

**Exh. BAE-1T  
Dockets UE-190334, UG-190335,  
and UE-190222  
Witness: Betty A. Erdahl**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**AVISTA CORPORATION, d/b/a  
AVISTA UTILITIES,**

**Respondent.**

**DOCKETS UE-190334, UG-190335,  
and UE-190222 (*Consolidated*)**

**TESTIMONY OF**

**Betty A. Erdahl**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Investor Supplied Working Capital*

**October 3, 2019**

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## **LIST OF EXHIBITS**

Exh. BAE-2 Staff Adjustment to Avista's ISWC Amount

Exh. BAE-3 Avista Response to UTC Staff Data Request No. 126

1 **I. INTRODUCTION**

2

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

4 A. My name is Betty A. Erdahl, and my business address is 621 Woodland Square Loop  
5 SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250,  
6 Olympia, Washington, 98504-7250. My business email address is  
7 betty.erdahl@utc.wa.gov.

8

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

10 A. I am employed by the Washington Utilities and Transportation Commission  
11 (Commission) as a Regulatory Analyst in the Energy Section of the Regulatory  
12 Services Division.

13

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

15 A. I have been employed by the Commission since June 1991.

16

17 **Q. Please state your qualifications to provide testimony in this proceeding.**

18 A. I graduated from Washington State University in 1988 with a Bachelor of Arts  
19 degree in accounting. I have also completed relevant coursework such as the “Basics  
20 of Regulation” offered by New Mexico State University, Rate Making Process  
21 Technical Program, USTA class on Understanding Separations, Access Charges, and  
22 Settlements, as well as Utility Ratemaking: The Fundamentals and the Frontier.

1 Before joining the Commission in June 1991, I worked for two years as an  
2 accountant in the financial sector.

3

4 **Q. Have you testified previously before the Commission?**

5 A. Yes. I testified on behalf of Commission Staff (Staff) in Docket TG-920090,  
6 regarding affiliated interests of Waste Management, Inc.; Docket UT-950200,  
7 regarding a general rate case of US WEST Communications, Inc.; Docket UT-  
8 970066, regarding payphone access line rates of Toledo Telephone Company;  
9 Docket UT-020406, a complaint by AT&T Communications of the Pacific  
10 Northwest, Inc. against Verizon Northwest Inc.'s access charge rates; Dockets UE-  
11 111048/UG-111049, regarding a general rate case of Puget Sound Energy (PSE);  
12 Docket UE-130043, regarding a general rate case of Pacific Power & Light  
13 Company (Pacific Power); Docket UG-152286, regarding the proposed settlement of  
14 Cascade Natural Gas Corporation's (CNGC's) general rate case; and UG-170929,  
15 regarding the proposed settlement of CNGC's general rate case. I also prepared  
16 testimony in Docket UG-190210, regarding the proposed settlement of CNGC's  
17 general rate case; Dockets UE-170033/UG-170034, regarding investor supplied  
18 working capital in a general rate case of PSE; Dockets UE-140188/UG-140189,  
19 regarding a general rate case of Avista Corporation d/b/a Avista Utilities ("Avista"  
20 or "Company"); Docket UT-040788, regarding a general rate case of Verizon  
21 Northwest Inc.; Docket UT-051291, regarding affiliated interest contracts, overall  
22 earnings review, and provision of a quality of service guarantee program in the  
23 Sprint spin-off of its local exchange companies; Docket UT-082119, regarding

1 retention of pre-merger settlement provisions, a requirement to offer a quality of  
2 service guarantee program, and affiliated interest reporting in the CenturyTel/  
3 Embarq merger case; and Docket UE-140762, et al., regarding a general rate case of  
4 Pacific Power, including an adjustment to investor supplied working capital (ISWC).  
5

## 6 II. SCOPE AND SUMMARY OF TESTIMONY

7

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

9 A. I present Staff adjustments to the Company's investor supplied working capital  
10 ("ISWC"), which Avista includes as a line item in the per books rate base in the test  
11 year results of operations.<sup>1</sup> Staff's ISWC adjustments are identified as electric  
12 Adjustment 1.03 E-WC and gas Adjustment 1.03 G-WC.  
13

14 **Q. Please summarize your recommendation.**

15 A. I recommend re-categorizing the interest-earning portions of cash accounts 134122  
16 and 134123 from asset to non-operating investment. Cash balances that already earn  
17 interest should not earn a second return through working capital treatment. My  
18 adjustment decreases ISWC from approximately \$101 million to \$97.9 million, and  
19 reduces electric and natural gas revenue requirements by \$125,000 and \$38,000,  
20 respectively.  
21

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<sup>1</sup> Andrews, Exh. EMA-2 at 1, Row 48, and Andrews, Exh. EMA-3 at 1, Row 46.

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

2 A. Yes. I prepared Exh. BAE-2 and Exh. BAE-3.

3 Exh. BAE-2 depicts Staff's adjustment to the working capital amount  
4 included in rate base for electric and gas operations, and are incorporated into Staff  
5 witness Joanna Huang's Exh. JH-2 and Exh. JH-3, respectively.

6 Exh. BAE-3 is Avista's response to UTC Staff Data Request No. 126 and  
7 shows the detailed account-by-account analysis for calculating Staff's proposed  
8 ISWC. Page 8 of this exhibit includes the re-categorization from current assets to  
9 other investments of amounts in accounts 134122 and 134123.

10

11

### **III. DISCUSSION**

12

13 **A. Introduction to Investor Supplied Working Capital**

14

15 **Q. What is cash working capital?**

16 A. Cash working capital refers to the funds necessary to sustain a company in its day-to-  
17 day operations. It is calculated by subtracting current liabilities from current assets.

18

19 **Q. What is the ratemaking perspective on cash working capital?**

20 A. In rate setting, the goal is to measure whether, and the extent to which, investors  
21 actually supply working capital. If they do, it is appropriate to allow a return on the  
22 amount of working capital the investors supply. As the Commission has observed,

1            “[T]he objective is to quantify the amount of working capital and current assets  
2 supported by capital on which investors are entitled to a return.”<sup>2</sup>

3

4    **Q.    What is the basic concept of the investor supplied working capital (ISWC)**  
5            **method?**

6    A.    Broadly speaking, the ISWC method, also known as the balance sheet method,  
7 measures the difference between the capital invested in a business and the  
8 investments of the business. In other words, ISWC is the amount of invested capital  
9 that was provided by investors and available for the company’s use, over and above  
10 the company’s investments in operating plant, non-operating plant, and other specific  
11 items of investment. If there is an excess of invested capital over investments, that  
12 amount is the working capital supplied by investors, or ISWC.

13            In summary, the ISWC method directly measures the amount of working  
14 capital that investors provide. If there is such an amount, it is allocated to the  
15 electric, gas and non-operating segments of the business based on the percent of  
16 investment in each segment. The amount of ISWC allocated to regulated operations  
17 is included in rate base and earns a return.

18

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<sup>2</sup> *Wash. Util. & Transp. Comm’n v. Pacific Power and Light Company*, Docket UE-050684, Order 04 at ¶ 189 (April 17, 2006).



1           **B.     Staff Adjustments 1.03 E-WC and 1.03 G-WC**

2

3   **Q.     What types of accounts are typically assigned to the non-operating category?**

4   A.     The following types of accounts are typically put into the non-operating category:  
5           accounts earning or accruing interest on behalf of Avista or the rate payer (e.g., bank  
6           accounts, escrow accounts, and Purchase Gas Adjustment accounts, including  
7           hedging activities); accounts that are not allowed for rate making purposes (e.g.,  
8           charity and donations); and accounts that are related to non-utility operations.

9           Placing these accounts in the non-operating category ensures that rate payers do not  
10          pay a return on those accounts.

11

12   **Q.     What did Staff do differently than Avista when assigning accounts to the non-**  
13          **operating category as opposed to the current asset or current liability**  
14          **categories?**

15   A.     Staff re-categorized the portion of Accounts 134122 and 134123 that already earns  
16          interest and thus should not generate a second return for investors through working  
17          capital treatment. If an investment account that earns interest is categorized as a  
18          current asset, a second return on that amount would be included in the revenue  
19          requirement calculation.

20   **Q.     What do Accounts 134122 and 134123 contain, and which portions have you re-**  
21          **categorized?**

22   A.     Accounts 134122 and 134123 are funds held for daily trade positions for gas and  
23          electric purchase and sales. Interest is earned on a portion of the balance of each  
24          account. I re-categorized the portion of each account that earns interest.

1 **Q. Does Avista dispute Staff's re-categorization of those accounts?**

2 A. No. The Company agrees that amounts from these accounts that earn interest should  
3 be re-categorized from current assets to the non-operating category. In response to  
4 Staff discovery, the Company updated its ISWC calculation after re-categorizing the  
5 interest earning amounts in accounts 134122 and 134123.<sup>3</sup>

6

7 **Q. How does this re-categorization impact the revenue requirement calculations?**

8 A. This change results in a slightly lower ISWC amount and allocates a slightly higher  
9 amount to the non-operating segment of the business. This adjustment decreases  
10 ISWC from approximately \$101 million to \$97.9 million, and reduces electric and  
11 natural gas revenue requirements by \$125,000 and \$38,000, respectively.

12

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

14 A. Yes.

15

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<sup>3</sup> Erdahl, Exh. BAE-3, Avista's response to UTC Staff Data Request No. 126, at 8. The amounts that are re-categorized are shown as accounts 134122-1 and 134123-1.