

Exhibit No. ___ CT (MDF-1CT)
Docket UE-111190
Witness: Michael D. Foisy
REDACTED VERSION

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP D/B/A PACIFIC POWER
& LIGHT COMPANY,

Respondent.

DOCKET UE-111190

TESTIMONY OF

Michael D. Foisy

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Revenue Requirements

January 6, 2012

CONFIDENTIAL PER PROTECTIVE ORDER – REDACTED VERSION

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LIST OF EXHIBITS

- Exhibit No. ____ (MDF-2), Revenue Requirements Model
- Exhibit No. ____ (MDF-3), Wage Adjustment Calculations
- Exhibit No. ____ (MDF-4), Washington State Unemployment Data
- Exhibit No. ____ (MDF-5), Median Household Income Estimates by County: 1989 to 2010 and Projection for 2011
- Exhibit No. ____ (MDF-6C), CY 2010 Outside Legal Fees
- Exhibit No. ____ (MDF-7), Memberships and Subscriptions

1 I. INTRODUCTION

2
3 Q. Please state your name and business address.

4 A. My name is Michael D. Foisy. My business address is The Richard Hemstad Building,
5 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, Washington 98504.
6 My email address is mfoisy@utc.wa.gov.

7
8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as a Regulatory Analyst.

11
12 Q. Would you please describe your educational and professional background?

13 A. I graduated from Regis University in Denver, Colorado with a Bachelor of Science
14 degree in Technical Management in 1982. In 1985, I earned a Masters of Arts degree in
15 Personnel Management from Central Michigan University.

16 I began my employment at the Commission in February 2009. During my
17 employment at the Commission, I have performed accounting and financial analyses of
18 several regulated utility companies, including PacifiCorp, Puget Sound Energy (PSE)
19 and Avista.

20 I attended the New Mexico State University, Center for Public Utilities,
21 “Practical Regulatory Training for the Changing Electric, Natural Gas Industries”
22 course in September 2009. I also attended the NARUC sponsored course, Innovative

1 Regulatory Approaches to Accommodate Renewable Energy, Demand-Site Resources
2 and Energy Efficiency Programs presented by New Mexico State University.

3 I previously testified before the Commission in the 2009 Puget Sound Energy,
4 Inc. General Rate Case, Dockets UE-090704 and UG-090705. I also testified in the
5 2010 PacifiCorp, General Rate Case UE-100749.

6
7 **II. SCOPE AND SUMMARY OF TESTIMONY**

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

10 A. My testimony presents the results of Staff's analysis of PacifiCorp's Washington
11 Results of Operations, restated for known and measurable changes, including Staff's
12 calculation of the resulting change in PacifiCorp's revenue requirement.

13 I identify the Company adjustments that Staff reviewed and does not contest. I
14 summarize the several PacifiCorp adjustments that Staff contests, and I am responsible
15 for six of those contested adjustments.

16
17 **A. Revenue Requirement Summary**

18
19 **Q. Please summarize Staff's revenue requirement analysis for PacifiCorp's
20 operations.**

21 A. Staff's revenue requirement analysis shows that PacifiCorp has a revenue requirement
22 deficiency from its Washington operations of \$3,335,975. A 1.1 percent increase in
23 revenues would eliminate this deficiency.

1 **Q. What overall rate of return did you use in determining the Company's revenue**
2 **requirements for its electric operations?**

3 A. I used an overall rate of return of 7.74 percent, the same as that used by the Company.
4 The capital structure and equity return used in this rate case complies with the
5 Commission decision in Order 06 in Docket UE-100749. The rate of return on debt was
6 updated for debt issued since the date of the Commission's order. Staff does not contest
7 the capital structure, cost rates, and overall rate of return and presents the same on page
8 4 of my Exhibit No. ___ (MDF-2).

9
10 **Q. Have you prepared an exhibit that calculates the revenue requirement?**

11 A. Yes. My Exhibit No. ___ (MDF-2) applies Staff's revenue requirement model in this
12 case. This similar to the model the Company used in Company witness R. Bryce
13 Dalley's Exhibit No. ___ (RBD-3).

14
15 **Q. Please describe your Exhibit No. ___ (MDF-2).**

16 A. On page 1, Revenue Requirements Summary, I show the Company's Results of
17 Operations. Column 4 shows Staff numbers reflecting a 1.1 per cent rate increase.

18 On page 2 is Staff's Revenue Requirement calculation, reflecting a revenue
19 requirement shortfall of \$3,335,975. Page 4 contains the Cost of Capital calculation
20 based on the capital structure and cost rates as approved by the Commission in Docket
21 UE-100749. Page 5 compares Staff's Revenue Requirement Impact to PacifiCorp's
22 filed Revenue Requirement Impact. The differences between Staff's case and the
23 Company's case are shown in Column G.

1 Pages 6 through 31 are worksheets I used to compile the various adjustments
2 into total adjustments representing Staff's position.

3 Page 32, "Adj 3.1 Temp Norm," through page 80, "Adj. 9.1.1 Prod Factor,"
4 correspond to the same numbered adjustments submitted by Company witness Mr.
5 Dalley in his Exhibit No. ___ (RBD-3). A more detailed explanation is provided on page
6 82, an Appendix worksheet of Exhibit No ___ (MDF-2).

7
8 **Q. What is the Conversion Factor used by Staff?**

9 A. Staff used a conversion factor of 61.9880% as calculated on page 3 of my Exhibit No.
10 ___ (MDF-2), titled Conversion Factor.

11
12 **B. List of Uncontested Adjustments**

13
14 **Q. Which Company adjustments did Staff review and which adjustments Staff does**
15 **not contest?**

16 A. I list the uncontested PacifiCorp adjustments below, with the Staff member responsible
17 for reviewing each of them:

18 Myself (Mike Foisy): Adjustments

- 19 • 3.2, Revenue Normalization;
- 20 • 3.3, Effective Price Change;
- 21 • 3.4, SO2 Emission Allowance;
- 22 • 3.6, Wheeling Revenue;
- 23 • 4.5, Remove Non-recurring Entries;

- 1 • 4.8, Inverted Rates Advertising;
- 2 • 4.10, Affiliate Management Fee Adjustment;
- 3 • 5.2, James River Royalty Offset;
- 4 • 5.3, BPA Residential Exchange;
- 5 • 5.4, Colstrip #3 Removal;
- 6 • 7.2, Renewable Energy Tax Credit;
- 7 • 8.1, Customer Service Deposits;
- 8 • 8.2, Jim Bridger Mine Rate Base Adjustment;
- 9 • 8.3, Environmental Remediation Adjustment;
- 10 • 8.4, Customer Advances for Construction;
- 11 • 8.5, Removal of Colstrip 4 AFUDC;
- 12 • 8.7, Powerdale Hydro Removal;
- 13 • 8.9, Trojan Unrecovered Plant Adjustment;
- 14 • 8.10, Condit Hydro Removal Adjustment;
- 15 • 9.1.1, Production Factor.

16 Ms. Novak: Adjustment 3.1, Temperature Normalization.

17 Ms. Breda: Adjustments

- 18 • 4.7, DSM Revenue and Expense Removal;
- 19 • 4.9, MEHC Transition Cost Amortization;
- 20 • 4.12, Advertising Expense;
- 21 • 6.1, Hydro Decommissioning;
- 22 • 7.3, Malin Midpoint Adjustment;
- 23 • 7.4, WA Public Utility Tax Adjustment;

- 1 • 7.5, AFUDC – Equity;
- 2 • 7.6, WA Flow Through (Taxes)
- 3 • 7.7, Remove Deferred State Tax Expense and Balance;
- 4 • 7.8, ADIT Balance Adjustment;
- 5 • 8.8, Regulatory Asset Amortization Adjustment.

6 Although not contested, Ms. Breda does intend to briefly discuss Adjustment
7 3.5, REC Revenues, in her testimony.

8
9 **C. Summary of Contested Adjustments**

10
11 **Q. Please describe the contested adjustments for which you are responsible.**

12 A. I contest and recommend changes to the following adjustments:

- 13 • 3.7, Ancillary Revenue – WA;
- 14 • 4.1, Miscellaneous General Expense;
- 15 • 4.2, General Wage Increase– Restating;
- 16 • 4.3, General Wage Increase – Pro Forma;
- 17 • 4.4, AMR Savings;
- 18 • 4.13, Memberships & Subscriptions.

19
20 **Q. Please describe the contested adjustments or issues for which other Staff witnesses**
21 **are responsible.**

22 A. Ms. Breda contests and recommends changes to Adjustments:

- 23 • 4.6, Pension Curtailment Gain;

- 1 • 4.11, Insurance Expense;
- 2 • 7.1, Interest True-up;
- 3 • 8.6 and 8.6.1, Miscellaneous Rate Base.
- 4 • 4.14, Regulatory Commission Expense.

5 Mr. Buckley contests Adjustments 3.7 Ancillary Revenues-WA, and 5.1, Net
6 Power Costs.

7
8 **Q. Please briefly summarize these contested adjustments.**

9 **A. Adjustment 3.7 Ancillary Revenue:**

10 The Company, in Adjustment 3.7, Ancillary Revenue – WA, removed the
11 balance of a contract with Seattle City Light expiring on December 31, 2011. Staff's
12 Adjustment 3.7 accepts the removal of the expiring contract but inserts the value of the
13 succeeding contract. Washington's share of this adjustment increases net operating
14 income by \$654,923 and decreases the revenue requirement by \$1,055,935.

15 **Adjustment 4.1, Miscellaneous General Expense:**

16 Staff disputes the accuracy of the allocation factors that the Company has
17 applied to its various legal expenses. Staff recommends that the Commission accept
18 Staff's modified adjustment as it relates to legal expense allocation. This adjustment
19 increases net operating income by \$89,670 and decreases the revenue requirement by
20 \$144,575.

21 **Adjustments 4.2 and 4.3, General Wage Increase:**

22 Staff proposes to remove the Company's wage increases based on the recent
23 economic downturn, the increasing unemployment rates and the predicted drop in

1 median income in the counties served by PacifiCorp. Staff's recommendation increases
2 net operating income by \$331,407, and decreases the revenue requirement by \$534,329.

3 Adjustment 4.4, AMR (Automated Meter Reading) Savings;

4 Staff removes the Company's wage increase that was used to calculate saved
5 wages. This is consistent with my wage increase adjustment. Staff's adjustment also
6 removes severance pay that was paid to the employees who were not placed elsewhere
7 within the Company. The Company's rate base impact is not contested. Overall, net
8 operating income is increased by \$775,308 and the revenue requirement is decreased by
9 \$341,220.

10 Adjustment 4.6, Pension and Postretirement Curtailment:

11 Staff includes the unamortized regulatory liability as a reduction to rate base.
12 This revised adjustment increases net operating income \$18,180, reduces net rate base
13 by \$2,587,315 and decreases revenue requirement by \$105,000. Ms. Breda addresses
14 this in her testimony.

15 Adjustment 4.11, Insurance Expense:

16 Staff recommends use of a normalized level of expense related to property
17 damage and liability. Staff's adjustment increases net operating income by \$77,717 and
18 decreases the revenue requirement by \$125,304. Ms. Breda addresses this in her
19 testimony.

20 Adjustment 4.13 Memberships and Subscriptions:

21 Staff removes certain Memberships and Subscriptions from the test period. This
22 adjustment increases net operating income by \$5,741 and decreases revenue
23 requirement by \$9,257.

- 1 • Exhibit No. ____ (MDF-6C), Memberships and Subscriptions

2

3

DISCUSSION

4

5 **A. Contested Issues and Adjustments**

6

7 **1. Adjustment 3.7, Ancillary Revenue – WA**

8

9 **Q. Please briefly explain the Company's adjustment.**

10 A. In this adjustment the Company states that it entered into contracts with Seattle City
11 Light (SCL) to receive real time output from SCL's share of the Stateline wind farm.¹
12 The current contract expires December 31, 2011. The Company correctly removed the
13 balance of the contract.

14

15 **Q. How does Staff's adjustment differ from the Company's?**

16 A. As explained in Mr. Alan Buckley's testimony, The Company entered into another
17 contract with Seattle City Light. Staff's adjustment inserts the contract back into the
18 test year. The Washington allocated adjustment is [REDACTED].

19

20 **2. Adjustment 4.1, Miscellaneous General Expense**

21

22 **Q. What issue does Staff address with this adjustment?**

¹ Dalley, Exhibit No. ____ (RBD-1T) at 11.

1 A. Staff believes that the Company should more closely follow the guidelines of the West
2 Control Area (WCA) inter-jurisdictional allocation methodology for the purpose of
3 allocating costs among states.²

4 Upon review of the Company's legal expenses, Staff concludes that by more
5 closely following the WCA methodology, legal expenses will more accurately reflect
6 the actual legal expenses experienced within each jurisdiction.

7
8 **Q. Why is it more appropriate for PacifiCorp to directly assign costs by state when
9 possible, rather than use a customer-related or system overhead allocation factor?**

10 A. The Commission has stressed that any allocation method developed must only assign to
11 Washington costs that provide a tangible and quantifiable benefit to customers as stated
12 by the Commission: "First and foremost, any inter-jurisdictional cost allocation method
13 we approve for Washington must meet our statutory requirement that all public utility
14 property included in rates must be used and useful for service in this state."³ A direct
15 allocation results in a more accurate allocation of costs. Washington ratepayers should
16 not be expected to fund expenses that do not provide them with a direct benefit, and
17 therefore, where possible, expenses that can be identified as specific to a certain state
18 should be directly assigned to that state.

19
20 **Q. How do Staff's recommendations follow the Commission's recommendations
21 established in PacifiCorp's last General Rate Case, Docket UE-100749?**

² See PacifiCorp's West Control Area (WCA) Allocation Handbook, Dalley Workpapers, Tab 5.

³ See *UTC v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Docket UE-050684, Order 04, at page 27, ¶ 48 (April 17, 2006).

1 A. In Docket UE-100749⁴, the Commission encouraged all parties to engage in a
2 discussion on how to best resolve the issue of discovering an effective means to refine
3 the allocation of all costs. In subsequent discussions with the interested parties⁵, the
4 attendees could not agree on a unified decision concerning legal expenses.

6 **Q. How does Staff's analysis in this case compare to its recommendation in Docket
7 UE-100749?**

8 A. In Docket UE-100749, Staff found and continues to find in this filing that there are a
9 multitude of instances where the Company used a system-allocated factor when in fact
10 many of these expenses were generated from a specific state and should have been
11 allocated on a jurisdictional basis. Staff has reviewed the Company's response to
12 WUTC Staff Data Request 48 (Confidential), presented as Exhibit No. ___ (MDF-6C),
13 CY 2010 Outside Legal Expenses, and believes that a number of legal expenses could
14 have more accurately followed the West Control Area (WCA) allocation methodology.

15 For example: [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]

⁴ *Washington Utilities and Transportation Commission v. PacifiCorp, Docket UE-100749, Order 06*, at 253.
⁵ Dalley, Exhibit No. ___ (RBD-1T) at 21.

1 **Q. What impact does Staff's adjustment have on the Company's revenue**
2 **requirement?**

3 A. Staff's adjustment reduces the Company's revenue requirement by \$166,840.
4

5 **Q. Please explain how Staff's adjustment differs from the Company's.**

6 A. The Company in its response to Staff Data Request 48 (Confidential) allocated the
7 majority of outside legal expenses on a system-wide basis. Although there were some
8 exceptions, in general the Company applied one of the system-wide allocation factors to
9 these expenses. Staff reviewed the transaction detail submitted by the Company in its
10 response to Staff's Data Request 48. Staff's focus centered on allocation issues
11 involving East Control Area versus West Control Area as well as proper situs
12 allocations within the West Control Area.
13

14 **3. Adjustments 4.2 and 4.3, General Wage Increase**
15

16 **Q. Please summarize the Company's wage adjustment.**

17 A. The Company has included wage increases for all employees ranging from a 0.88
18 percent increase for Officer/Exempt and non-exempt employees up to a 2.50 percent
19 increase for several local union chapters.
20

21 **Q. Do you believe that the wage increase adjustment proposed by PacifiCorp is**
22 **reasonable?**

1 A. No. PacifiCorp has sought and received wage increases for its employees each year for
2 the last several years. For each of these increases, the ratepayer had to bear the burden
3 of increased rates. Based on current economic conditions, Staff does not believe that
4 the ratepayers should have to endure increased rates to satisfy the wage increases of
5 Company employees.

6

7 **Q. What economic indices did you rely upon to reach this conclusion?**

8 A. PacifiCorp serves five counties in the state of Washington: Columbia, Garfield, Kittitas,
9 Walla Walla and Yakima. As seen in Table 1 below, four of these counties have
10 experienced an increased unemployment rate, the only exception being Columbia
11 County which saw a 0.1 percent decrease in 2011. It is obvious from these
12 unemployment rates that the ratepayers in these five counties are experiencing a
13 troubled economy. See also Exhibit No. ____ (MDF-4).

14

Table 1⁶
PacifiCorp Five County Service Territory
Unemployment Rate

County	2008	2009	2010
Columbia	7.0%	10.5%	10.4%
Garfield	4.7	6.7	7.4
Kittitas	5.9	8.6	8.8
Walla Walla	4.9	6.6	7.1
Yakima	6.9	9.0	9.7

Table 2 below, extracted from Washington State’s Office of Financial Management (See Exhibit No. ____ (MDF-5), shows that each of these counties has and continued to see a drop in their median household income over this same three year period. Yet as the economic conditions in its territory continue to erode PacifiCorp once again is asking the ratepayer to support wage increases for its employees. In past fillings, the Commission has repeatedly approved Company requests to have ratepayers fund wage increases for Company employees. However, given the current fragile economic conditions, Staff does not believe it is reasonable to approve ratepayer-funded wage increases at this time.

⁶ SNL Financial LC, Unemployment Data by State, http://www.snl.com/interactivex/UnemploymentData.aspx?State=WA&Year=2008&Month=10&National=ON&submit=stuffedvalue&Form_Name=UserInputs (2011).

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Table 2⁷
PacifiCorp Five County Service Territory
Median Household Income

County	2008	2009	2010
Columbia	39,409	36,583	35,502
Garfield	42,464	41,242	40,364
Kittitas	39,709	38,580	37,932
Walla Walla	44,425	44,793	44,006
Yakima	41,390	41,265	40,771

11 **Q. What does Staff propose for the Company's adjustment 4.2 and 4.3?**

12 A. With the exception of the SERP portion of the adjustment, Staff proposes to reverse the
13 restating adjustment 4.2. Staff proposes that there be no pro forma wage adjustment
14 allowed. Staff Exhibit No. ___ (MDF-3) demonstrates how Staff arrived at its
15 adjustment.

16
17 **4. Adjustment 4.4, AMR Savings**

18
19 **Q. Please summarize this adjustment.**

20 A. During 2010, PacifiCorp replaced all its electric meters in the Washington State service
21 territory. The Company replaced approximately 122,000 meters in the Yakima, Walla
22 Walla, and Sunnyside districts with radio-equipped meters.

23
24 **Q. What is the benefit of the new meters?**

25 A. The new meters allow the Company to read meters remotely, using improved
26 technology and increasing efficiency. These meters also have the potential to offer

⁷ Office of Financial Management, *Median Household Income Estimates by County: 1989 to 2010 and Projection for 2011*, <http://www.ofm.wa.gov/economy/hhinc/default.asp> (October 2011).

1 customers time of use (TOU), critical peak pricing information and energy pricing
2 signals, all components of the Smart Grid. The installation of the new meters enabled
3 the Company to eliminate 20 full-time equivalent (FTE) employees.

4
5 **Q. How does Staff's adjustment differ from the Company's?**

6 A. The Company's calculation of O&M savings used a salary escalation based on its Wage
7 Increase Adjustment. It calculated the saved salary using a 0.62 per cent increase,
8 consistent with its proposed wage increase. Staff recommends that no wage increases
9 be allowed, as explained in Adjustments 4.2 and 4.3. As a result, Staff has removed the
10 wage increase used in this calculation to avoid double counting. Of the twenty
11 employees displaced by this new technology, several were unable to be placed in other
12 positions within the Company and received severance pay. Staff removes this one-time
13 payment of \$86,826 from expense.

14
15 **5. Memberships and Subscriptions Adjustment**

16
17 **Q. Please explain the purpose of this adjustment.**

18 A. In Docket UE-100749 PacifiCorp 2010 General Rate Case, Order 06 the Commission
19 encouraged the Company, Commission Staff, Public Counsel (PC) and Industrial
20 Customers of the Northwest (ICNU) to engage in a dialogue to more effectively use the
21 West Control Area Allocation Methodology. All parties participated in a teleconference
22 on May 19, 2011 to discuss the allocation methodology. As a result of this meeting, all
23 those in attendance agreed that memberships and subscriptions could be more

1 accurately assigned allocation factors. Staff's Memberships and Subscription
2 Adjustment reviews the booked values of FERC account 930.2 and reallocates the
3 entries from system to situs or below the line.
4

5 **Q. Why does Staff's adjustment differ from the Company's?**

6 A. Staff reviewed each of the booked entries in FERC account 930.2. In the course of the
7 review as presented in Exhibit No. ___ (MDF-7), Staff found a number of allocations
8 that should have been allocated on a situs basis or allocated below the line. Staff
9 believes this adjustment more closely follows the guidelines the Commission ordered in
10 UE-100749. Staff's adjustment reduces the revenue requirement by \$9,257.

11

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

13 A. Yes.