

Exhibit No. \_\_\_ CT (MDF-1CT)  
Docket UE-100749  
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-100749

TESTIMONY OF

Michael D. Foisy

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

*Revenue Requirements*

October 5, 2010

CONFIDENTIAL PER PROTECTIVE ORDER  
REDACTED VERSION

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**LIST OF EXHIBITS**

- Exhibit No. \_\_\_\_ (MDF-2), Revenue Requirements Model
- Exhibit No. \_\_\_\_ (MDF-3), Confidential Attachment to PacifiCorp’s Response to ICNU Data Request 2.14
- Exhibit No. \_\_\_\_ (MDF-4), California Public Utilities Commission, Energy Division Resolution E-4264 dated October 15, 2009.
- Exhibit No. \_\_\_\_ (MDF-5), California Public Utilities Commission, Energy Division Resolution E-4285 dated November 20, 2009.
- Exhibit No. \_\_\_\_ (MDF-6), PacifiCorp’s Response to ICNU Data Request 5.6

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  
5 Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia,  
6 Washington 98504. My email address is [mfoisy@utc.wa.gov](mailto: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  
15 degree in 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  
18 of regulated utility companies.

19 I attended the New Mexico State University, Center for Public Utilities,  
20 “Practical Regulatory Training for the Changing Electric, Natural Gas Industries”  
21 course in September 2009. I also attended the NARUC sponsored course, Innovative  
22 Regulatory Approaches to Accommodate Renewable Energy, Demand-Site

1 Resources and Energy Efficiency Programs presented by New Mexico State  
2 University.

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

5  
6 **II. SCOPE AND SUMMARY OF TESTIMONY**

7  
8 **Q. What is the scope of your testimony?**

9 A. My testimony presents the results of Staff's analysis of PacifiCorp's Washington  
10 Results of Operations, restated for known and measurable changes, including Staff's  
11 calculation of the revenue change for PacifiCorp based on that Results of Operations.

12 I identify the Company adjustments Staff reviewed and does not contest. I  
13 summarize the several PacifiCorp adjustments Staff contests, and I am responsible  
14 for two of those contested adjustments. I also address two additional adjustments  
15 proposed by Staff that the Company did not include in its direct case.

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 PacifiCorp has a revenue requirement  
22 deficiency from its Washington operations of \$32,960,116. A 12.08 percent increase  
23 in revenues would eliminate this deficiency.

1 **Q. What overall rate or 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 7.48 percent, as recommended by Staff witness Mr.  
4 Ken Elgin. I summarize Staff's recommended capital structure, cost rates and  
5 overall rate of return on page 4 of my Exhibit No. \_\_\_ (MDF-2).

6  
7 **Q. Have you prepared an exhibit that calculates the revenue requirement?**

8 A. Yes. My Exhibit No. \_\_\_ (MDF-2) applies Staff's revenue requirement model in  
9 this case. This is the same model the Company used in Mr. Dalley's Exhibit No. \_\_\_  
10 (RBD-3).

11  
12 **Q. Please describe your Exhibit No. \_\_\_ (MDF-2).**

13 A. On page 1, Revenue Requirements Summary, I show the Company's Results of  
14 Operations. Column 4 shows Staff numbers reflecting an 12.08% rate increase.

15 On page 2 is the Staff's Revenue Requirements calculation, reflecting a  
16 revenue requirements shortfall of \$32,960,116. Page 4 contains the Cost of Capital  
17 calculation based on the capital structure and cost rates recommended by Staff  
18 witness Mr. Elgin. Page 5 compares Staff's Revenue Requirement Impact to  
19 PacifiCorp's filed Revenue Requirements Impact.

20 Pages 6 through 9 are worksheets I used to compile the various adjustments  
21 into total adjustments representing Staff's position.

22 Page 10, "Adj 3.1 Temp Norm" through page 56 "Adj 9.1.1 Prod Factor"  
23 correspond to the same numbered adjustments submitted by Company witness R.

1 Bryce Dalley in his Exhibit No. \_\_ (RBD-3). A more detailed explanation is  
2 provided on page 58, an Appendix worksheet of Exhibit No. \_\_ (MDF-2).

3  
4 **Q. What is the Conversion Factor used by staff?**

5 A. Staff used a conversion factor of 61.9880%. I show the development of this figure in  
6 my Exhibit No. \_\_ (MDF-2) at page titled Conversion Factor.

7  
8 **B. List of Uncontested Adjustments**

9  
10 **Q. Which Company adjustments did Staff review and which Staff does not  
11 contest?**

12 A. I list the uncontested PacifiCorp adjustments below, with the Staff responsible for  
13 reviewing them:

14 Myself (Mike Foisy): Adjustments 3.4, SO2 Emission Allowance; 3.6,  
15 Wheeling Revenue; 4.2, General Wage Increase Annualization; 4.3, Pro Forma  
16 General Wage Increase; 4.7 Remove Non-recurring Entries; 5.5, James River  
17 Royalty Offset; 5.6, Removal of Colstrip #3; 7.2, Accumulated Deferred Income Tax  
18 Factor Correction; 7.3, Renewable Energy Tax Credit; 8.5, Miscellaneous Rate Base  
19 Adjustment; 8.5.1, Miscellaneous Rate Base Adjustment (cont.); 8.6, Removal of  
20 Colstrip 4 AFUDC; 8.7, Powerdale Hydro Removal; 8.8, Trojan Unrecovered Plant  
21 Adjustment; and 8.9 Customer Service Deposits.

22 Ms. Vanda Novak: Adjustments 3.2, Revenue Normalizing; 3.3 Effective  
23 Price Change; 4.6 DSM Removal; and 5.4, BPA Residential Exchange.

1           Mr. Thomas Schooley: Adjustments 4.4, Pension Curtailment; 4.5 Affiliate  
2 Management Fee; 4.8, Remove MEHC Severance; 6.1, Hydro Decommissioning;  
3 7.4, Malin Line Adjustment; 7.7, Washington Public Utility Tax; 7.8, Remove  
4 Deferred Tax Expense; 7.10, Medicare Deferred Tax Expense; 7.11, Average  
5 Balance of Accumulated Deferred Income Tax – Property; 7.12, Washington Low  
6 Income Tax Credit; and 8.10, Chehalis Regulatory Asset – Washington.

7           Ms. Kathryn Breda: Adjustments 7.5, WA – FAS 109 Flow-Through; and  
8 Adjustment 7.6, AFUDC – Equity.

9           Mr. Rick Applegate: Adjustments 5.3, Electric Lake Settlement; 8.3,  
10 Environmental Remediation; and 8.4, Customer Advances for Construction.

11           Mr. Alan Buckley: Adjustment 5.1, Net power Costs

12  
13       **C.     Summary of Contested Adjustments**

14  
15   **Q.     Please describe the contested adjustments for which you are responsible.**

16   A.     I contest Adjustment 3.5, Green Tag Revenues and Adjustment 7.1, Interest True-up.

17  
18   **Q.     Please describe the contested adjustments or issues for which other Staff**  
19       **witnesses are responsible.**

20   A.     As I mentioned earlier, Staff contests the issue of the fair rate of return. Staff  
21       witness Mr. Elgin is responsible for this issue.

1 Ms Vanda Novak contests the Company Adjustment 3.1, Temperature  
2 Normalization. She is responsible for Staff Adjustment 3.7, Remove Commercial  
3 Sales Normalization.

4 Ms. Kathryn Breda recommends the removal of Company Adjustment 7.9,  
5 Current Year Deferred Income Tax and the inclusion of Staff Adjustment 8.11,  
6 Repairs Deduction.

7 Mr. Thomas Schooley contests Adjustments 8.1, Cash Working Capital; 8.2,  
8 Jim Bridger Mine Rate Base; 9.1, Production Factor, and he sponsors Staff  
9 Adjustment 8.12, Remove Current Assets.

10 Mr. Alan Buckley contests Net Power Costs, Adjustment 5.2.

11  
12 **Q. Please briefly summarize these contested adjustments.**

13 A. Regarding Company Adjustment 3.1, Temperature Normalization/Load Changes,  
14 Staff questions the accuracy of the temperature sensitivity coefficients used by the  
15 Company in its study. Staff recommends the Commission reject the Company's  
16 adjustment as it relates to the commercial class by accepting Staff Adjustment 3.7,  
17 Remove Commercial Sales Normalization.

18 Regarding Company Adjustment 3.5, Green Tag Revenues, Staff proposes to  
19 return \$4.2 million in Green Tag Revenues to the ratepayer.

20 Staff contests Company Adjustment 5.2, Net Power Costs. Staff's power  
21 cost adjustments reduce operating expenses by \$5.3 million.

22 Regarding Adjustments 7.9 and 8.11, which relate to normalization of federal  
23 income taxes, Staff rejects PacifiCorp's proposal to create a reserve for potential



1 adverse consequences of its decision to make a retroactive accounting change for tax  
2 purposes for the recognition of repair costs for tax years 1999 forward. Staff accepts  
3 the Company's adjustment to normalize the repairs deduction resulting from its tax  
4 accounting change for repair expenditures include in its 2008 Federal Income Tax  
5 Return.

6 Staff presents two additional federal income tax adjustments. Staff proposes  
7 the Commission reject Company Adjustment 7.9, Current Year Deferred Income Tax  
8 Normalization, in which the Company seeks to move to full normalization from flow  
9 through for the current year. Staff also sponsors Staff Adjustment 8.11, Repairs  
10 Deduction. PacifiCorp has reflected the repairs deduction as if it was included in the  
11 test year for half of the year.<sup>1</sup> This adjustment to the 2008 federal income tax return  
12 was reflected as an accounting adjustment in September of 2009, but it represents an  
13 adjustment to the tax accrual through 2008. Staff's Adjustment 8.11 portrays the  
14 repair adjustment for the entire year. This adjustment reduces the net rate base by an  
15 additional \$14,463,670, or a reduction in revenue requirement of \$1,745,310.

16 Finally, Staff urges the Commission to reject each of the Company's working  
17 capital adjustments, by reducing PacifiCorp's rate base by a net \$26,477,832. Staff's  
18 analysis shows investors are not supplying working capital, so including such items  
19 in rate base is unwarranted. The affected Company adjustments are Adjustment 8.1,  
20 Cash Working Capital; Adjustment 8.2, Jim Bridger Mine Rate Base; Adjustment  
21 8.12, Remove Current Assets; and Adjustment 9.1, Production Factor.

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<sup>1</sup> This is shown in PacifiCorp Adjustment 7.11 Average Balance for Accumulated Deferred Income Tax.

1  
2  
3 **III. DISCUSSION**

4  
5 **A. Contested Issues and Adjustments**

6  
7 **1. Adjustment 3.5, Green Tag Revenues**

8 **Q. What does “Green Tag” mean?**

9 A. Green Tag is the term the Company uses to describe the monetary value of the  
10 environmental attributes of the electricity PacifiCorp generates from its renewable  
11 energy facilities, such as a wind farm. WAC 480-109-020 requires that by January  
12 1, 2012, utilities providing services in Washington must provide at least three per  
13 cent of its load from qualified renewable resources. The utility may use load from  
14 the target year, the preceding year or subsequent year to meet the requirement.

15 Another term commonly used instead of Green Tag is “Renewable Energy  
16 Credit” (REC). However, because PacifiCorp uses “Green Tag”, I will use that term  
17 in my testimony.

18 **Q. How are Green Tags created?**

19 A. Green Tags are created when the Company generates electricity from its renewable  
20 energy facilities. PacifiCorp owns these facilities and the Company operates these  
21 facilities. In my testimony, I refer to these resources as the Company’s renewable  
22 resources, or as the resources or assets that give rise to the Green Tag Revenues  
23 proceeds that are at issue in this case.

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**Q. How does PacifiCorp realize revenues from Green Tags?**

A. PacifiCorp sells to other utilities the attributes associated with the output of PacifiCorp’s renewable resources, and receives cash in return.

**Q. For rate making purposes, how does the Commission treat the resources that generate these Green Tags?**

A. PacifiCorp owns the renewable resources I identified. PacifiCorp operates these resources. The Commission includes the corresponding investment amounts for these projects in the Company’s rate base and power supply calculations for ratemaking purposes. The Commission sets the Company’s rates to allow it an opportunity to recover the operating costs, taxes, and depreciation associated with these resources, as well as a return on the money it invested to acquire the resources. The Commission allocates the cost of these resources to the customer classes using a generation-based allocation factor.

**Q. How should the Commission treat the Green Tag revenues PacifiCorp has received related to certain renewable resources the Company has in its rate base?**

A. The Commission should distribute these revenues in an equitable manner to the ratepayers who have supported the assets that give rise to the REC revenues. These ratepayers are paying rates based on the costs of these assets, which includes a return on PacifiCorp’s investment, plus all related operating expenses, and taxes. It is

1 entirely proper for those ratepayers to receive the benefits generated by these assets  
2 on the same basis that their rates are set. Said another way, PacifiCorp may not keep  
3 this revenue.

4  
5 **Q. Has the Commission issued any decisions regarding Green Tag, or REC,  
6 revenues?**

7 A. Yes. In the recent Puget Sound Energy Docket UE-070725, the Commission  
8 recognized and applied the principle that gains on the sale of RECs should go to the  
9 ratepayers absent unusual or extraordinary circumstances. In that case, PSE claimed  
10 a share of the REC proceeds by tying the REC sales to litigation PSE successfully  
11 settled. The Commission agreed there was a connection, and gave PSE a share of the  
12 REC proceeds. *In re Petition of Puget Sound Energy, Docket UE-070725, Order 03*  
13 *at pages 17-19, ¶¶ 41-47 (May 20, 2010).*

14  
15 **Q. Are there unusual or extraordinary circumstances in this case?**

16 A. No.

17  
18 **Q. How should the Commission treat Green Tag revenues in this case year and in  
19 the future?**

20 A. The Commission should retain \$4,211,639 the revenue from Green Tag sales in the  
21 test year, which ends December 31, 2009. The Commission should order PacifiCorp  
22 to record as a regulatory liability all Green Tag revenues from January 1, 2010  
23 forward. PacifiCorp should accumulate interest should be at its after tax rate of

1 return. The Commission will address the ratemaking treatment of the deferred  
2 revenues in future general rate cases.

3 An alternative would be for the Commission to create a sur-credit; a separate  
4 tariff item that credits \$4,211,639 of Green Tag revenues to the ratepayer, to be paid  
5 out over one year, and also order PacifiCorp to record as a regulatory liability all  
6 Green Tag revenues from January 1, 2010 forward. PacifiCorp should accumulated  
7 interest should be at its after tax rate of return. The Commission will address the  
8 ratemaking treatment of the deferred revenues in future general rate cases.

9  
10 **Q. Are these alternatives consistent with the Commission's Order 03 in PSE**  
11 **Docket UE-070725?**

12 A. Yes. Each alternative passes present and future benefits of Green Tag revenues to  
13 the ratepayer.

14  
15 **Q. Please describe Staff's Adjustment 3.5, Green Tag Revenues.**

16 A. In this adjustment, Staff includes in test year revenues the \$4,211,639 PacifiCorp  
17 generated from its sales of Green Tags during the 2009 test year. The adjustment  
18 reduces revenue requirements by the same amount.

19  
20 **Q. How does the Company propose to deal with that \$4,211,639 in Green Tag**  
21 **revenues?**

22 A. In Company Adjustment 3.5, Green Tag Revenues, the Company proposes to  
23 remove this \$4,211,639 from revenue. The effect of this adjustment is that

1 ratepayers receive none of the benefits of these transactions. This adjustment is  
2 shown in Mr. Dalley's Exhibit No. \_\_\_ (RBD-3) at page 3.5.

3  
4 **Q. What basis does the Company provide in its direct testimony for excluding this**  
5 **\$4,211,639 in Green Tag revenues?**

6 A. PacifiCorp states that "pursuant to the Washington Administration Code 480-109-  
7 020, the Company is banking *all*<sup>2</sup> eligible RECs..." (Dalley Direct Testimony,  
8 Exhibit No. \_\_\_ (RBD-1T), pages 9, line 23 to page 10, line 3) (Emphasis added).

9  
10 **Q. What does "bank" mean in this context?**

11 A. Although "bank" is not a term used in WAC 480-109-020, banking is a term  
12 commonly used to refer to the utility's accrual of Green Tags from one period to  
13 another for the purpose of meeting a jurisdiction's renewable portfolio standards.

14  
15 **Q. Is PacifiCorp's reason for excluding Green Tag revenues a reason for depriving**  
16 **ratepayers of these benefits?**

17 A. No.

18  
19 **Q. Does WAC 480-09-020 require PacifiCorp to "bank" Washington's entire share**  
20 **of Company Green Tags?**

21 A. No. The rule requires the Company to have sufficient Green Tags to comply with  
22 Washington's renewable portfolio standard (RPS). In other words, PacifiCorp only  
23 needs to "bank" enough Green Tags to be in compliance with the law.

---

<sup>2</sup> Emphasis added.

1 **Q. Is it necessary for PacifiCorp to “bank” Washington’s share of all future Green**  
2 **Tags case in order to comply with Washington’s renewable portfolio standard?**

3 A. No. As I mentioned, WAC 480-109-020 requires PacifiCorp to have only three per  
4 cent of its load met with renewable resources until the year 2016. Based on  
5 PacifiCorp’s response to ICNU Data Request 2.14, [REDACTED]

6 [REDACTED] The following confidential table  
7 is based on that response. Please note the term “eligible” refers to Green Tags  
8 (called “RECs” in the table) PacifiCorp may use to comply with Washington’s RPS.

9

	MWh	
	2011	2012
Estimated RPS Requirement – WA		
Estimated RECs Generated – WA		
Estimated Eligible RECs*		

10  
11  
12

13 \*being held/used for RPS compliance

14 The above table depicts 2012 as the first year that the Company must meet  
15 Washington’s RPS. The Company forecasts its RPS requirement to be [REDACTED]  
16 MWh. One Green Tag, or REC, equals one MWh of generation from a qualified  
17 renewable resource.

18 WAC 480-109-020 allows the Company to use the Green Tags generated  
19 during the year they are required, generated in the previous year, or generated in the  
20 subsequent year. PacifiCorp estimates its [REDACTED]

1 [REDACTED]

2 [REDACTED] In other words, it appears that  
3 PacifiCorp will have adequate Green Tags to meet its RPS requirements in  
4 Washington.

5 Moreover, apart from the Washington-eligible Green Tags, the Company  
6 should expect [REDACTED] Green Tags available for sale ([REDACTED] is the  
7 total “Estimated RECS Generated – WA” for 2011 and 2012 minus the total  
8 “Estimated Eligible RECs” for those two years)..

9  
10 **Q. Does the Company address future Green Tag revenues in its testimony?**

11 A. No. However, the Company’s own data forecasts Green Tags will be available to  
12 produce future revenues. Furthermore, PacifiCorp has firm contracts for the sale of  
13 Green Tags to several California utilities in 2011 and 2012. These agreements were  
14 approved by the California Public Utilities Commission (PUC) in resolutions,  
15 namely, California PUC, Energy Division Resolution E-4264 dated October 15, 2009  
16 and, California PUC, Energy Division Resolution E-4285 dated November 20, 2009.  
17 These resolutions are provided in my Exhibit Nos. \_\_\_ (MDF-4) and \_\_\_ (MDF-5),  
18 respectively.

19 These resolutions show the Company has committed to sell Green Tags to  
20 Southern California Edison (SCE) Company and Pacific Gas and Electric Company,  
21 respectively. The sale of these Green Tags during 2011 and 2012 assumes that  
22 revenue will be generated from Green Tag sales.



1           In the Company’s response to ICNU Data Request 2.15, PacifiCorp states:  
2           “For this period [the rate year] the Company does not anticipate selling any RECs  
3           that are not eligible for Washington RPS compliance because currently there is not a  
4           market for those RECs.” However, these sales agreements show that there is in fact  
5           a market for Green Tags. Also, current proposals by the California Public Utilities  
6           Commission to allow unbundling of Green Tags from the electrons open up the  
7           California REC (Green Tag) markets to out of state providers.

8  
9           **2.       Adjustment 7.1, Interest True-Up**

10  
11   **Q.     Please explain Adjustment 7.1, Interest True-Up.**

12   A.     This adjustment is also known as a “pro forma interest” adjustment or “interest  
13           synchronization” adjustment. The pro forma interest expense is a component in  
14           computing federal income taxes for ratemaking purposes. As the rate base and cost  
15           of debt changes, the amount of interest changes, and thus the tax benefit of interest  
16           also changes. This adjustment the Company’s book FIT expense to the amount  
17           reflected by the weighted cost of debt and rate base used for ratemaking purposes.

18  
19   **Q.     Please explain the reason for the difference between Staff Adjustment 7.1 and  
20           Company Adjustment 7.1.**

21   A.     Although these Staff and Company adjustments are based on the same methodology,  
22           the adjustments differ because Staff and Company propose different rate base

1 amounts, and a different weighted cost of debt. Staff witness Mr. Elgin is  
2 responsible for the figures that underlie Staff's weighted cost of debt.

3  
4 **3. Allocation Issues**

5  
6 **Q. What general cost allocation method does PacifiCorp use to allocate costs  
7 among the states in which the Company operates?**

8 A. The Company employs the West Control Area (WCA) inter-jurisdictional allocation  
9 methodology for the purpose of allocating costs among states.<sup>3</sup>

10  
11 **Q. In general, what methods are available within the West Control Area method o  
12 allocate administrative and general costs among states?**

13 A. Under the WCA method, PacifiCorp may allocate administrative and general costs  
14 on a state-specific basis (Situs), a customer-related basis (Customer Number or CN)  
15 or a System Overhead (SO) basis.

16  
17 **Q. Does PacifiCorp use each of these methods?**

18 A. Yes.

19  
20 **Q. What issue has Staff identified with the Company's use of these methods?**

21 A. The Company has allocated a number of expense items on a customer-related or  
22 system overhead basis, where a state-specific or Situs allocation is more appropriate.  
23 PacifiCorp allocates advertising, membership dues and fees and legal costs using a

---

<sup>3</sup> See PacifiCorp's West Control Area (WCA) Allocation Handbook, Dalley Workpapers, Tab 5.

1 customer-related or system overhead allocator. PacifiCorp could use a situs allocator  
2 to assign these sorts of costs to each state.

3  
4 **Q. Why is it more appropriate for PacifiCorp to directly assign costs by state when**  
5 **possible, rather than use a customer-related or system overhead allocation**  
6 **factor?**

7 A. The Commission has stressed that any allocation method developed must only assign  
8 to Washington costs that provide a tangible and quantifiable benefit to customers as  
9 stated by the Commission: “First and foremost, any inter-jurisdictional cost  
10 allocation method we approve for Washington must meet our statutory requirement  
11 that all public utility property included in rates must be used and useful for service in  
12 this state.”<sup>4</sup> A direct allocation results in a more accurate allocation of costs.

13 Washington ratepayers should not be expected to fund expenses that do not provide  
14 them with a direct benefit, and therefore, where possible, expenses that can be  
15 identified as specific to a certain state should be directly assigned to that state.

16  
17 **Q. Is a direct assignment or situs allocation of costs consistent with the Company’s**  
18 **cost allocation manual?**

19 A. Yes. According to the Company’s West Control Area Handbook, “Situs (S) directly  
20 assigns 100% of the costs to one state. This factor is used to assign general business  
21 revenues, miscellaneous revenues, distribution costs, customer-related costs that can

---

<sup>4</sup> See *UTC v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Docket UE-050684, Order 04 at page 27, ¶ 48 (April 17, 2006).

1 be identified with a specific state.”<sup>5</sup> In Part III of the Handbook, PacifiCorp lists the  
2 allocation factors used for each type of cost, showing that direct allocation, or Situs,  
3 is to be used where possible for all customer accounts, customer service, and sales  
4 expenses, and almost all other administrative and general expenses.<sup>6</sup>  
5

6 **Q. What particular costs or types of costs did Staff identify in this case which**  
7 **PacifiCorp allocated on a non-Situs basis, where a Situs allocation should have**  
8 **been used?**

9 A. Staff reviewed allocation factors the Company used to assign advertising expenses  
10 (FERC Account 909), membership dues and fees (FERC account 930), injuries and  
11 damages (FERC Account 925), and outside legal expenses. The Company uses a CN  
12 or SO allocation factor to allocate these costs among the states.  
13

14 **Q. What did Staff’s analysis show?**

15 A. For outside legal expenses which PacifiCorp assigns to various FERC accounts,  
16 there is a multitude of instances where the difference between the system allocated  
17 expenses of the Company and those expenses that appear to be generated from a  
18 specific state.

19 For total advertising expenses, PacifiCorp allocated \$35,275 to Washington  
20 based on the SO factor. A Situs basis allocation (direct assignment) would allocate

---

<sup>5</sup> PacifiCorp’s WCA Allocation Handbook, Part II, page 2.3.

<sup>6</sup> See PacifiCorp’s WCA Allocation Handbook at page 3.9-3.11.

1 \$30,886 to Washington; a net variance of \$4,409 for the test year which would be a  
2 reduction to revenue requirement.<sup>7</sup>

3 For membership dues and fees, PacifiCorp allocated \$436,448 to  
4 Washington; using direct assignment, the figure would be \$440,568 for the test year,  
5 a variation of \$4,118, which represents an increase to revenue requirements.<sup>8</sup>

6 Finally, for legal expenses incurred in the test year, PacifiCorp allocated  
7 [REDACTED] to Washington; using a direct assignment, the figure would be [REDACTED], a  
8 net variance of \$48,931, which represents a reduction to revenue requirement.<sup>9</sup>

9  
10 **Q. Is Staff making any adjustments in this case as a result of this Situs assignment**  
11 **versus allocation factor assignment issue?**

12 A. No. The amount differences were not highly material, and our review was limited; it  
13 did not cover all test period expenses.

14  
15 **Q. What should the Commission require PacifiCorp to do regarding this allocation**  
16 **issue in future cases?**

17 A. The Commission should order PacifiCorp to perform a review of all revenue and  
18 expense items where PacifiCorp's allocation factor could be applied on a Situs basis.  
19 In that review, PacifiCorp should also examine each account where PacifiCorp's  
20 manual permits Situs allocation but that allocation method is not being used, or

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<sup>7</sup> PacifiCorp's Response to Public Counsel Data Request 45.

<sup>8</sup> PacifiCorp's Response to Public Counsel Data Request 53.

<sup>9</sup> PacifiCorp's Response to Public Counsel Data Request 95, Confidential Attachment PC 95.

1           where the Company could use Situs allocation more effectively (for example,  
2           advertising expenses).

3

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

5   **A.    Yes.**

6