

**BEFORE THE WASHINGTON
UTILITIES & TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant

v.

PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY,

Respondent

DOCKET UE-230172

**RESPONSE TESTIMONY OF ANDREA C. CRANE
ON BEHALF OF THE
WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL UNIT**

EXHIBIT ACC-1CTr

September 14, 2023

Revised October 16, 2023

Shaded information is Designated as Confidential per Protective Order in Docket UE-230172

RESPONSE TESTIMONY OF ANDREA C. CRANE

EXHIBIT ACC-1CT_r

DOCKET UE-230172

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RESPONSE TESTIMONY OF ANDREA C. CRANE

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EXHIBITS LIST

Exhibit ACC-2	List of Prior Testimonies of Andrea Crane
Exhibit ACC-3	Revenue Requirement Schedules
Exhibit ACC-4	PacifiCorp Response to Public Counsel Data Request 146
Exhibit ACC-5	PacifiCorp Response to Staff Data Request 71
Exhibit ACC-6C	PacifiCorp Response to Staff Data Request 86

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I. INTRODUCTION / SUMMARY

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard, #401, Ft. Lauderdale, Florida 33306.

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

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Public Counsel Unit of the Washington Attorney General's Office (Public Counsel).

Q. Please describe your professional qualifications.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

1 Since joining The Columbia Group, Inc., I have testified in over 400
2 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware,
3 Florida, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New
4 York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont,
5 Washington, West Virginia and the District of Columbia. These proceedings
6 involved electric, gas, water, wastewater, telephone, solid waste, cable television,
7 and navigation utilities. A list of dockets in which I have filed testimony over the
8 past five years is included in Exhibit ACC-2.

9 **Q. What is your educational background?**

10 A. I received a Master of Business Administration degree, with a concentration in
11 Finance, from Temple University in Philadelphia, Pennsylvania. My
12 undergraduate degree is a B.A. in Chemistry from Temple University.

13 **Q. What exhibits are you sponsoring in this proceeding?**

14 A. I am sponsoring five exhibits. Exhibit ACC-2 consists of two pages and contains a
15 list of the testimonies that I have filed in regulatory proceedings over the past five
16 years. Exhibit ACC-3 consists of eight pages and contains the schedules that
17 support my revenue requirement analysis in this case. Exhibit ACC-4 is
18 PacifiCorp's Response to Public Counsel Data Request No. 146. Exhibit ACC-5
19 is PacifiCorp's Response to Staff Data Request No. 71. Exhibit ACC-6C is
20 PacifiCorp's Response to Staff Data Request No. 86.

1 Nevertheless, the use of a calendar year for projected capital additions will
2 facilitate the review and true-up process, and is more efficient than using multiple
3 annual capital budgets that would have to be spread among multiple rate years.

4 PacifiCorp is seeking to include \$482.4 million of pro forma electric plant
5 additions from the end of the Test Period through December 31, 2024, in Rate
6 Year 1 of its MYRP, and an additional \$335.9 million of electric plant additions
7 in Rate Year 2. PacifiCorp has included a proposed true-up process to examine
8 actual plant additions versus projected additions included in its MYRP, and to
9 make rate adjustments, if necessary. The Company did not file a depreciation
10 study in this case and is not proposing new depreciation rates, except for a few
11 limited assets for which it is proposing new retirement dates.

12 In an effort to reduce net power costs, the Company is proposing to extend
13 the lives of the Jim Bridger and Colstrip generating facilities. Specifically,
14 PacifiCorp is proposing to extend the lives of the Jim Bridger Units 3 and 4 and
15 Colstrip Unit 4 to December 31, 2025. In addition, the Company is proposing to
16 extend the depreciable lives of Jim Bridger Units 1 and 2 to December 31, 2029,
17 and to convert those units to natural gas.

18 As required under RCW 80.28.425, PacifiCorp has included certain
19 performance measures in its filing. These include eight of the 10 performance
20 measures that were adopted by the Commission for Avista Corporation and Puget
21 Sound Energy (PSE), modified to recognize the multi-state operations of
22 PacifiCorp.

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III. SUMMARY OF CONCLUSIONS

Q. What are your conclusions concerning the Company’s revenue requirement and its need for rate relief?

A. Based on my analysis of the Company’s filing and other documentation in this case, my conclusions are as follows:

- 1. The two-year period beginning March 1, 2024, is appropriate for establishing a MYRP in this case.
- 2. Based on the testimony of Public Counsel witness Dr. Woolridge, the Company has a capital structure consisting of 49.10 percent common equity, a cost of equity of 9.25 percent, and an overall cost of capital of 6.97 percent.
- 3. Based on the cost of capital recommended by Dr. Woolridge and on the recommendations of other Public Counsel witnesses, such as Dr. Earle, PacifiCorp has a revenue deficiency of \$5,944,543 in Rate Year 1, and a revenue deficiency of \$23,483,867 in Rate Year 2. This is \$20.8 million less than requested for Year 1 and \$4.45 million less than requested in Year 2.
- 4. PacifiCorp should be required to provide a reconciliation between projected capital costs included in its filing and actual capital costs incurred on a project-by-project basis. In the annual true-up, the Commission should retain the authority to disallow certain project costs even if the total capital costs incurred for the period are below those

1 authorized in this case. Finally, the annual review period should be
2 extended to December 15, to allow more time for review.

- 3 5. The Performance Measures proposed by PacifiCorp are appropriate. In
4 addition to these proposed measures, the Commission should include
5 additional reporting metrics adopted in recent cases involving Avista and
6 PSE. Public Counsel and the parties continue to participate in Docket
7 U-210590, which is the generic proceeding addressing policies and
8 performance measures involving MYRPs. The measures adopted in this
9 case may be revised or expanded as a result of that proceeding.

10 IV. BACKGROUND OF THE FILING

11 **Q. Please summarize PacifiCorp's financial results during the Base Period.**

- 12 A. The Company's unadjusted results for the 12 months ending June 30, 2022,
13 indicate an earned overall return of 5.90 percent and a return on equity of 6.98
14 percent. Once restating adjustments are reflected, especially the rate increases that
15 became effective during the Base Period, the earned return increases to 7.96
16 percent and the restated return on equity increases to 10.99 percent.

17 In addition to increasing operating income, restating adjustments also
18 reduce rate base by \$163.14 million. The rate base reductions are largely the
19 result of removing all balances associated with Jim Bridger and Colstrip. A
20 portion of these assets was then added back in the pro forma period. In addition,
21 the rate base adjustment includes \$22.65 million related to removal of Jim Bridger
22 selective catalytic reductions (SCRs) that were disallowed in Docket UE-152253.

1 Based on the Company’s claimed cost of capital, PacifiCorp was overearning by
2 about \$4.7 million on an Adjusted Test Period basis, prior to pro forma
3 adjustments.

4 **Q. Please describe the revenue increase proposed by PacifiCorp in Rate Year 1.**

5 A. PacifiCorp is proposing Rate Year 1 adjustments that will increase rates by
6 \$31.45 million. Given the assumption that the Company was over-earning by
7 about \$4.7 million on an Adjusted Test Period basis, PacifiCorp claims that it
8 needs a revenue increase of approximately \$26.75 million to earn a return on
9 equity of 10.3 percent in Rate Year 1. Following are the revenue requirement
10 impacts of the pro forma adjustments included by the Company in Rate Year 1:

11 **Table 1 – Summary of PacifiCorp’s Proposed Rate Year 1 Adjustments**

	Revenue Requirement Basis
Wheeling Revenue	(\$1,496,976)
Labor Expense	\$1,898,835
Pension (Non Service) Expense	(\$435,583)
Insurance Expense (Includes impact of 3 year average)	(\$3,964,780)
Payment Services Expense	\$76,895
Incremental O&M Expense (Berreth/Hemstreet)	\$4,339,931
Net Power Costs	\$38,893,928
Depreciation and Amortization (includes removal of coal-fired generation and reserve update)	(\$27,148,766)
Property Taxes	\$886,660
Production Tax Credits	(\$22,584,816)
Removal of TCJA Deferred Balances	\$12,626,784
Other Tax Adjustments	(\$5,595,503)

Regulatory Assets	\$9,123,364
Year 1 Plant Additions	\$13,332,538
Klamath Asset Transfer	\$102,571
Wind Additions	\$474,641
Transmission Additions	\$4,486,193
Production Factor	\$1,120,559
Thermal Generation	\$5,319,250
Total Adjustments	\$31,455,725

1 The projected increase of \$38.89 million in Net Power Costs is the most
 2 significant driver of the proposed Rate Year 1 increase. Other significant issues
 3 include the increased authorized ROE, a one-year amortization being requested
 4 for deferred Clean Energy Transformation Act (CETA), COVID, and Electric
 5 Vehicle (EV) program costs, and capital additions projected for 2024. The
 6 Company is also seeking operations and maintenance (O&M) increases of \$4.3
 7 million in Rate Year 1 for wildfire mitigation and vegetation management
 8 projects as discussed in the testimony of Matthew McVee.

9 **Q. What are the most significant factors contributing to the proposed Rate Year**
 10 **2 increase?**

11 A. PacifiCorp is proposing Rate Year 2 adjustments that will increase rates by
 12 \$27.95 million. These adjustments relate primarily to capital additions in three
 13 areas—pro forma plant additions, new wind generation, and major Energy
 14 Gateway transmission expansion projects. These costs are partially offset by the
 15 termination of the one-year amortizations proposed for Rate Year 1.

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Table 2 – Summary of PacifiCorp Rate Year 2 Adjustments

	Revenue Requirement Basis
Wheeling and REC Revenues	(\$2,207,466)
Labor Expense	\$636,120
Pro Forma Plant Additions	\$11,521,362
Wind Generation Additions	\$8,543,374
Transmission Additions	\$19,226,395
Other Rate Base Adjustments	(\$1,306,801)
Tax Expense	(\$1,099,966)
Regulatory Asset Amortization	(\$7,365,202)
Total Adjustments	(\$27,947,816)

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As can be seen by a review of both the Rate Year 1 and Rate Year 2 adjustments, much of this case is being driven by increases in net power costs and increases in prospective capital additions.

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V. CAPITAL PROJECTS AND THE PROPOSED TRUE-UP MECHANISM

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Q. What are the most significant capital additions being proposed in this case?

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A. The Company has several separate adjustments relating to capital additions in Rate Year 1. The majority of Rate Year 1 capital additions are included in Adjustment 8.4 and 8.4.1 (Pro Forma Major Plant Additions). Approximately 40 percent of this adjustment relates to transmission plant, especially projects involving enhanced substation security and wildfire mitigation. Adjustment 8.12 (Major Transmission Capital Additions) relates to Energy Gateway transmission expansion projects, primarily Gateway South and Gateway West Segment D.1.

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1 Construction began on these projects in June 2022 and September 2022
2 respectively, and both projects are expected to be complete during the fourth
3 quarter of 2024.

4 The Company also has several new wind projects proposed for Rate Year
5 1 that are shown in Adjustment 8.11 and discussed in the testimonies of various
6 Company witnesses. Wind projects that contain confidential details are shown in
7 Adjustment 8.11, while other wind projects are included in Adjustment 8.4. Wind
8 projects include construction of Rock Creek I and II, which are expected to go
9 into service in December 2024 and September 2025 respectively. In addition, the
10 Company is proposing several wind repowering projects involving Foote Creek
11 II–IV and Rock River I. Foote Creek II–IV is expected to be in-service by the end
12 of this year, and Rock River I is projected to be in-service by December 2024.

13 Major capital additions proposed in Rate Year 2 include the continuation
14 of the new wind projects (Adjustment 14.9) and Energy Gateway transmission
15 expansion projects (Adjustment 14.10). In addition to the Energy Gateway
16 projects, other transmission projects comprise approximately 37 percent of the
17 Pro Forma Major Plant Additions shown in Adjustment 14.1. Other significant
18 projects included in Rate Year 2 are the North Temple Headquarters Project and
19 the Oracle Customer Information System, which together comprise approximately
20 25 percent of the Pro Forma Major Plant Additions (Adjustment 14.1) for Rate
21 Year 2.

22 **Q. Are you concerned about setting rates in this case that are based on plant**
23 **additions that in some cases will not occur for two years, if at all?**

1 A. Yes, I am. Many of the projects included in PacificCorp’s MYRP have projected
2 in-service dates that are well in the future. At this time, it is impossible to know
3 whether these projects will be completed in a timely fashion—or whether they
4 will ever be completed. Moreover, in addition to the specific projects discussed
5 above, the Company has included millions of dollars of unidentified smaller
6 blanket projects that are virtually impossible to track. Nevertheless, I recognize
7 that PacifiCorp is required by statute to file a MYRP, and is proposing a
8 mechanism to true-up projected versus actual plant balances. Therefore, with a
9 few limited exceptions discussed in more detail below, I am not recommending
10 any adjustment to the Company’s claims for capital additions. However, I am
11 recommending several modifications to the true-up process proposed by
12 PacifiCorp.

13 **Q. Please describe the true-up process proposed by the Company.**

14 A. The true-up process is described by PacifiCorp witness McVee.¹ PacifiCorp
15 proposes to make an annual true-up filing on July 15 of each year. The first filing
16 would occur on July 15, 2024, and would include plant additions through
17 December 31, 2023. Under the Company’s proposal, the parties would have a 3.5
18 month review period ending November 1, 2023, and a rate adjustment, if any,
19 would occur March 1, 2025. PacifiCorp would make additional filings on July 15,
20 2025, and July 15, 2026, based on capital additions through December 31, 2024,

¹ Direct Testimony of Matthew D. McVee, Exh. MDM-1T at 25–26.

1 and December 31, 2025, respectively. Refunds for these later filings would occur
2 either in a subsequent rate proceeding or in a stand-alone filing.

3 PacifiCorp is proposing a “portfolio” approach whereby completed plant
4 would be reviewed on a total Washington jurisdictional basis. According to
5 McVee, this would “allow the utility flexibility to adopt its spending to current
6 circumstances to ensure prudence.”²

7 **Q. Would rate adjustments be limited to refunds?**

8 A. Yes, as discussed in the response to Public Counsel Data Request No. 146, the
9 Company is not permitted to surcharge customers should its actual capital
10 additions exceed projections authorized in this case. However, as stated in that
11 response, “If any investment costs identified were to exceed amounts projected to
12 be in rates, the Company may file an accounting petition to track the amount for
13 possible future recovery determination.”³

14 **Q. Are you recommending any adjustments to the Company’s proposed true-up
15 mechanism?**

16 A. Yes, I am recommending adjustments to both the type of information that should
17 be provided as well as to the review period. McVee identifies the information that
18 the Company proposes to provide as part of any review. This includes:

- 19 ➤ Total allocated Washington-allocated rate base for reporting period,
20 ➤ Actual project totals (on a Washington-allocated basis) placed in
21 service for reporting period by plant function,

² McVee, Exh. MDM-1T at 25.

³ Exh. ACC-4 (PacifiCorp Response to Public Counsel Data Request No. 146).

- 1 ➤ Actual in-service amounts (on a Washington-allocated basis) for
2 significant specific projects placed in-service during the reporting
3 period,
4 ➤ Narrative explanation for significant deviations between actual and
5 forecasted investment for specific projects placed in service during the
6 reporting period, and
7 ➤ A proposal for the treatment of any deviations from the provisional
8 rate base.⁴

9 I recommend that the Commission require a detailed reconciliation of
10 costs, by project, for each project included in the Company's MYRP, and not just
11 for major projects as proposed by PacifiCorp. For projects included in Pro Forma
12 Major Capital Additions (Adjustments 8.4 and 14.1), the Company has provided
13 details, by project, of projected capital additions in 2024 and 2025 in Exhibit
14 SLC-4.⁵ Confidential wind additions for 2024 and 2025 (Adjustments 8.11 and
15 14.9) were itemized in Exhibit SLC-6C.⁶ Major Transmission projects relating to
16 the Gateway Expansion project (Adjustments 8.12 and 14.10) were provided in
17 Exhibit SLC-4 and Exhibit SLC-5.⁷ PacifiCorp should be required to update its
18 costs on a project-by-project basis, and the Company should be required to
19 explain cost differences over a certain percentage, e.g. variations of each project
20 exceeding five percent. This information will enable the Commission to

⁴ Direct Testimony of Matthew D. McVee, Exh. MDM-1T at 26:1–12.

⁵ Sherona L. Cheung, Exh. SLC-4 at 304–317.

⁶ Cheung, Exh. SLC-6C at 22 and 36.

⁷ Cheung, Exh. SLC-4 at 352; Exh. SLC-5 at 15.

1 determine how accurate the Company's projections were, and will facilitate the
2 Commission's review of the variables that resulted in any significant variances.
3 For example, plant additions could be higher than projected because actual per
4 unit costs increased, or because more work was completed during the rate year
5 than was originally anticipated. In any event, this level of detail will be helpful in
6 providing the Commission and other parties with the detailed information they
7 need to conduct a thorough review and will also provide a better framework for
8 the Commission to make decisions in the future as the use of MYRPs expands.

9 **Q. Do you support the Company's proposal to use a portfolio approach for the**
10 **annual true-up, so that the Commission would effectively examine the overall**
11 **level of plant additions instead of trueing-up costs on a project by project**
12 **basis?**

13 A. No. The purpose of a true-up should be twofold. First, the true-up should be used
14 to determine the extent to which actual costs varied from costs included in the
15 MYPR for each project. Second, the true-up process will allow the parties to gain
16 a better understanding of the overall budgeting process for MYRPs. While I am
17 not opposed to the Commission ultimately approving costs on a portfolio
18 approach, I recommend that the Commission retain the discretion and flexibility
19 to disallow specific project costs if those costs exceed the estimates presented in
20 this case, or are otherwise found to be unreasonable. Therefore, while I am not
21 opposed to the Commission approving a portfolio approach when the true-up
22 review is completed, I do not recommend that a portfolio approach be authorized
23 at this time. Instead, the Commission should determine whether a portfolio

1 approach is appropriate on a case-by-case basis, based on the specific facts
2 presented in each true-up filing.

3 The Commission should retain the ability to impose disallowances if there
4 are significant variations between actual project costs and the costs authorized in
5 the MYRP. Similarly, the Commission should retain the ability to disallow costs
6 if the Company substitutes new projects for those authorized in the MYRP.

7 **Q. Are you making any recommendation regarding the timing of the annual**
8 **true-up filings?**

9 A. Yes, I recommend that the annual review period be extended by an additional six
10 weeks, from November 1 to December 15, resulting in a five month review
11 period. Since rate adjustments under the first review would not be effective until
12 the subsequent March 1, there is no reason to limit review to a 3.5 month period.
13 Extending the review period to December 15 would provide the parties with a
14 total of five months for review and ample time to provide notice to customers for
15 rate changes. Given the number of projects involved, I believe that this additional
16 review period is reasonable.

17 **VI. PROPOSED REVENUE REQUIREMENT ADJUSTMENTS**

18 **Q. Please describe Exhibit ACC-3.**

19 A. Exhibit ACC-3 contains Public Counsel's revenue requirement analysis for Rate
20 Year 1 and Rate Year 2. Exhibit ACC-3, page 8, identifies the revenue
21 requirement of each Public Counsel adjustment and provides Public Counsel's

1 overall analysis for Rate Year 1 and Rate 2.⁸ Pages 2–11 are supporting schedules
2 for specific Public Counsel adjustments. In addition, as noted on Exhibit ACC-3,
3 page 1, a few adjustments were taken directly from data request responses and
4 therefore no supporting schedule was necessary.⁹

5 **Q. Are there additional workpapers to your testimony?**

6 A. Yes, in a few cases, I utilized a specific PacifiCorp Excel file in quantifying my
7 adjustment. Therefore, several of my schedules are further supported by
8 workpapers that will be provided to the parties. I am not providing these
9 workpapers as part of my testimony because they are linked to other Company
10 Excel-based schedules that have no bearing on my analysis. If all of these Excel
11 workpapers were filed as part of my testimony, it may be confusing, and
12 undoubtedly would significantly burden the record in this case with schedules that
13 are not relevant to my testimony.

14 **A. Cost of Capital and Capital Structure**

15 **Q. What cost of capital did the Company propose in its filing?**

16 A. The Company utilized a cost of capital of 7.60 percent for both Rate Year 1 and
17 Rate Year 2, consisting of the following capital structure and cost rates:

18 **Table 3 – PacifiCorp Proposed Cost of Capital**

	Percentage	Cost	Weighted Cost
Long Term Debt	48.72%	4.77%	2.32%
Preferred Stock	0.01%	6.75%	0.00%
Common Equity	51.27%	10.30%	5.28%
Total			7.60%

⁸ Crane, Exh. ACC-3 at 1.

⁹ Crane, Exh. ACC-3 at 1.

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Q. Is Public Counsel recommending any adjustments to the Company’s proposal for capital structure or cost of capital?

A. Yes, Public Counsel is recommending adjustments to both the capital structure and to the return on equity proposed by PacifiCorp. As discussed in Dr. Woolridge’s testimony, following are the capitalization ratios and the cost rates recommended by Public Counsel:

Table 4 – Public Counsel Proposed Cost of Capital

	Percentage	Cost	Weighted Cost
Long Term Debt	50.89%	4.77%	2.43%
Preferred Stock	0.01%	6.75%	0.00%
Common Equity	49.10%	9.25%	4.54%
Total			6.97%

Q. What impact does Dr. Woolridge’s recommendation have on the Company’s proposed revenue requirements?

A. I have reflected Dr. Woolridge’s capital structure and cost of equity recommendations in the Company’s models for Rate Year 1 and Rate Year 2. Public Counsel’s cost of capital recommendation will result in the following adjustments to the Company’s proposed increases:

Table 5 – Impact of Public Counsel Cost of Capital Recommendation

	PacifiCorp	Public Counsel	Adjustment
Rate Year 1	\$26,763,219	\$17,222,087	\$9,541,132
Rate Year 2	\$27,947,817	\$25,397,600	\$2,550,217

1 Public Counsel's cost of capital recommendations will reduce the Company's
2 proposed increases by \$9.54 million in Rate Year 1 and by \$2.55 million in Rate
3 Year 2.

4 **Q. Do your adjustments reflect the impact of synchronizing the interest expense**
5 **deduction for income tax purposes with the weighted average cost of debt**
6 **included in Dr. Woolridge's cost of capital recommendation?**

7 A. Yes, these adjustments reflect the higher amount of debt in Public Counsel's
8 capital structure and therefore a higher weighted average cost of debt and higher
9 interest expense than the weighted average cost of debt and interest expense
10 reflected in the Company's claim. Since interest is a deduction for federal income
11 tax purposes, Public Counsel's recommendations will result in lower federal
12 income taxes due to the benefits of the higher interest expense deduction. This
13 benefit is included in Public Counsel's recommendation shown in Table 5.

14 **B. Pension and OPEB Costs**

15 **Q. How did the Company determine its claim for Pension and OPEB costs?**

16 A. PacifiCorp's adjustments were included in the labor adjustments shown in
17 Adjustment 4.3 (Rate Year 1) and Adjustment 13.2 (Rate Year 2). In addition to
18 salary and wage costs, incentive costs, and payroll taxes, these labor adjustments
19 included Pensions, Pension Administration, Post Retirement Benefits, and Other
20 Post Employment Benefit costs projected for the MYRP.

21 **Q. How did the Company develop its claims for pension and OPEB costs?**

22 A. The Company's filing was based on the most recent actuarial projections.

1 **Q. Did the Company subsequently update its actuarial projections?**

2 A. Yes, it did. PacifiCorp provided updated actuarial projections in its response to
3 Staff Data Request 71.¹⁰ In that response, the Company indicated that the actuarial
4 update would result in a revenue requirement reduction of approximately
5 \$620,000 in Rate Year 1 and an increase of \$140,000 in Rate Year 2. Based on
6 the Company's confidential response to Staff Data Request No. 71, it appears that
7 the \$140,000 increase in Rate Year 2 is relative to the revised Rate Year 1
8 forecast, and not to the Rate Year 2 amount originally included in the filing.¹¹
9 Therefore, I have reflected adjustments of (\$620,000) for Rate Year 1 and of
10 (\$480,000) for Rate Year 2, based on the updated actuarial projections.¹²

11 **C. Regulatory Assets**

12 **Q. Please describe the CETA deferral for which the Company is seeking**
13 **recovery in this case.**

14 A. In Order 01 in Docket UE-210414, the Commission granted PacifiCorp's request
15 to defer certain non-capital costs incurred to comply with provisions of the Clean
16 Energy Transformation Act (CETA). In Order 01 authorizing the deferral, the
17 Commission stated,

This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order granting Petition be construed as any agreement to any estimate or

¹⁰ Crane, Exh. ACC-5C, confidential attachment (PacifiCorp Response to Staff Data Request 71 with Attachment).

¹¹ *Id.*

¹² Crane, Exh. ACC-3 at 1.

determination of costs, or any valuation of property claimed or asserted.¹³

1 PacifiCorp had originally requested authorization to defer costs associated with
2 the Equity Advisory Group required by CETA, but later amended its Petition to
3 “defer non-capital costs incurred to comply with the broader requirements under
4 CETA”¹⁴ According to Order 01, the Company sought to defer these costs
5 because “these costs are not currently included in rates.”¹⁵ In this case, PacifiCorp
6 is seeking to recover \$826,093 of costs related to CETA.

7 **Q. Is PacifiCorp also seeking to recover other deferred costs in this case?**

8 A. Yes, it is. In addition to the CETA deferral of \$826,093, PacifiCorp is also
9 seeking to recover deferred costs of \$911,209 related to an Electric Vehicle (EV)
10 Pilot Program and \$5,273,956 related to deferred COVID costs. The Company is
11 seeking to recover all of these deferred costs over one year. Accordingly, these
12 deferred costs have all been included in the Company’s proposed Rate Year 1
13 revenue requirement. There are no costs for recovery of these deferrals included
14 in Rate Year 2, since under the Company’s proposal the costs would be fully
15 amortized by the end of Rate Year 1.

16 **Q. Before discussing the specific regulatory assets for which the Company is**
17 **seeking recovery in this case, do you have any general comments regarding**
18 **regulatory assets and liabilities?**

¹³ *In re the Petition of PacifiCorp for an Ord. Approving Deferral of the Costs Associated with the Clean Energy Transformation Act*, Docket UE-210414, Order 01, ¶ 19 (Mar. 10, 2022).

¹⁴ Docket UE-210414, Order 01, ¶ 18.

¹⁵ Docket UE-210414, Order 01, ¶ 4.

1 A. Yes, I do. While regulatory commissions frequently approve a utility's request to
2 establish a regulatory asset, the determination of how much, if any, of a regulatory
3 asset to recover from ratepayers is generally deferred to a general rate case, as is
4 the case here. I believe that recovery of a regulatory asset should be approved
5 infrequently, and should only be authorized for material costs that cannot be
6 addressed through the traditional ratemaking process. Ratemaking is supposed to
7 be prospective. Recovery of regulatory assets is, by definition, retroactive
8 ratemaking in that regulatory assets provide for recovery of a previously incurred
9 cost instead of future recovery of a future cost. Therefore, the Commission should
10 be reluctant to authorize recovery of a regulatory assets unless there is a
11 compelling reason to do so. The same is true of regulatory liabilities. Although
12 regulatory liabilities reduce utility rates, ratemaking is not a reimbursement
13 system. Instead, rates are set based on a test year concept, which is designed to
14 provide the utility with an opportunity to recover its costs and to earn a reasonable
15 rate of return.

16 **Q. Does the Company already have several mechanisms that are intended to**
17 **reduce shareholder risk?**

18 A. Yes, it does. One of the most beneficial mechanisms available to PacifiCorp is the
19 ability to file for a MYRP, which allows the Company to not only recover actual
20 capital investment but projected capital investment as well. This mechanism
21 significantly reduces regulatory lag. The Company currently has a decoupling
22 mechanism that compensates shareholders for revenue shortfalls during the year,
23 which the Company proposes to eliminate. The Company has rate riders that

1 permit it to recover certain specific costs outside of the base rate case process.
2 Finally, while the Company is subject to an earnings test under the MYRP, the
3 earnings test permits the Company to retain excess earnings of up to 50 basis
4 points above their authorized rate of return. All of these mechanisms shift risk
5 from shareholders to ratepayers.

6 Moreover, the traditional ratemaking methodology provides a better
7 incentive for effective cost management than a reimbursement system, the
8 premise on which regulatory assets are based. Regulation is supposed to be a
9 substitute for competition. In a competitive environment, companies are not
10 guaranteed recovery of past costs from future customers. Competitive entities
11 must manage their costs effectively in the period in which they are incurred, or
12 risk losing customers. Utilities have much less incentive to manage their costs if
13 there is a high probability that they can recoup those costs from future customers
14 through regulatory deferrals.

15 **Q. What factors should a regulatory commission consider when it evaluates**
16 **whether to authorize the establishment and recovery of a regulatory asset?**

17 A. There are several factors that should be considered by the regulatory commission,
18 including the magnitude of the cost, the impact of the cost on the utility's
19 financial integrity, the impact of the cost on shareholders, the degree to which the
20 utility has control over the costs, the existence of other regulatory mechanisms
21 that impact shareholder risk, and other factors.

22 **Q. Do utilities have an incentive to seek recovery of costs through a regulatory**
23 **asset?**

1 A. Yes, they do, for three reasons. First, a regulatory asset will allow a utility to
2 delay the recognition of costs in its financial statements, thereby improving its
3 financial position during the deferral period. Second, a regulatory asset may allow
4 the utility to collect additional costs from ratepayers that it would have to absorb
5 in the absence of a deferral. Third, in addition to cost recovery, a utility may also
6 be able to increase its profits by earning a return on the unamortized balance of
7 the deferred cost. For all these reasons, utilities have a significant incentive to
8 establish regulatory assets and to seek to recover the deferred costs from regulated
9 ratepayers.

10 **Q. What do you recommend with regard to the three regulatory assets for which**
11 **the Company is seeking ratemaking treatment in this case?**

12 A. I recommend that the Commission deny ratemaking treatment for these three
13 deferrals relating to CETA costs, EV Pilot Program costs, and COVID costs.

14 **Q. What was the Company's rationale for initially seeking authorization to**
15 **defer these costs?**

16 A. The Company's rationale was essentially that without a deferral, it would not
17 recover certain costs since these costs were not currently reflected in rates.

18 **Q. Do you believe that any cost that is not currently in rates should be deferred**
19 **for future recovery from ratepayers?**

20 A. No, I do not. First, as noted above, shareholders do not have a right to guaranteed
21 recovery. Instead, rates are established based on normalized costs during a 12-
22 month period, providing the utility the opportunity to earn a fair return. There is
23 no inherent right to a true-up of costs that were not explicitly included when base

1 rates were established. Moreover, operating a utility is a dynamic process. There
2 are constant changes in all aspects of the revenue requirement. Customers come
3 and go, plant is added and other plant is depreciated, employees leave the
4 Company, operating facilities fail or have maintenance issues, prices for goods
5 and services ebb and flow, accounting procedures change, laws change, and new
6 technologies evolve. A utility is supposed to manage those cost fluctuations—
7 even if a particular cost was not included in rates.

8 Just as the Company was not guaranteed recovery of deferred CETA costs
9 when the Commission approved deferral of those costs, the Company was not
10 guaranteed recovery of deferred EV Pilot Program costs. As noted by the
11 Commission in Order 01 in Docket UE-180809 authorizing deferral of EV Pilot
12 Program costs, “We note that the Commission’s approval of this accounting
13 petition does not constitute a finding of prudence for these costs, nor does it imply
14 preapproval of any costs incurred and deferred pursuant to this order.”¹⁶

15 The CETA costs and the EV Pilot Program costs were incurred over
16 periods of 18 months and 15 months respectively. On an annual basis, these costs
17 constitute approximately 3/10th of one percent of normalized revenues. Denying
18 the Company’s request to recover these costs from ratepayers will not result in a
19 material detriment to the Company’s financial integrity. Accordingly, I
20 recommend that the Company’s request to recover deferred CETA costs and

¹⁶ *In re the Petition of Pac. Power & Light Co. for an Acct. Ord. Authorizing Deferral of Costs related to the Co.’s Elec. Vehicle Pilot Program*, Docket UE-180809, Order 01, ¶ 7 (Jan. 31, 2019).

1 deferred EV Pilot Program costs from ratepayers be denied. My adjustments are
2 shown in Exhibit ACC-3.¹⁷

3 **Q. What do you recommend with respect to the Company's deferred COVID**
4 **costs?**

5 A. The deferred COVID costs are certainly greater than the CETA and EV Pilot
6 Program costs discussed, above. In addition, these costs are not the normal
7 dynamic costs that can occur from operating changes, or even from changes in
8 laws or technologies. COVID could not have been anticipated, and I am not
9 questioning the reasonableness of the costs incurred by PacifiCorp. However, I
10 question why ratepayers should bear these costs.

11 In Order 01 in Docket UE-200234, the Commission once again made it
12 clear that authorizing a deferral did not authorize recovery of the deferral in rates.

13 As stated by the Commission,

14 This Order shall not affect the Commission's authority over rates,
15 services, accounts, valuations, estimates, or determination of costs,
16 on any matters that may come before it. Nor shall this Order
17 granting Petition be construed as any agreement to any estimate,
18 determination of costs, valuation of property claimed or asserted or
19 to the possible recovery of, or return on, the amounts deferred to the
20 regulatory asset.¹⁸

21 **Q. Please describe the types of costs included in the Company's COVID**
22 **deferral.**

23 A. According to the Company's latest Quarterly Report filed July 26, 2023,¹⁹ these

¹⁷ Crane, Exh. ACC-3 at 4-5.

¹⁸ *In re the Petition of PacifiCorp for an Ord. Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency*, Docket UE-200234, Order 01, ¶ 44 (Dec. 10, 2020).

¹⁹ PacifiCorp's Quarterly Report for Q4 2022, Docket UE-200234, January 31, 2023.

1 costs relate exclusively to foregone and lost revenues, and not to out-of-pocket
2 operating expenses incurred by PacifiCorp. The three categories of costs incurred
3 directly by Washington are bad debt expenses, waived late fees, and bill payment
4 assistance funds. Other costs, such as increased labor and facility costs to promote
5 social distancing and increased costs for Personal Protection Equipment (PPE),
6 were more than offset by cost savings relating to reduced employee training and
7 travel expenses. Therefore, the COVID deferral consists of revenues not received
8 rather than actual out-of-pocket incremental expenses incurred by PacifiCorp as a
9 result of the pandemic. It is unreasonable to collect these foregone revenues from
10 ratepayers, given the serious financial hardship that many ratepayers themselves
11 experienced during the pandemic. Finally, while these costs are greater in
12 magnitude than the deferred CETA or EV Pilot Program costs, they are not large
13 enough to jeopardize the Company's financial integrity if the Commission denies
14 recovery from captive ratepayers. Accordingly, I recommend that the
15 Commission deny the Company's request to recover foregone revenues related to
16 COVID from ratepayers. My adjustment is shown in Exhibit ACC-3.²⁰

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²⁰ Crane, Exh. ACC-3 at 6.

D. Incremental Wildfire Mitigation and Vegetation Management Costs

Q. How much did the Company include in its filing for capital costs associated with wildfire activities?

A. PacifiCorp included capital costs of \$21.2 million in 2024 and of \$1.2 million in 2025 on a Washington jurisdictional basis. This claim included a total of \$14.0 million in distribution projects and \$8.4 million in transmission projects.

Q. Are you recommending any adjustment to these costs?

A. No. I recognize the importance of wildfire mitigation and am supportive of efforts by the Company to harden its distribution and transmission assets. Therefore, I am not recommending any adjustment to the Company's claimed capital costs relating to wildfire mitigation. However, I am recommending an adjustment to the incremental operating and maintenance costs that the Company includes in its MYRP.

Q. Please describe the Company's O&M cost adjustment.

A. As shown in Exhibit SLC-4,²¹ the Company is seeking an incremental O&M adjustment of approximately 51 percent from the Base Period to Rate Year 1. This includes the following increases (on a total Company basis):

	Base Period	Rate Year 1	Increase (\$)	Increase (%)
Administrative	\$3,847,683	\$7,090,567	\$3,242,884	84.3%
Wildfire and Vegetation Management Activity	\$9,209,258	\$15,791,757	\$6,582,399	71.5%

²¹ Cheung, Exh. SLC-4 at 135.

Contractor Costs and NESC “B” Condition Correction Implementation	\$9,768,518	\$11,569,600	\$1,801,082	15.6%
Total	\$22,825,459	\$34,451,924	\$11,626,465	50.9%

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Q. Did the Company provide sufficient details on the proposed cost increases?

A. No, the Company has not justified a 51 percent increase in these costs. A significant amount of the cost increase relates to costs classified as “Administrative,” the majority of which relate to “situational awareness.” The Company’s brief description of “situational awareness” in its testimony did not provide sufficient justification for an increase of this magnitude. Certain details of the wildfire and vegetation management plans have been specified in Allen Berreth’s testimony, but those details do not justify the significant cost increases. For example, Berreth states on page 17 of his testimony that “PacifiCorp is proposing to move from a two-year cycle to an annual frequency for visual assurance inspection in the FHCA [Fire High Compliance Area] and from a 10-year cycle to a five-year cycle for detailed inspections in the FHCA....”²² These costs are responsible for only a small fraction of the proposed wildfire mitigation costs shown in Table 2 of Berreth’s testimony²³ and do not explain the magnitude of the increases being requested here.

²² Direct Testimony of Allen L. Berreth, Exh. ALB-1T at 17:20–23.

²³ *Id.* at 16.

1 With regard to non-wildfire vegetation management costs, the largest cost
2 component by far is routine cycle work on the distribution system, as shown in
3 Table 3 of Berreth's testimony.²⁴ While I understand that the level of vegetation
4 management activities has increased over the past few years, as well as the
5 associated cost of contractors and other expenses, the Company has not justified
6 the significant increases being proposed in this case.

7 **Q. What do you recommend?**

8 A. In the absence of a detailed workplan with proper justification for the associated
9 cost increases, I recommend that the wildfire mitigation and vegetation
10 management costs included in Adjustment 4.13 be limited to a 10 percent annual
11 increase over the Base Period. This would result in a total increase of 27 percent
12 from the Base Period through the end of Rate Year 10. My adjustment is shown in
13 Exhibit ACC-3.²⁵ Since the Company did not include a separate increase for Rate
14 Year 2 in its filing, I have applied my pro forma adjustment to both Rate Year 1
15 and Rate Year 2 in Exhibit ACC-3.

16 **E. Jim Bridger Repowering Costs**

17 **Q. Is Public Counsel recommending any adjustment to the repowering costs for**
18 **Jim Bridger proposed by PacifiCorp?**

19 A. Yes. Public Counsel is recommending an O&M adjustment relating to the
20 repowering of Jim Bridger. The details of this adjustment are confidential and can

²⁴ *Id.* at 22.

²⁵ Crane, Exh. ACC-3 at 7.

1 be found in the testimony of Public Counsel witness Dr. Earle. Public Counsel's
2 adjustment will reduce O&M costs associated with Jim Bridger by \$2,512,499 in
3 Rate Year 1 and by \$735,463 in Rate Year 2. I calculated the revenue requirement
4 impact of Dr. Earle's adjustment in Exhibit ACC-3.²⁶

5 **F. Cancelled Colstrip Projects**

6 **Q. Are you recommending any adjustment to the Colstrip capital costs included**
7 **by PacifiCorp in its MYRP?**

8 Q. Yes, I have made an adjustment to remove the costs of certain Colstrip projects
9 that have been cancelled by the owners and removed from Colstrip's 2024–2025
10 maintenance plan. The Colstrip owners did not approve certain projects originally
11 budgeted for the 2024–2025 timeframe, including a Condenser Tube Replacement
12 project and Unit 4 Superheat Section Replacement Project. In its response to Staff
13 Data Request 86, PacifiCorp estimated the revenue requirement impact that was
14 included in its filing related to these projects.²⁷ My adjustments for 2024 and 2025
15 are based on that response, and are shown on page 1 of Exhibit ACC-3.²⁸ The
16 Company quantified the revenue requirement impact based on its requested rate
17 of return. Since Public Counsel is recommending a lower return than the rate of
18 return proposed by PacifiCorp, the revenue requirement impact will be slightly
19 less than the amounts shown in that response if the Commission accepts Public
20 Counsel's rate of return recommendation. Given the relatively small amounts

²⁶ Crane, Exh. ACC-3 at 8.

²⁷ Crane, Exh. ACC-6C at 2 (PacifiCorp Response to Staff Data Request 86 with Attachment).

²⁸ Crane, Exh. ACC-3 at 1, line 9.

1 involved, I did not recalculate the revenue requirement impact of these cancelled
2 projects using Public’s Counsel’s recommended return. However, I recommend
3 that this adjustment be updated to reflect the actual rate of return that is authorized
4 by the Commission in this case.

5 **G. Revenue Requirement Summary**

6 **Q. What is the impact of the revenue requirement adjustments being**
7 **recommended by Public Counsel?**

8 A. As shown on page 1 of Exhibit ACC-3, Public Counsel’s adjustments indicate
9 that PacifiCorp has a revenue deficiency of \$5,645,436 for Rate Year 1, which is
10 \$20.8 million less than requested, and of \$23,180,905 for Rate Year 2, which is
11 \$4.4 million less than requested.²⁹ Moreover, there may be additional accounting
12 adjustments proposed by Staff or other parties that should be adopted by the
13 Commission.

14 **VII. PERFORMANCE MEASURES**

15 **Q. Did PacifiCorp propose performance measures as part of its proposed**
16 **MYRP?**

17 A. Yes, it did. RCW 80.28.425 (7) states that: “The Commission must, in approving
18 a multi-year rate plant, determine a set of performance measures that will be used
19 to assess a gas or electrical company operating under a multiyear rate plan.” In its

²⁹ Crane, Exh. ACC-3 at 1, line 10.

1 filing, PacifiCorp proposed that the Commission adopt the following eight
2 performance measures:

- 3 ➤ O&M Total Expense divided by Operating Revenue
- 4 ➤ Operating Revenue divided by AMA Total Rate Base
- 5 ➤ Operating Revenue divided by EOP Total Rate Base
- 6 ➤ Current Assets divided by Current Liabilities
- 7 ➤ Operating Revenues for Return divided by Total Rate Base
- 8 ➤ Retained Earnings divided by Total Rate Base
- 9 ➤ Average Annual Bill Impacts (by Zip code)
- 10 ➤ Average Annual Bill divided by Average Median Income

11 **Q. How did the Company select these particular performance measures?**

12 A. PacifiCorp witness McVee states that these performance measures are based on
13 eight of the 10 performance measures adopted by the Commission in the recent
14 cases involving Avista and PSE. The remaining two measures that were adopted
15 for Avista and PSE relate to two energy burden performance measures that track
16 customer information by census tract. According to McVee, the Company does
17 not track this information by census tract currently, and it would be costly and
18 burdensome to do so.

19 **Q. Are you recommending any adjustment to the Performance Measures**
20 **proposed by PacifiCorp?**

21 A. Yes. The performance measures proposed by the Company should be considered
22 incremental to any performance measures or metrics that PacifiCorp is currently
23 required to track and report to the Commission. These eight Performance

1 Measures should not replace any measures or metrics that are currently required
2 by the Commission.

3 In addition, the Commission should include reporting metrics adopted in
4 recent cases involving Avista and PSE. Further, the Commission has initiated a
5 generic proceeding, Docket U-210590, to develop a policy statement addressing
6 issues relating to performance-based ratemaking, including performance measures
7 and incentive mechanisms that may be used to evaluate a MYRP. PacifiCorp
8 should be required to comply with any additional Performance Measures that may
9 be adopted by the Commission through the generic proceeding during the two-
10 year period of the MYRP.

11 **Q. Would Public Counsel support the tracking of additional performance**
12 **measures at this time?**

13 A. Avista and PSE have both agreed to track a number of other performance
14 measures and metrics as part of rate case settlements. It would be reasonable for
15 the Commission to require PacifiCorp to track and report the additional
16 performance measures and metrics currently being tracked and reported by Avista
17 and PSE. This would allow for comparison among the measures and metrics
18 across utilities. Thus, Public Counsel would support the Commission imposing on
19 PacifiCorp the other measures and metrics being tracked by Avista and PSE.

20 **Q. Does this complete your testimony?**

21 A. Yes, it does.