its decoupling mechanism should be considered after the conclusion of the Commission's ongoing policy proceeding on PBR, Docket U-210590. The Company has not made a compelling case that the mechanism is unnecessary in light of the EIA, nor has it provided any support to the theories that decoupling would hinder electrification and that PBR policies under MYRP legislation better accomplish the

[57] 2015 PacifiCorp Order 18 at 3, ¶ 7(3).
[58] *See* Decoupling Policy Statement at 19, ¶ 30–22, ¶ 33.

Commission's goals. The analysis of PacifiCorp's decoupling mechanism is better conducted after having been considered in the larger context of PBR. However, Staff considered the merits of replacing the earnings test and agrees with the Company that it would be impractical to apply two different earnings tests simultaneously.

Q. Why does Staff consider decoupling to be a form of PBR?

A. Where traditional cost-based regulation sets tariffs based on fair return on investments and prudent operating expenses, PBR encourages behavioral change.[59] A decoupling mechanism such as PacifiCorp's sets levels of allowed revenues and ensures recovery of those levels regardless of sales. The employment of this type of mechanism is known as revenue cap regulation and is considered a type of PBR mechanism.[60]

Q. What is Staff's recommendation?

A. As a form of PBR, Staff feels it would be premature to eliminate the mechanism before the Commission has had an opportunity to consider decoupling in the context of the PBR rulemaking. It may be that the Commission finds decoupling to be an essential component of performance-based ratemaking and issues a policy statement reinforcing the preference for IOUs to have decoupling mechanisms. Staff recommends that the Commission reject PacifiCorp's request to eliminate its decoupling mechanism but recommends replacing its decoupling earnings test with the earnings test under the MYRP statute, RCW 80.25.425(6). Staff believes the

[59] Tellez, Exh. AMT-16 at 1.
[60] *Id*. at 10.

Company's proposal to eliminate its decoupling mechanism should be considered after the Commission has concluded its ongoing policy docket on performance-based ratemaking (PBR).

V. FLY ASH

A. Overview

Q. What is fly ash?

A. Fly ash is a byproduct of coal combustion that is used in the manufacture of concrete, bricks, and other building materials. As coal plants have been decommissioned, the value of fly ash has increased. As a joint owner of the Jim Bridger coal plant, PacifiCorp earns two thirds of the revenue from the sale of fly ash produced by the plant, a portion of that two thirds is then allocated to Washington and included in Washington rates.

Q. Please provide an overview of AWEC's accounting petition.

A. In its petition, filed November 8, 2021, AWEC states that after PacifiCorp's last general rate case, Docket UE-191024, PacifiCorp entered into a new contract to sell fly ash from Jim Bridger.[61] AWEC claimed that the new contract substantially increased revenues for the Company as a whole.[62] AWEC argued that the increased

[61] *In re All. of Western Energy Consumers*, Docket UE-210852, Petition for Order Approving Deferral of Increased Fly Ash Revenues, 2, ¶ 4 (Nov, 11, 2021).
[62] *Id.* at 2-3, ¶ 4.

revenues are material—they would result in a 498 percent increase to WA allocated revenues—and therefore warrant accounting treatment.[63]

Q. Please summarize Staff's recommendation regarding AWEC's accounting petition.

A. Staff recommends that the Commission grant the petition for deferred accounting filed in Docket UE-210852, and order PacifiCorp to establish a tracker to return to customers the cumulative deferral balance associated with excess revenues from the sale of fly ash at Jim Bridger. Staff estimates that the Washington-allocated excess revenue PacifiCorp received from the date the new contract became effective (October 1, 2020) through July 31, 2023, was approximately $23.3 million.

B. Analysis

Q. Explain how Staff evaluated the merits of AWEC's petition.

A. Staff considered whether or not these excess revenues meet the legal standards to justify deferred accounting treatment. The legal standards require that deferred amounts must be of a magnitude that has a material impact on company earnings[64] and are the result of an extraordinary circumstance.[65]

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[63] *Id.* at 3, ¶ 5.

[64] *Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas Co.*, Dockets UG-080519 & UG-080530, Order 01, 3, ¶ 7 (May 2, 2008) ("In prior decisions concerning accounting petitions, the Commission has determined that deferred amounts must be of a magnitude such that recording the costs under the Federal Energy Regulatory Commission's uniform system of accounts has a material impact on company earnings.").

[65] *E.g.*, *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Dockets UE-140762 & UE-140617 & UE-131384 & UE-140094, Order 08, 114, ¶ 273 (Mar. 25, 2015) ("The costs are in no sense 'extraordinary,' a criterion that should apply to a cost deferral accounting mechanism at the time requested and at the time any

Q. Are the excess revenues from fly ash material?

A. Yes. Staff analyzed data the Company submitted as an attachment[66] to its response to Staff's DR 134[67] and data from a prior contract for the sale of fly ash[68] acquired in DR 138[69] to define revenues the Company earned and estimate revenues in rates from October 1, 2020, through June 31, 2023. Staff estimates that Washington's share of revenues from the sale of fly ash at Jim Bridger was approximately [redacted] or [redacted] greater than in rates during that period.[70]

Q. Are the excess revenues the result of an extraordinary circumstance?

A. Staff considers the circumstances surrounding the excess revenues to be extraordinary for three reasons. First, the sales agreement provided to Staff in response to DR 122[71] was fully executed in October of 2020,[72] four or five months after the parties agreed to a settlement to resolve its 2019 GRC filing,[73] and more than a month before the Commission entered the order approving the settlement.[74] The contract was signed by the vendor on May 20, 2020, indicating that the

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recovery is sought."); *id.* at 110 ¶ 263 ("The replacement power costs in question do not qualify as extraordinary costs such as might arguably be candidates for deferral accounting."); *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-050684 & UE-050412, Order 04/Order 03, 11-12, ¶¶ 305-06 (Apr. 17, 2006); *In re Petition of Puget Sound Energy*, Docket UE-011600, Order Granting Accounting Petition, 2, ¶ 6 (Dec. 28, 2001).

[66] Tellez, Exh. AMT-17C.
[67] Tellez, Exh. AMT-18.
[68] Tellez, Exh. AMT-19C.
[69] Tellez, Exh. AMT-20.
[70] Tellez, Exh. AMT-21C.
[71] Tellez, Exh. AMT-22.
[72] Tellez, Exh. AMT-23C at 53.
[73] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-191024, UE-190750, UE-190929, UE-190981 & UE-180778, Settlement Stipulation (Jul. 7, 2020).
[74] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-191024, UE-190750, UE-190929, UE-190981 & UE-180778, Order 09/07/12, 6, ¶ 7 (Dec. 14, 2020).

Company was negotiating its contract during the settlement period.[75] The timing presents an information asymmetry. Presumably, the Company was negotiating the contract but did not flag the issue for treatment as a pro forma adjustment.

Secondly, the settlement from its 2019 GTC filing prohibited the Company from filing another rate case with a rate effective date before January 1, 2024. State law mandates that the elimination of coal-fired resources by December 31, 2025, so there is little to no chance that the failure to properly account for the fly ash revenues in the 2019 GRC will correct itself or even out over the relevant time horizon.

Thirdly, between GRC filings, the Company's Power Cost Adjustment Mechanism (PCAM) reduces the Company's exposure to variability in power costs. The PCAM updates the Company's rates for costs associated with the production of fly ash at Jim Bridger; however, the PCAM does not update the Company's rates for increased revenue from contracts for the sale of fly ash.

In summary, this is an extraordinary circumstance because of the short time that coal-fired resources will remain in Washington rates, the length of time this money was not accounted for in rates, and because the Company was able to update costs related to the production of fly ash during that time without accounting for the benefits.

Q. What is Staff's recommendation?

A. Given that the excess revenues from the sale of fly ash at Jim Bridger are material and the result of an extraordinary circumstance, Staff recommends that Commission

[75] Tellez, Exh. AMT-8C at 53.

order the Company to establish a tracker to pass back excess revenues to ratepayers over a two-year period.

Q. Does this conclude your testimony?

A. Yes.