

CASE: UE 210  
WITNESS: Michael Dougherty,

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 300**

**Opening Testimony**

**July 24, 2009**



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1     **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**  
2     **ADDRESS.**

3     A. My name is Michael Dougherty. I am the Program Manager for the Corporate  
4     Analysis and Water Regulation Section of the Public Utility Commission of  
5     Oregon. My business address is 550 Capitol Street NE Suite 215, Salem,  
6     Oregon 97301-2551.

7     **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**  
8     **EXPERIENCE.**

9     A. My Witness Qualification Statement is found in Exhibit Staff/301.

10    **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11    A. The purpose of this testimony is to describe my adjustments to PacifiCorp's  
12    Distribution Operations and Maintenance (O&M) expenses and  
13    recommendations concerning the sale of Renewable Energy Certificates  
14    (RECs).

15    **Q. DID YOU PREPARE EXHIBITS FOR THIS DOCKET?**

16    A. Yes. I prepared:  
17       Exhibit Staff/302, consisting of 1 page; and  
18       Exhibit Staff/303, consisting of 37 pages.

19    **Q. PLEASE PROVIDE A SUMMARY OF YOUR ADJUSTMENTS.**

20    A. The following table summarizes my adjustments to PacifiCorp's Distribution  
21    O&M expenses.

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**Table 1 – Summary of Distribution O&M Adjustments**

CWIP Write-offs	\$1,022,630
Meals and Entertainment	\$87,432
<b>Total</b>	<b>\$1,110,063</b>
<b>Total Escalated to 2010</b>	<b>\$1,136,704</b>
<b>Total increased for \$26,099</b>	<b>\$1,162,803</b>

Using PacifiCorp's O&M "Operation" escalation rate of 2.4 percent,<sup>1</sup> the adjustment escalates to a 2010 amount of \$1,136,704. I then took this amount and subtracted PacifiCorp's 4.20 Adjustment, *Adjust Non-Power Cost O&M to 2010 Target*, Distribution, Other Adjustments, Oregon-allocated amount of minus \$26,099 to receive a total adjustment of \$1,162,803.

**Q. PLEASE EXPLAIN YOUR USE OF THE ESCALATION FACTOR.**

A. In Exhibit PPL/702, page 4.8, PacifiCorp calculates the O&M escalation from June 2008 through December 2010 for accounts 500 to 935 (non-power cost accounts only) using industry specific escalation indices. In Exhibit PPL/703, page 4.8.8, PacifiCorp actually provides two Distribution escalation rates, 2.4 percent for Operations and a negative 1.3 percent for Maintenance. Since CWIP write-offs and meals and entertainment are more akin to operations than maintenance,<sup>2</sup> I used the operations escalation of 2.4 percent.

**Q. PLEASE EXPLAIN YOUR ADJUSTMENT CONCERNING PACIFICORP'S 4.20 ADJUSTMENT, ADJUST NON-POWER COST O&M TO 2010 TARGET.**

<sup>1</sup> Exhibit PPL/703, page 4.8.8.

<sup>2</sup> CFR 18, Pt. 101 states on page 379 under 2. Maintenance "The cost of maintenance chargeable to various operating expense and clearing accounts include labor, materials, overheads, and other expenses incurred in maintenance work." The section lists items that are classified as maintenance.

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1 A. In adjustment 4.20, PacifiCorp explains that the Company is not planning to  
2 spend more than the budgeted non-power cost O&M in calendar year 2010.  
3 As a result, the Company removes "Inflation and Labor Escalations" and "Other  
4 Adjustments" costs from different categories of expenses. For Distribution, the  
5 Company actually adds back \$91,901 in "Other Adjustments" (\$26,099  
6 Oregon-allocated). In order to account for PacifiCorp's expense adjustment, I  
7 subtracted this amount from my escalated adjustment. Because PacifiCorp's  
8 adjustment was a negative \$26,099 (Oregon-allocated), my adjustment actually  
9 increases due to subtracting a negative amount.

10 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

11 A. My testimony is organized as follows:

12 Issue 1, Construction Work in Progress (CWIP) Write-off Expenses ..... 3  
13  
14 Issue 2, Meals and Entertainment Expenses ..... 7  
15  
16 Issue 3, Renewable Energy Certificates (RECs) ..... 8

17 **ISSUE 1, CONSTRUCTION WORK IN PROGRESS (CWIP) WRITE-OFF**  
18 **EXPENSES**  
19

20 **Q. PLEASE EXPLAIN THESE CONSTRUCTION WORK IN PROGRESS**  
21 **(CWIP) WRITE-OFF EXPENSES.**

22 A. According to PacifiCorp's response to Staff Data Request No. 211,<sup>3</sup> the  
23 charges are cancelled CWIP projects and reserve adjustments to expenses.  
24 PacifiCorp states (emphasis added):

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<sup>3</sup> Included in Exhibit Staff/303.

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The specific capital projects being written off are included in CWIP until such time as **information is available that construction will not be completed and an asset not be placed in service.** At that time, the costs are written off by crediting CWIP and debiting expense.

In its response to Staff Data Request No. 296,<sup>4</sup> PacifiCorp provided an extensive list of projects that were cancelled during the test year. Although PacifiCorp does not record the reasons why the capital jobs were cancelled in its accounting data, I was able to classify the Oregon-labeled entries into four main categories: Oregon New Revenue, Oregon Mandated, Public Accommodations, and Other (Replace, Upgrades, Temporary Connects). The following table summarizes the entries (also included in Staff Exhibit 303, Dougherty 6 - 9).

**Table 2 – CWIP Write-offs**

<b>Category</b>	<b>Amount</b>
Oregon – New Revenue	\$704,795
Oregon – Mandated	\$45,693
Oregon - Public Accommodations	\$120,238
Other (Replace, Upgrade, Temp Connects)	\$38,321
<b>Total</b>	<b>\$909,047</b>

In its response to Staff Data Request No. 296, PacifiCorp notes that there are sometimes timing difference between the month cancelled and the month processed; however, the timing differences are relatively short. Additionally, the above total number only references Oregon-labeled entries. The difference between my Table 1 amount (\$1,022,630) and the Table 2 amount (\$909,047) results from both the timing difference and the system-labeled amounts.

<sup>4</sup> Included in Exhibit Staff/303.

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1     **Q. WHY SHOULD THESE EXPENSES NOT BE INCLUDED IN PACIFICORP'S**  
2     **REVENUE REQUIREMENTS?**

3     A. Although these CWIP projects were written off as expenses, they started as  
4     construction projects that were to be placed in plant. PacifiCorp affirms this in  
5     its response to Staff Data Request No. 211<sup>5</sup> by stating "*construction will not be*  
6     *completed and an asset not be placed in service.*" Because the projects were  
7     not placed in service, the projects were not used for providing utility service to  
8     Oregon customers. As a result, PacifiCorp should not be allowed to recover  
9     these expenses through customer rates.

10    **Q. IF NOT IN CUSTOMERS RATES, HOW WILL PACIFICORP RECOVER**  
11    **THESE EXPENSES?**

12    A. As the above table indicates, approximately 78 percent of the Distribution CWIP  
13    write-offs expenses were related to projects labeled "New Revenue".  
14    PacifiCorp's Rule 13 discusses Line Extensions and charges and allowances  
15    concerning line extensions. In addition, PacifiCorp's Schedule 300, lists  
16    PacifiCorp's Facilities Charges, Temporary Service Charge, and Contract  
17    Administration Credit.<sup>6</sup> As such, one way PacifiCorp could recover these  
18    expenses is to attempt to bill and recover the write-off amounts from the specific  
19    sources of new revenue. These costs should not be spread to all Oregon  
20    customers.

21       Concerning the projects listed as Mandated, Public Accommodations, and  
22       Other (Replace, Upgrade, Temporary Connections), PacifiCorp should not be

<sup>5</sup> Included in Exhibit Staff/303.

<sup>6</sup> Rule 13 and Schedule 300 are included in Staff/303.

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1 allowed to recover these costs since these construction projects were never  
2 placed into service. Ballot Measure 9 (ORS 757.355 (1)) precludes recovery of  
3 investments that are used and useful in providing service to customers.

4 **Q. DO YOU HAVE AN ALTERNATE RECOMMENDATION FOR THE**  
5 **COMMISSION TO CONSIDER?**

6 A. Yes. As shown in Table 2, projects listed as Oregon – New Revenue total  
7 \$704,795. If the projects were successfully completed, the revenues would  
8 have been spread to all customers. As such, an alternate recommendation  
9 would be to equally share these Oregon – New Revenue CWIP costs between  
10 customers and shareholders. A 50 / 50 sharing between shareholders and  
11 customers for these projects would result in customers assuming \$352,398 of  
12 these costs. As a result, my total recommended Distribution O&M adjustments  
13 would be reduced to \$810,405.

14 Because Ballot Measure 9 (ORS 757.355 (1)) precludes recovery of  
15 investments that are used and useful in providing service to customers, I do not  
16 propose a sharing of the other CWIP cost categories.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON CWIP WRITE-**  
18 **OFF ADJUSTMENTS?**

19 A. Yes.



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**ISSUE 2, MEALS AND ENTERTAINMENT EXPENSES**

**Q. PLEASE EXPLAIN YOUR MEALS AND ENTERTAINMENT EXPENSE**

**ADJUSTMENTS.**

A. Staff routinely recommends a 50 / 50 sharing between shareholders and customers concerning meals and entertainment expenses. The following table summarizes the meals and entertainment expenses in PacifiCorp's Distribution O&M accounts. These amounts are also listed in Staff/300, Dougherty/1.

**Table 3 – Meals and Entertainment Expenses**

Category	Amount
Catering	\$4,357
Meals & Entertainment	\$50,716
Off-site Rentals (Employee Appreciation)	\$7
On-site Meals	\$17,806
Other Employee Expenses (Emp. Appreciation)	\$14,547
<b>Total</b>	<b>\$87,432</b>

In Commission Order No. 09 – 020 (UE 197), the Commission agreed with Staff's recommendation concerning meals and entertainment expenses and ordered the 50 percent sharing between customers and shareholders. The Commission stated on page 21:<sup>7</sup>

We agree with Staff that the costs for food and gifts are discretionary and should be shared equally by ratepayers and shareholders.

As a result, I recommend a 50 / 50 sharing of meals and entertainment expenses between customers and shareholders.

<sup>7</sup> Included in Exhibit Staff/303.

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1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY CONCERNING  
2 O&M EXPENSES?

3 A. Yes.

4 ISSUE 3, RENEWABLE ENERGY CERTIFICATIONS (RECS)

5  
6 Q. PLEASE EXPLAIN HOW PACIFICORP PLANS TO HANDLE REVENUE  
7 RECEIVED FROM THE SALE OF RENEWABLE ENERGY  
8 CERTIFICATES?

9 A. In order to meet Oregon's Renewable Portfolio Standard (RPS), PacifiCorp is  
10 currently banking Oregon's share of RECs. In adjustment 3.5, PacifiCorp  
11 allocates projected REC sales for the twelve months ending December 2010<sup>7</sup>  
12 from Oregon to the Company's remaining jurisdictions consistent with the  
13 Multi-state Process (MSP) Revised Protocol. According to PacifiCorp's  
14 response to Staff Data Request No. 230,<sup>8</sup> the adjustment is necessary to avoid  
15 giving states with RPS requirements (Oregon and California) credit for REC  
16 sales for their portion of RECs that are being banked rather than sold.  
17 PacifiCorp has been banking Oregon RECs to meet the RPS requirement. In  
18 its response to Staff Data Request No. 232,<sup>9</sup> the Company estimates that based  
19 on current owned or contracted renewable resources, PacifiCorp estimates that  
20 it may have sufficient RECs allocated to Oregon to meet RPS requirements for  
21 years 2011 through 2016.

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<sup>8</sup> Included in Exhibit Staff/303.

<sup>9</sup> Included in Exhibit Staff/303.

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1     **Q. HOW DID PACIFICORP TREAT THE SALES OF RECS IN ITS PREVIOUS**  
2     **GENERAL RATE CASE, DOCKET UE 179?**

3     A. The REC revenue generated included in PacifiCorp's General Rate Case,  
4     Docket UE 170 was \$444,001.<sup>10</sup> This revenue was recorded in Account 456,  
5     *Other electric revenue*. Because rates from UE 170 were effective January 1,  
6     2007, customers received benefits of REC sales for the years 2007, 2008, and  
7     2009.

8     **Q. DO YOU AGREE WITH PACIFICORP'S ADJUSTMENT?**

9     A. Yes. However, because PacifiCorp estimates that it will have sufficient RECs  
10    allocated to Oregon to meet RPS requirements for years 2011 through 2016, if  
11    the Company is able to and chooses to sell Oregon-allocated RECs, the  
12    Company should place the gain on the sale to the property sales balancing  
13    account for refund to customers with interest accrual from the date of sale using  
14    the Commission approved rate of return until amortization begins. This  
15    proposed treatment is consistent with Commission Order No. 07-083 (UP  
16    236),<sup>11</sup> which established the sale of RECs as a property sale with gains on  
17    sale being placed in a property sales balancing account for return to customers.  
18    Additionally, PacifiCorp should report in its semi-annual Property Sales  
19    Balancing Account report any REC sales that occurred during the reporting  
20    period.

21    **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

22    A. Yes.

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<sup>10</sup> Response to Staff Data Request No. 99. Included in Exhibit Staff/303.

<sup>11</sup> Included in Exhibit Staff/303.