

Exhibit No. \_\_\_\_ (TES-1T)  
Docket UE-100749  
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-100749

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

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

Respondent.

TESTIMONY OF

Thomas E. Schooley

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

*Working Capital, Cost-of-Service, Revenue Allocation and Rate Design, and Low Income  
Bill Assistance Program*

October 5, 2010

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Exhibit No. ____ (TES-2)	Investor-Supplied Working Capital
Exhibit No. ____ (TES-3)	Cost of Service Summary and Revenue Allocation – Staff Recommendation

1 I. INTRODUCTION

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

4 A. My name is Thomas E. Schooley. My business address is The Richard Hemstad  
5 Building, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA  
6 98504. My email address is tschoole@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 ("UTC",  
10 or "Commission") as the Accounting Manager in the Energy Section.

11  
12 **Q. How long have you been employed by the Commission?**

13 A. I have been employed at the UTC since September 1991.

14  
15 **Q. Would you please state your educational and professional background?**

16 A. I have been employed by the Washington Utilities and Transportation Commission  
17 ("the Commission") since 1991. I received a Bachelor of Science degree from  
18 Central Washington University in 1986. I met the requirements for a double major  
19 in Accounting and Business Administration-Finance. I also have a Bachelor of  
20 Science degree in geology from the University of Michigan. I passed the Certified  
21 Public Accountant exam in May 1989. Since joining the Commission, I have  
22 attended several regulatory accounting courses, including the summer session of the  
23 Institute of Public Utilities.

1 I testified in Docket UE-960195 involving the merger between Washington  
2 Natural Gas Company and Puget Sound Power & Light Company. I was the lead  
3 Staff analyst in several applications for accounting treatment, including Puget Sound  
4 Energy, Inc. (“Puget”) Dockets UE-971619 and UE-991918. I testified in the Avista  
5 general rate case, Docket UE-991606, and Avista’s energy recovery mechanism,  
6 Dockets UE-000972, UE-010395, UE-011595, and UE-030751. I also assisted in the  
7 development of Staff testimony in Puget’s “PRAM 2” case, Docket UE-920630, and  
8 I presented the Staff recommendation on environmental remediation in Puget Docket  
9 UE-911476.

10 I analyzed PacifiCorp’s proposed accounting treatment of Clean Air Act  
11 allowances in Docket UE-940947, and participated in meetings of PacifiCorp’s inter-  
12 jurisdictional task force on allocations. I testified in Puget’s power cost only rate  
13 case, Docket UE-031725, and in PacifiCorp’s general rate cases, Dockets UE-  
14 032065, UE-050684, UE-061546, et al.

15 I have prepared detailed statistical studies for use by Commissioners and  
16 other Commission employees, and have interpreted utility company reports to  
17 determine compliance with Commission regulations.

18  
19 **II. SCOPE AND SUMMARY OF TESTIMONY**

20  
21 **Q. What is the scope of your testimony?**

22 **A.** I present Staff’s analysis of working capital issues, Staff’s proposal on revenue  
23 allocation and rate design, and low income bill assistance programs.

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**Q. Please summarize your findings and recommendation for working capital.**

A. Staff finds that PacifiCorp’s investors do not supply working capital. Consequently, Staff recommends the Commission eliminate all of the Company’s working capital related rate base items and adjustments, including working capital accounts for fuel stock, materials and supplies, and cash working capital.

**Q. Please summarize your testimony on revenue allocation.**

A. Based on the results of the cost of service study, Staff proposes higher than average increases in revenue for Residential Schedule 16, and for industrial schedules 48T, Large General Service > 1,000 kW, and Dedicated Facilities. Staff also proposes lower than average increases for the commercial schedules: Schedule 24, Small General Service and Schedule 36, Large General Service < 1,000 kW, as well as Agricultural Pumping Schedule 40. Staff proposes a minimal increase for the Street Lighting Service Schedules 15, 52, 54, and 57.

**Q. Please summarize your testimony on rate design.**

A. Staff recommends the basic charge for Schedule 16, Residential, be increased from \$6.00 to \$7.50. Staff also recommends the Commission accept the Company’s rate design proposals for the other rate schedules as filed, regardless of the Commission’s approved overall revenue increase.

1 **Q. Please summarize your testimony on low income bill assistance issues.**

2 A. Staff recommends the Commission accept the Company's proposal regarding the  
3 Bill Assistance Surcharge in Schedule 91 as filed, regardless of the level of revenue  
4 increase the Commission approves.

5  
6 **III. INVESTOR-SUPPLIED WORKING CAPITAL**

7  
8 **A. Working Capital Adjustments: Adjustment 8.1, Cash Working Capital;**  
9 **Adjustment 8.2, Jim Bridger Mine Rate Base; Adjustment 8.12, Remove**  
10 **Current Asset Accounts; Adjustment 9.1.1, Production Factor.**  
11

12 **1. Summary**

13  
14 **Q. What is working capital?**

15 A. Working capital refers to the funds necessary to sustain a company in its day to day  
16 operations. The text book definition of working capital is current assets less current  
17 liabilities.

18  
19 **Q. Who may provide working capital besides the investor?**

20 A. Trade creditors typically provide working capital through the payment terms. For  
21 example, most trade creditors allow a company to pay for goods or services 30 days  
22 from the date the trade creditor delivers the goods or services. The company has use  
23 of those funds during that period. Working capital may also be provided by  
24 ratepayers or other non-investors, via various regulatory treatments, such as deferred  
25 income taxes, unamortized investment tax credits, or customer deposits.

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**Q. What is the utility regulatory perspective on working capital?**

A. In rate setting, working capital is a rate base item. Because rate base represents the assets provided by investors, and forms the base upon which investors earn a return, the focus of utility regulation is to measure the extent to which investors actually supply working capital. If and when investors supply working capital, the Commission should include the amount they supply in rate base so investors have an opportunity to earn a return on the capital they supply. On the other hand, if the investors did not supply working capital, then the Commission should not include working capital in rate base. Otherwise, the Commission would allow investors to earn a return on capital they did not provide.

**Q. What is Staff's recommendation for working capital in this case?**

A. Staff recommends the Commission include no working capital in PacifiCorp's rate base.

**Q. What is the basis for your recommendation?**

A. I analyzed PacifiCorp's working capital needs using the investor-supplied working capital method. That analysis shows investors are not supplying working capital to the Company. Consequently, the Commission should not include any working capital allowance in rate base for investors to earn a return. My Exhibit No. \_\_\_\_ (TES-2) summarizes my investor-supplied working capital analysis.

1 **Q. Please list the adjustments you made to PacifiCorp's test year results to**  
2 **implement the results of your investor-supplied working capital analysis.**

3 A. I made the following four adjustments to PacifiCorp's test-year results of operations:

- 4 • **Adjustment 8.1, Cash Working Capital:** This adjustment removes  
5 PacifiCorp's one-eighth method working capital calculation of \$11,145,151  
6 (Washington) from rate base, plus the residual cash working capital from the  
7 Company's data, leaving a zero balance for working capital.
- 8 • **Adjustment 8.2, Jim Bridger Mine Rate Base:** This adjustment removes  
9 from rate base \$4,039,570 (Washington) of materials & supplies, and pit  
10 inventory (fuel stock) related to the Jim Bridger Mine. *See Exhibit No. RBD-*  
11 *3, Tab 8, page 8.2.1.*
- 12 • **Adjustment 8.12, Remove Current Assets:** This adjustment removes from  
13 rate base \$3,524,551 (Washington) from FERC Account 151 (Fuel Stock),  
14 and \$7,775,703 (Washington) from FERC Account 154 (plant materials and  
15 operating supplies).
- 16 • **Adjustment 9.1.1, Production Factor Adjustment:** The reduction to rate  
17 base in Adjustment 8.2 (my second adjustment above) is carried forward to  
18 Adjustment 9.1.1. The effect is a small increase to rate base of \$7,143  
19 (Washington).

20 The net effect of these adjustments is to remove each PacifiCorp working  
21 capital adjustment in this case, because Staff's analysis shows investors have not  
22 supplied working capital to PacifiCorp, and therefore the Commission should not  
23 include any working capital amounts in rate base to earn a return for investors.



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**2. Staff's Response to Recent PacifiCorp Rate Case Orders on Working Capital**

**Q. Has Staff followed the guidance and directives provided by the Commission in recent PacifiCorp rate orders?**

A. Yes.

**Q. In what recent PacifiCorp rate cases did the Commission address working capital issues in its order?**

A. The Commission addressed working capital issues in its orders in the last two litigated rate cases: Docket UE-050684, PacifiCorp's 2005 Rate Case; and Docket UE-061546, PacifiCorp's 2006 Rate Case.

**Q. What guidance and directives did the Commission provide in PacifiCorp's 2005 Rate Case?**

A. The Commission said: "the objective is to quantify the amount of working capital and current assets supported by capital on which investors are entitled to a return," and: "We [the Commission] also expect Staff and other parties to provide full evidentiary support of any proposals and methods they may submit to substantiate adjustments to a company's figures." *Docket UE-050684, WUTC v. PacifiCorp, Order 04 (April 17, 2006), at page 68, ¶¶ 188-189.*

1 **Q. In this case, has Staff responded by providing the Commission full evidentiary**  
2 **support for Staff's proposed working capital adjustment?**

3 A. Yes. My testimony provides a full explain of Staff's analysis and adjustments, and  
4 my Exhibit No. \_\_\_ (TES-2) contains a complete working capital calculation, with  
5 all accounts listed.  
6

7 **Q. What guidance did the Commission provide in PacifiCorp's 2006 Rate Case?**

8 A. The Commission focused on the need for the working capital analysis to properly  
9 allocate working capital to Washington. Specifically, the Commission said: "In this  
10 proceeding [i.e., Docket UE-061546] we do find an acceptable inter-jurisdictional  
11 cost allocation methodology: the WCA method previously discussed. The problem  
12 here is that neither the Company nor Staff calculated Working Capital in a manner  
13 consistent with the WCA [West Control Area] allocation methodology." *Docket*  
14 *UE-061546, WUTC v. PacifiCorp, Order 08 (June 21, 2007) at page 42, ¶ 162.*  
15

16 **Q. In this case, has Staff developed an allocation method that will allocate working**  
17 **capital to Washington in a manner consistent with the Commission-approved**  
18 **West Control Area (WCA) allocation methodology?**

19 A. Yes.  
20

21 **Q. Please explain.**

22 A. Staff's working capital analysis is based on the PacifiCorp's balance sheet.  
23 PacifiCorp does not maintain a balance sheet for the West Control Area alone, or

1 Washington alone. Therefore, I developed an allocation process based on the  
2 Commission–approved WCA allocation method to determine Washington’s share of  
3 PacifiCorp’s total working capital. If PacifiCorp had investor-supplied working  
4 capital, Staff’s allocation process would allocate an appropriate share to Washington.  
5 However, because PacifiCorp has no investor-supplied working capital in this case, it  
6 was not necessary for me to use this allocation process.

7  
8 **3. The Investor-Supplied Working Capital Method**

9  
10 **Q. What method does Staff use to measure working capital in this case?**

11 A. Staff uses the “investor-supplied working capital” method.

12  
13 **Q. Please provide a brief description of the investor-supplied working capital  
14 method.**

15 A. In broad form, the investor-supplied working capital method calculates the amount  
16 of invested capital, and subtracts the amount of investments. If the result is positive,  
17 that is the amount of working capital investors have supplied. If the result is  
18 negative, then investors are not supplying working capital.

19  
20 **Q. What is the basic concept underlying the investor-supplied working capital  
21 method?**

22 A. The text book definition of working capital is current assets less current liabilities.  
23 However, this simple determination does not identify the portion of working capital,

1 if any, supplied by investors. Investor-supplied working capital looks at the source  
2 of capital supplied by investors and where such capital is invested. If there is an  
3 excess of investor supplied capital over investments, then that excess amount is the  
4 investor-supplied working capital.

5 In summary, the investor-supplied working capital method directly measures  
6 the amount of working capital that investors provide. If there is any such an amount,  
7 it is included in rate base and earns a return.

8  
9 **Q. What premises underlie the investor-supplied working capital method?**

10 A. There are four basic premises: 1) a company uses invested capital for both operating  
11 and non-operating investments; 2) invested capital is fungible; 3) the Company's  
12 operating investments and non-operating investments share pro-ratably any excess  
13 investor-supplied funds; and 4) the use of the average of monthly average balance  
14 sheet amounts captures the variations inherent in working capital needs.

15  
16 **Q. Are these premises reasonable?**

17 A. Yes.

18  
19 **Q. Please explain the importance of the balance sheet, and how investor-supplied  
20 capital is reflected on the balance sheet.**

21 A. The balance sheet is important because this is the financial statement or document  
22 that portrays company debt and equity capital from investors and the company  
23 investments which are the key elements in investor-supplied working capital

1 calculation. Broadly speaking, the balance sheet begins when investors supply  
2 capital (money) to a company. The capital is used by the company to purchase  
3 assets such as the machinery that produces the company's products, or to purchase  
4 inventory or buildings.

5 Investors supply money to the company in two primary forms. One is equity,  
6 the direct ownership in stock of the corporation. The other is debt; the investor  
7 supplies money in return for the corporate promise to pay the money back on a date  
8 certain with interest payments along the way. Collectively, these are known as  
9 "investor-supplied capital."

10 Accounting rules determine the basic structure of the balance sheet, and for  
11 regulated energy utilities, such as PacifiCorp the Federal Energy Regulatory  
12 Commission (FERC) promulgates specific account titles and defines the accounts.  
13 Staff uses the balance sheet accounts as defined by the FERC and reported in the  
14 annual FERC Form 1.

15  
16 **Q. What are the major components of the balance sheet?**

17 A. The three components of the balance sheet are assets, liabilities and owner's equity.

18  
19 **Q. Please explain assets.**

20 A. Assets are what a company owns. For a regulated utility the primary asset categories  
21 on the balance sheet are utility plant, other property and investments, current and  
22 accrued assets, and deferred debits.

1 **Q. Please explain liabilities.**

2 A. Liabilities are what a company owes. The balance sheet reflects liabilities in the  
3 form of debt, such as bonds sold to investors. The company incurs additional  
4 liabilities in many ways, such as: 1) through vendors agreeing to supply goods, and  
5 the company agreeing to pay for those goods with payments that follow on agreed  
6 terms; 2) through accounting measurements of potential liability; and 3) through  
7 deferred credits.

8

9 **Q. Please explain owner's equity.**

10 A. Owner's equity is the ownership interest represented by common stock and the  
11 earnings retained by the owners. Total assets must equal the sum of the liabilities  
12 plus the owner's equity, thus the "balance" in the balance sheet.

13

14 **Q. Please explain the subcategories of assets and liabilities.**

15 A. On the balance sheet, a company classifies its assets and liabilities as either "current"  
16 or "long-term". Current assets are assets that can be turned into cash promptly, at  
17 most within one year. Similarly, current liabilities are debts that must be paid within  
18 one year. Current assets include such items as customer cash, temporary cash  
19 investments, accounts receivable, prepayments, fuel stock, and material and supplies.  
20 Current liabilities include accounts payable, customer deposits, taxes payable, and  
21 derivative instrument liabilities, among others.

22

1 **Q. How do current assets and current liabilities relate to working capital**  
2 **generally?**

3 A. As I stated earlier, accounting text books define working capital as current assets less  
4 current liabilities. Current liabilities represent debts that are payable in the near  
5 future. Lenders to the company, including those who are selling goods to the  
6 company, want to be assured of getting paid. A company with current assets, that is,  
7 cash or something that can be turned into cash quite soon, that exceed the immediate  
8 cash needs, the current liabilities, is more likely to pay its bills on time. Ideally, a  
9 daily balance sheet would show the daily fluctuations in the ratio of current assets to  
10 current liabilities. However, even with today's immense computing resources, this is  
11 impractical. The monthly balances present adequate support of the company's  
12 ability to cover its working capital needs. Hence, the textbook definition that current  
13 assets less current liabilities equals working capital.

14  
15 **Q. How does this relate to investor-supplied working capital specifically?**

16 A. In gross terms, current assets plus investments equals current liabilities plus invested  
17 capital. Arithmetically it follows that if current assets exceed current liabilities, then  
18 invested capital must exceed investments. In that situation, the investors are  
19 supplying working capital. However, the primary categories of accounts: assets,  
20 liabilities and owner's equity, require analysis to properly determine what amounts  
21 constitute invested capital and what amounts constitute investments. This analysis is  
22 reflected in my Exhibit No. \_\_\_\_ (TES-2).

23

1                   **4. Application of the Investor-Supplied Working Capital Method.**

2  
3   **Q. Please explain the format of your working capital analysis exhibit.**

4   A. My Exhibit No. \_\_\_ (TES-2) is based on PacifiCorp's total company balance sheet  
5       for the year ending December 31, 2009, on an average of monthly averages basis, as  
6       provided by the Company in its work papers.

7               Each FERC account is listed in column A by name and account number.  
8       Column O is the account balance on an average of monthly averages basis.<sup>1</sup>

9               Each account is assigned to one of the four columns Current Asset (P);  
10       Current Liability (Q); Investments (R); Invested Capital (S).

11              Columns T through V show each investment and its allocation to  
12       Washington, Other States, or Non-utility operations.

13  
14   **Q. What does the exhibit show?**

15   A. The exhibit shows total investments are \$12,772,589,992, per line 169, column R,  
16       and total invested capital is \$12,654,912,199, per line 169, column S. Total  
17       investments exceed invested capital by \$117,677,793, as shown on line 170,  
18       column S, which means that the investors do not provide working capital.

19  
20   **Q. You earlier explained that analysis is required to determine how to properly**  
21       **categorize each account. Please explain your analysis.**

22   A. I made several adjustments based on my analysis of individual accounts. I classify  
23       Account 123.1, Investment in Subsidiary Companies, primarily as a utility

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<sup>1</sup> Columns B through N contain the monthly account balances for January through December 2009.



1 investment in order to bring the Jim Bridger Mine into utility rate base to follow the  
2 adjustment in Exhibit No. \_\_\_\_ (RBD-3), Tab 8, page 8.2. However, Staff  
3 reclassifies the materials & supplies and fuel stock of the Jim Bridger Mine as  
4 current assets, which treats these items the same way that Staff treats the materials &  
5 supplies and fuel stock in the Company's general accounts. (Exhibit No. \_\_\_\_  
6 (TES-2), page 1, line 22).

7 Temporary Cash Investments (Account 136) are treated as an investment, not  
8 a current asset. This account earns a return of its own (however meager) and should  
9 not get additional return from ratepayers. Special Deposits (Accounts 132-134),  
10 Notes Receivable (Account 141), and Notes Receivable from Associated Companies  
11 (Account 145) are also investments with a return of their own. Therefore, I  
12 classified these accounts as investments as well. (Exhibit No. \_\_\_\_ (TES-2), page 1,  
13 lines 36, 38, 39, and 43).

14 I also made adjustments for derivative assets and liabilities. These accounts  
15 arise from changes in the prices of contracts. These cannot be considered either  
16 investments or invested capital. Therefore, I placed all derivative instruments in  
17 either current assets or current liabilities. (Exhibit No. \_\_\_\_ (TES-2), page 1, line 30  
18 and page 3, line 126).

19 Unamortized Debt Expense (Account 181) and Unamortized Loss on  
20 Reacquired Debt (Account 189) are related to bonds and therefore both should be  
21 classified as invested capital. (Exhibit No. \_\_\_\_ (TES-2), page 2, lines 70 and 82).

1 I classified customer deposits as a reduction in investments, giving it parallel  
2 treatment to that in the uncontested Adjustment 8.9 in Company Exhibit No. RBD-  
3 3, Tab 8, page 8.9. (Exhibit No. \_\_\_\_ (TES-2), page 3, line 136).

4 I considered all deferred debits, except accounts 181 and 189, as investments.  
5 (Exhibit No. \_\_\_\_ (TES-2), page 2, lines 71-81, and 83-84). The main components of  
6 deferred debits are regulatory assets and deferred income taxes. These, and the other  
7 minor items, are regulatory in nature and are additions to rate base. As such the  
8 deferred debits are allocated between the states and to non-utility operations.

9 I include Obligations under capital leases-noncurrent (Account 227) and  
10 Obligations under capital leases-current (Account 243) in invested capital as these  
11 obligations are in essence debt. The corollary accounts to the lease obligations are  
12 the capital lease assets which are included in the plant-in-service accounts.

13 Finally, I classified all deferred credits as reductions to investments. (Exhibit  
14 No. \_\_\_\_ (TES-2), page 3, line 152 to page 4, line 160). The main component of  
15 deferred credits is deferred taxes. This and the minor items are regulatory in nature  
16 and are deductions to rate base and to non-utility operations.

17  
18 **Q. Please assume the scenario in which the difference between invested capital and**  
19 **investments were positive; what would that indicate?**

20 A. If invested capital exceeded investments, that would indicate investors were  
21 supplying working capital, and it would be appropriate for the Commission to  
22 include Washington's portion of that positive amount in rate base for ratemaking  
23 purposes.

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**Q. Under that scenario, can the Commission determine Washington’s portion of investor-supplied working capital, consistent with the WCA allocation methodology?**

A. Yes.

**Q. Please explain.**

A. As I discussed earlier in my testimony, one of the premises underlying the investor supplied working capital method is that the Company’s operating investments and non-operating investments share pro-ratably any excess investor-supplied funds. Therefore, I would apply the total investor supplied working capital percentage relative to the total investments or the working capital ratio to the Washington portion of the total investments to derive the working capital allocable to Washington. Because this Washington portion of the total investment was determined in accordance with the WCA allocation methodology, the resulting Washington portion of working capital is consistent with the WCA allocation methodology.

As I described earlier, this analysis is illustrated under columns T, U, and V of Exhibit No. \_\_\_ (TES-2). As shown there, non-operating investments would receive about 19% of the total investor-supplied working capital, PacifiCorp’s operations in other states would receive about 75 percent, and Washington customers would be responsible for the remaining six percent.

1 **Q. Are the allocations illustrated in your Exhibit No. \_\_\_ (TES-2)?**

2 A. Yes. Page 5 of my exhibit shows each FERC account and its allocation.

3  
4 **Q. How does this allocation method differ from the method Staff proposed in the**  
5 **2006 Rate Case, Docket UE-061546?**

6 A. The allocation method Staff used in Docket UE-061546 was to first allocate about  
7 12.5 percent of the investor-supplied working capital to non-operating company  
8 operations. Washington then received about 7.4 percent of the remaining 88.5  
9 percent, based on PacifiCorp's system overhead factor (SO factor). The SO factor is  
10 based on the gross plant in each state. The use of this factor alone assumes that all  
11 investments are allocated the same way. In that docket, I believe the Commission  
12 was concerned this assumption did not result in a reasonable allocation.

13 By contrast, the allocation method I developed in this case is refined and  
14 specific to PacifiCorp's Washington operations. That allocation method is based on  
15 an allocation of each individual investment account to Washington, other states, and  
16 non-utility operations. This is shown in my Exhibit No. Exhibit No. \_\_\_ (TES-2),  
17 columns T, U, and V, respectively. The allocation factor varies by account and this  
18 refinement captures such variation.

19 The sources for each allocation I used are found in Company Exhibit No. \_\_\_  
20 (RBD-3), Tab 2, Results of Operations, and in the "B Tabs" on an account by  
21 account basis. If the account balance identified in Exhibit No. \_\_\_ (RBD-3) did not  
22 equal the amount on the FERC Form 1 balance sheet, I attributed the difference to  
23 the non-utility category.

1 To arrive at an overall allocation of the investor-supplied working capital, I  
2 summed each category and calculated a pro rata portion. As I described, the result  
3 shows Washington receives about six percent of the total investor-supplied working  
4 capital, other states share 76 percent and non-utility operations receive 18 percent.  
5 (Exhibit No. \_\_\_\_ (TES-2), page 4, line 171.)

6 This process would accurately derive Washington's portion of investor-  
7 supplied working capital, consistent with the WCA allocation methodology.  
8 However, as I have testified, it is not necessary for the Commission to use this  
9 allocation process. However, for illustrative purposes, I applied the allocation  
10 process to the working capital that is not supplied by investors or negative working  
11 capital. If the negative working capital were to be used, Washington would receive a  
12 rate base reduction of \$7,023,737.

13  
14 **Q. Are there any significant changes in the categorizing of accounts from the 2006**  
15 **Rate Case?**

16 **A.** No. There are a couple minor differences from the 2006 working capital analysis.

17 I considered Account 234, Accounts Payable to Associated Companies, as a  
18 reduction to investments. In the current analysis, I leave this account in current  
19 liabilities. I find this account is properly a current liability and should not be  
20 considered an investment. The effect of the different treatment is minimal.

21 Another change is in capital lease obligations. In the 2006 analysis, I included

22 Account 227, Obligations under capital lease-noncurrent, and Account 243,  
23 Obligations under capital lease-current as reductions to investments. In the present

1 analysis, I include these two accounts as invested capital. In essence, these are debts  
2 of the utility and should be included with other debt instruments. The ISWC remains  
3 the same whether the accounts are a reduction to investments or as invested capital.  
4

5 **Q. Please compare the results of Staff's working capital analyses in PacifiCorp's**  
6 **2006 Rate Case and this case.**

7 A. In the 2006 Rate Case, Staff's calculation showed investor supplied working capital  
8 of positive \$129 million, compared to a negative \$142 million in this case. This is a  
9 difference of \$253 million.  
10

11 **Q. Is this difference understandable, considering the five years that have elapsed**  
12 **since the 2006 Rate Case?**

13 A. Yes. This \$253 million difference represents only about a three percent change,  
14 based on PacifiCorp's March 2006 investments of about \$7.7 billion. Other  
15 increases in PacifiCorp's balance sheet from March 2006 to December 2009 show  
16 the following:

- 17 • An increase in total assets and other debits of over 43%
- 18 • An increase in net utility plant of 53%, and
- 19 • An increase in total capitalization (debt plus equity) of 61 percent.

20 This three percent change in working capital is understandable in view of the growth  
21 in total Company operations.  
22

1                   **5. Response to PacifiCorp on Working Capital**

2  
3 **Q. What does PacifiCorp propose for a working capital in this case?**

4 A. The Company proposes to include in rate base a total of \$22,405,357 related to  
5 working capital. This amount comes from three different sources:

- 6       • PacifiCorp uses the “one-eighth” method to derive \$11,145,151 in cash  
7       working capital. The Company’s calculation is in Exhibit No. \_\_\_\_ (RBD-3),  
8       Tab 1, page 1.0, line 41.
- 9       • PacifiCorp directly includes in rate base \$3,524,551 worth of fuel stock  
10      (Exhibit No. \_\_\_\_ (RBD-3), Tab 1, page 1.0, line 39.).
- 11      • PacifiCorp directly includes in rate base \$7,775,703 worth of plant materials  
12      and operating supplies (materials & supplies) (Exhibit No. \_\_\_\_ (RBD-3), Tab  
13      1, page 1.0, line 40.).

14 The figures for each of these three items are shown in Company witness Mr.

15 Dalley’s Exhibit No. \_\_\_\_ (RBD-3), Tab 2, page 2.2, lines 42-44.<sup>2</sup>

16  
17 **Q. Should the Commission include any of these amounts in rate base?**

18 A. No.

19  
20 **Q. Please explain why the Commission should reject the Company’s proposal to**  
21 **include \$11,105,103 in rate base, based on the Company’s use of the one-eighth**  
22 **method.**

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<sup>2</sup> There is an unexplained \$40,048 discrepancy between Exhibit No. \_\_\_\_ (RBD-3), Tab 1, page 1.0, line 41 and Exhibit No. \_\_\_\_ (RBD-3), Tab 2, page 2.2, line 44. This same discrepancy exists in Miscellaneous Rate Base.

1 A. The Company's one-eighth method is a simple calculation, but it suffers by its  
2 simplicity because it fails to demonstrate that the working capital it derives is  
3 provided by investors. Because investors are only allowed a return on the capital  
4 they have provided the company, the Company needs to demonstrate that investors  
5 supplied this capital. The Company's one-eighth method fails to demonstrate that.

6 The one-eighth method simply takes total operations and maintenance  
7 expenses and divides it by eight. As a result, the one-eighth method will always  
8 result in a positive working capital allowance, regardless whether investors supply  
9 working capital to the firm. In other words, the one-eighth method assumes  
10 investors supply working capital, without proving that assumption. That is not  
11 appropriate.

12  
13 **Q. Please explain why the Commission should reject the Company's proposal to**  
14 **include in rate base \$3,524,551 worth of fuel stock and \$7,775,703 worth of**  
15 **materials and supplies.**

16 A. These accounts are current assets, as shown in the Company's FERC Form 1. As  
17 such, these items should only be included in working capital to the extent investor's  
18 supply that capital. These items should not be automatically included as line item  
19 rate base accounts, as PacifiCorp presents them.

20



1 **Q. Should the Commission ever consider fuel stocks and material & supplies to be**  
2 **part of working capital?**

3 A. Yes. Although the Commission should not include fuel stock and materials &  
4 supplies as specific rate base items, it is appropriate for the Commission to consider  
5 these items as part of working capital if, and to the extent, invested capital exceeds  
6 investments, because that would indicate that investors do, in fact, supply working  
7 capital. However, in this case, as Staff's analysis shows, PacifiCorp investors do not  
8 contribute funds to create working capital. Therefore, these accounts should not be  
9 included in rate base as working capital.

10

11 **6. Response to Prior PacifiCorp Criticisms of the Investor-Supplied**  
12 **Working Capital Method.**  
13

14 **Q. Has PacifiCorp previously criticized Staff's investor supplied working capital**  
15 **method?**

16 A. Yes. The Company made three criticisms in the 2005 Rate Case, Docket UE-  
17 050684.

18

19 **Q. What were the Company's criticisms?**

20 A. First, the Company relied on a textbook named *Accounting for Public Utilities* by  
21 Mr. Robert Hahne, which criticized some type of balance sheet method for  
22 calculating working capital. Next, the Company compared Staff's calculation in that  
23 case to a prior Staff calculation, and identified certain differences. Finally, the

1 Company charged that Washington is the only state that uses a balance sheet method  
2 to calculate working capital.

3  
4 **Q. Are these Company criticisms valid?**

5 A. No.

6  
7 **Q. Please explain why the Company's criticism based on Mr. Hahne's textbook is**  
8 **not valid.**

9 A. The primary problem is that PacifiCorp cannot show that the method Mr. Hahne was  
10 addressing in his textbook is the same as the method Staff used in this case, and has  
11 used for the past several decades.<sup>3</sup>

12 For example, Mr. Hahne states that the balance sheet method wrongly  
13 assumes that all non-utility or non-jurisdictional assets are investor-supplied.<sup>4</sup>  
14 However, Staff's method does not make that assumption. Staff appropriately  
15 allocates working capital between utility and non-utility operations.

16 The Company also relied on Mr. Hahne's statement that the balance sheet  
17 method is problematic if the utility does not record unbilled revenues.<sup>5</sup> However,  
18 PacifiCorp records unbilled revenues, so this criticism has no application to  
19 PacifiCorp, assuming it is a valid criticism.

20 Finally, the Company relied on Mr. Hahne's criticism that the balance sheet  
21 is a "snap shot of completed series of events," and his complaint that even an  
22 average of 13 months misses the payment of expenditures made on the first day of

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<sup>3</sup> Staff traced the ISWC approach as far back as the early 1960s.

<sup>4</sup> Exhibit No. 195-T (PMW-5) in Docket UE-050684 at 6.2.7.

<sup>5</sup> Exhibit No. 195-T (PMW-5) in Docket UE-050684 at 6.2.8.

1 the month.<sup>6</sup> However, Staff's investor-supplied working capital analysis reflects an  
2 average of the monthly average data, thereby picking up balances that may be missed  
3 by only one "snapshot" per month.  
4

5 **Q. Please explain why the Company's second criticism, using comparisons to a**  
6 **prior Staff working capital calculation, is not valid.**

7 A. Many of the Company's criticisms are in form only because most of the differences  
8 between the two Staff calculations did not change the bottom line result. For certain  
9 other differences, the Staff's prior calculation did indeed contain some errors, which  
10 Staff corrected in its calculation in the 2005 Rate Case. It is also pertinent to note  
11 that the earlier docket which the Company used for its comparison was settled before  
12 a hearing on the merits. Consequently, it is possible Staff would have corrected its  
13 exhibit in that case, had that case gone to hearing.  
14

15 **Q. Is it remarkable that Staff's ISWC presentation might be different in different**  
16 **cases?**

17 A. No. Staff works to present a complete analysis in each case. Staff discovers  
18 improvements and refinements along the way. At the same time, evolving  
19 requirements of Generally Accepted Accounting Principles have increased  
20 considerably the complexity of corporate balance sheets over time. However, the  
21 overriding principle stays the same: only the working capital provided by investors  
22 may be included in rate base. Staff's method applies that principle; the Company's  
23 method ignores that principle.

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<sup>6</sup> Exhibit No. 195-T (PMW-5) in Docket UE-050684 at 6.2.9.

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**Q. Is the Company correct that Washington is the only state that uses a balance sheet approach to calculate investor-supplied working capital?**

A. No. At least three other states currently use a balance sheet method: Idaho, Michigan, and Florida.<sup>7</sup> In any event, regardless of how many commissions use a method, the Commission’s goal should be to use consistently a method that is theoretically defensible, is not overly complex, and calculates the amount of working capital supplied by investors. The Company should include in rate base only the amount of working capital supplied by investors. Staff’s method satisfies this goal. The Company’s methods do not.

**Q. Why does the Company’s method fail to satisfy the goal that rate base should include only the amount of working capital supplied by investors?**

A. As I explained earlier, the one-eighth method does not determine if investors supply that working capital or not.

**7. Conclusion on Working Capital**

**Q. What are your conclusions regarding the working capital issue?**

A. For the reasons I have stated, the Commission should accept Staff’s investor-supplied working capital calculation, which shows the investors did not supply working capital for PacifiCorp’s utility business operations in 2009. The

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<sup>7</sup> *Re The Detroit Edison Company*, 270 PUR4th (December 23, 2008); Florida PSC: *In re Progress Energy Florida*, Docket 050078-EI, Document 04220-05 at 19 (Sch. B-1), 22 (Sch. B-2) and 160 (Sch. B-17). My statement regarding Idaho is based on information provided by the Idaho PUC Staff.

1 Commission should reject the one-eighth method offered by PacifiCorp, and also  
2 remove the current asset accounts fuel stock, and materials & supplies from the  
3 results of operations, including the current asset accounts from Adjustment 8.2, Jim  
4 Bridger Mine. This results in a reduction to rate base of \$26,484,975 (Washington).  
5 The production factor adjustment is also revised to reflect the change in Adjustment  
6 8.2, for an increase to rate base of \$7,143 (Washington).  
7

#### 8 IV. REVENUE ALLOCATION

9

10 **Q. What is revenue allocation?**

11 A. Revenue allocation, also known as rate spread, is the process of determining the  
12 portion of total revenues to be collected from each rate schedule.  
13

14 **Q. Please contrast revenue allocation with rate design.**

15 A. Rate design takes the total revenue allocated to each rate schedule (the revenue  
16 allocation) and determines the specific charges within the schedule, such as the basic  
17 charge per month, the demand charge per kilowatt, and the exact cents per kilowatt-  
18 hour.  
19

20 **Q. What is the basic principle behind allocating revenues to the rate schedules?**

21 A. The basic principle is cost causation: customers should be charged for service based  
22 on the costs they impose on the total system. The premise of cost causation is  
23 present in many aspects of determining rates in a price-regulated industry.

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**Q. Is cost causation the only applicable principle or factor the Commission should consider in determining each rate schedule's share of total revenue?**

A. No. While a precise calculation of the costs to be recovered by the customers on each rate schedule is possible, given any one set of allocation assumptions, the Commission has often stated that factors in addition to cost weigh in the rate spread decision, including the appearance of fairness, perceptions of equity, economic conditions in the service territory, and stability, or gradualism.

**Q. What data are necessary to determine a fair allocation of revenues to the customer classes, and how is that data used?**

A. The utility must collect data on the use of electricity across a broad spectrum of all customers. This is known as a load study. While it is not feasible to precisely measure each customer's load, statistical sampling provides sufficient data for the intended purposes. For each customer sampled, the data collected should include, at a minimum, the electricity consumed during short time intervals around the clock and over an entire year. The purpose is to group customers into like patterns of use, to determine the time periods at which those customers demand the greatest amount of kilowatts, to compare the peak periods of a group to the lowest use periods within the same group, and to compare each group of customers to the other groups. The utility must also collect data on how it produces and buys electricity to meet customer needs.

In the cost of service study, the company sorts its costs and plant balances, or rate base, into the basic functions of doing business such as generation, transmission,

1 and distribution. The company further classifies the costs and rate base as customer-  
2 related, energy-related, or demand-related. Customer-related costs are those that  
3 vary as customers are added or subtracted to the system. Energy-related costs vary  
4 by total consumption. Demand-related costs vary by the power required to meet the  
5 demands of customers on each rate schedule.

6 The company uses customer consumption data from the load study to  
7 determine allocation factors for each cost category. The company applies those  
8 allocation factors to the various classifications of costs to determine the cost  
9 responsibility of the customers on each rate schedule.

10  
11 **Q. Does Staff accept the Company's method to allocate plant and expenses to the**  
12 **current rate schedules?**

13 A. Yes. PacifiCorp's cost of service study fairly presents the costs imposed on the  
14 system by the customers on each rate schedule.

15  
16 **Q. Did PacifiCorp make any changes to the cost of service study since the last rate**  
17 **case, Docket UE-090205?**

18 A. Yes. The Company revised its application of the peak credit method, which is used  
19 to classify electricity generation and transmission costs as either demand or energy.  
20 The peak credit method compares the cost of a peaking resource to the cost of a  
21 base-load resource.

22 In its last general rate case, Docket No. UE-090205, PacifiCorp used the cost  
23 of a single cycle combustion turbine (SCCT) to the cost of a combined cycle

1 combustion turbine (CCCT). However, PacifiCorp has no single cycle combustion  
2 turbines in its West Control Area. Therefore, in this case, PacifiCorp uses the cost of  
3 its Firm Capacity Sales Agreement between the Bonneville Power Administration  
4 (BPA) instead of using a SCCT.

5  
6 **Q. Is it reasonable to use the BPA contract for the peaking resource in the peak  
7 credit calculation?**

8 A. Yes. The BPA firm capacity contract is a resource PacifiCorp uses to meet peak  
9 loads.

10  
11 **Q. Does Staff contest this change?**

12 A. No. PacifiCorp's demand classification is now more in line with the demand  
13 classification in recent Puget Sound Energy and Avista rate cases.

14  
15 **Q. How does this revision to the peak credit method affect the cost of service?**

16 A. The result of this revision is to classify 32.9 percent of generation and transmission  
17 costs as demand-related, compared to the previous method, which classified about 12  
18 percent as demand related. This revision increases the costs allocated to the  
19 Residential Schedule and decreases the costs allocated to the industrial schedules.

20  
21 **Q. What does the result of the cost of service study show?**

22 A. Based on PacifiCorp's Exhibit No. \_\_\_\_ (CCP-2), page 1, Column M, Residential  
23 Schedule 16, and the industrial Schedules 48T pay less than the costs to serve those



1 customers. The commercial Schedules 24 and 36, the irrigation Schedule 40, and the  
2 lighting schedules pay more than the costs to serve those customers. I provide the  
3 summary of the class contributions to parity in my Table 1 below:  
4

5 **Q. What is Staff's recommendation on revenue allocation?**

6 A. Staff recommends a 13.75 percent increase for Schedule 16, Residential, Schedule  
7 48T, Large General Service over 1,000 kilowatts, and Schedule 48T, Dedicated  
8 Facilities. This increase is 114 percent of the average increase.

9 Staff recommends a 10 percent increase for Small General Service, the Large  
10 General Service Schedule less than 1,000 kilowatts, and the Agricultural Pumping  
11 Schedule. This increase is 83 percent of the average increase.

12 For the various Street Lighting Schedules, Staff recommends an increase of  
13 one percent. This increase is about eight percent of the average increase.  
14

15 **Q. Have you prepared an exhibit that explains your recommendation?**

16 A. Yes. I prepared Exhibit No. \_\_\_\_ (TES-3), which is based on Company Exhibit No.  
17 \_\_\_\_ (CCP-5), Tab 4.0, page 1.  
18

19 **Q. Please explain your exhibit.**

20 A. The upper portion depicts PacifiCorp's cost of service results at the current revenue  
21 level, that is, without any rate increase. Column M shows the percent increase or

1 decrease necessary to bring each schedule to a rate of return equal to all the others.

2 This data is also shown in Table 1 below:<sup>8</sup>

3  
4 **Table 1**

5

Rate Increase or Decrease to Achieve Equal Return		
at Present Rates		
<u>Schedule</u>	<u>Class</u>	<u>Change</u>
16	Residential	2.66%
24	Small General Service	-6.83%
36	Large General Service <1,000 kW	-2.32%
48T	Large General Service >1,000 kW	3.07%
48T	Dedicated Facilities	4.33%
40	Agricultural Pumping Service	-2.95%
15,52,54,57	Street Lighting	-16.34%

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11

12 **Q. Is this a reasonable way to look at the cost inequities between schedules?**

13 A. Yes. Ideally, each schedule would produce a return equal to the average, and be at  
14 parity with other. That would mean each schedule is producing revenue sufficient to  
15 cover its allocated share operating costs plus an equal return on its allocated share of  
16 the rate base. A schedule with less relative rate base will incur less return on rate  
17 base in dollars, but will provide a fair return to the company for that schedule's level  
18 of rate base.

19  
20 **Q. Is there a different way to compare parity between rate schedules?**

21 A. Yes. Revenue allocation, or rate spread, may also be presented as the total cost of  
22 service divided by the revenues.

23  

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<sup>8</sup> Excerpt from Company Exhibit No. \_\_\_ (CCP-2), page 1.

1 Q. Do you have a table illustrating the revenue to cost ratio?

2 A. Yes:

3 **Table 2**

4

Revenues to Costs at Present Rates		
Schedule	Class	Ratio
16	Residential	0.974
24	Small General Service	1.073
36	Large General Service <1,000 kW	1.024
48T	Large General Service >1,000 kW	0.970
48T	Dedicated Facilities	0.959
40	Agricultural Pumping Service	1.030
15,52,54,57	Street Lighting	1.195

9

10 Q. Is there a substantive difference between the equal return comparisons in your  
11 first table above, and the revenue to cost ratio comparisons in the second table  
12 above?

13 A. No. The lower portion of my Exhibit No. \_\_\_\_ (TES-3) analyses the total cost of  
14 service to revenues calculation. In Column H, I show the cost to revenue ratio for  
15 each schedule, which is Column C divided by Column F. Note that Schedule 16 and  
16 the two Schedule 48Ts are below 1.0, while the others schedules are above 1.0, with  
17 Street Lighting schedules showing the largest amount above cost, at a 1.195 ratio.

18 The inverse of the ratio (that is, divide 1 by the ratio) in each schedule is the  
19 percentage increase that brings that schedule to 1.0. The result is that each  
20 schedule's increase or decrease to reach parity is the same as in Column G.

21 Arithmetically, the two views arrive at the same conclusion.

22

1 **Q. What do you conclude from this analysis?**

2 A. I conclude that the Residential Schedule and the industrial schedules are under-  
3 earning their cost of service and therefore merit a higher than average increase.

4 On the other hand, the Small General Service Schedule, and the Large  
5 General Service Schedule < 1,000 kilowatts, and the Agricultural Pumping Schedule  
6 are over-earning their cost of service. These schedules merit lower than average  
7 increases.

8 Lastly, the Street Lighting Schedules are over-earning substantially in excess  
9 of their cost of service and would normally merit a rate decrease. However, given  
10 that there is an increase for all other schedules, a much less than average increase to  
11 the Street Lighting Schedules is reasonable.

12

13 **Q. What is your specific revenue allocation recommendation?**

14 A. Based on Staff's recommended 12.08 percent overall revenue increase, I recommend  
15 a 13.75 percent increase for Schedule 16, Residential, Schedule 48T, Large General  
16 Service over 1,000 kilowatts, and Schedule 48T, Dedicated Facilities. This increase  
17 is 114 percent of the average.

18 For the various Street Lighting Schedules I recommend a one percent  
19 increase. This increase is about eight percent of the average.

20 The balance of the revenue increase is charged to the commercial and  
21 irrigation schedules. The result is a 10 percent increase for Small General Service,  
22 the Large General Service Schedule less than 1,000 kilowatts, and the Agricultural  
23 Pumping Schedule. This increase is 83 percent of the average.

1                    These amounts are shown in my Exhibit No. \_\_\_\_ (TES-3), columns R & S.

2  
3    **Q.    Does your proposed rate increases bring the schedules to full parity with each**  
4                    **other?**

5    A.    No. Movement to full parity would require increases to the residential and industrial  
6                    schedules of 22 percent to 35 percent more than the average increase. That pushes  
7                    the limits of reasonableness in my estimation. My recommendation for these  
8                    schedules is 14 percent more than the average and brings all schedules closer to  
9                    parity with reasonable rate increases given the overall revenue increase. Each  
10                   schedule moves closer to parity as can be seen by comparing column P with Column  
11                   H in Exhibit No. \_\_\_\_ (TES-3).

12  
13   **Q.    What is PacifiCorp's revenue allocation proposal?**

14   A.    PacifiCorp proposes a 21 percent increase to all schedules except for the lighting  
15                   schedules.<sup>9</sup> PacifiCorp proposes a five percent increase for lighting.

16  
17   **Q.    Is PacifiCorp's proposal reasonable?**

18   A.    PacifiCorp's proposal could be reasonable in light of the Company's request to  
19                   increase rates by over 20 percent. A 20 percent increase is shocking enough, without  
20                   proposing greater amounts to seek parity between schedules. However, at Staff's  
21                   proposed increase of 12.08 percent, improving the parity between the rate schedules  
22                   can be achieved without undo strain on a particular class.

23  

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<sup>9</sup> Exhibit No. \_\_\_\_ (WRG-1T) at 2:22-23

1  
2  
3 **VI. RATE DESIGN**

4 **Q. What is rate design?**

5 A. Rate design is the structure in which a utility recovers the costs to serve a customer  
6 class using different billing components such as fixed customer charges, energy rates  
7 and demand rates. As with rate spread, we strive to have the rate structure and the  
8 rate components reflect the cost to serve that class in order to send a proper price  
9 signal to customers.

10 **Q. What is your recommendation for rate design?**

11 A. I recommend an increase in the residential basic charge to \$7.50 per month from the  
12 current \$6.00 per month. I also recommend the Commission accept the Company's  
13 proposed increases to basic charges and demand charges for the non-residential  
14 schedules.

15  
16 **Q. What is the Company's proposed increase to the residential basic charge?**

17 A. PacifiCorp proposes a customer charge increase to \$9.00 "to more closely reflect  
18 cost of service results."<sup>10</sup> This is a \$3.00 increase over the present charge of \$6.00.

19  
20 **Q. What costs are covered by the basic charge?**

21 A. The basic charge covers costs that vary with the addition or subtraction of customers.  
22 These costs include the cost of meters, service drops, meter reading, and billing.

---

<sup>10</sup> Exhibit No. \_\_\_\_ (WRG-1T) at 4:8

1 Mr. Griffith shows these costs total \$10.38<sup>11</sup>, given the Company's rate request  
2 increase of 20.88 percent.<sup>12</sup>

3  
4 **Q. What is the basis for Staff's proposed increase of the basic charge to \$7.50?**

5 A. Staff's proposed revenue increase in this case (12.08 percent) is roughly one-half of  
6 the Company's proposed increase (20.88 percent). Therefore, Staff proposes to  
7 increase the basic charge by one-half the company's increase, or by \$1.50, to \$7.50.  
8 This represents a 25 percent increase over the present charge of \$6.00.

9  
10 **Q. What does the company propose for basic charges and demand charges for the  
11 non-residential rate schedules?**

12 A. The Company proposes less than average increases to the basic charge and demand  
13 charge for the general service and industrial customers. Most of the increase for  
14 these customers is in the energy charge.

15  
16 **Q. What do you recommend for basic charges and demand charges for the general  
17 service and industrial customers?**

18 A. I recommend that the basic charge and demand charges for Schedules 24, 36, and  
19 48T be increased by the amount proposed by PacifiCorp at a minimum regardless of  
20 the revenue requirement increase granted. If the revenues granted are less than  
21 requested, then the energy charge should be reduced commensurately.

22  

---

<sup>11</sup> Exhibit No. \_\_\_ (WRG-1T) at 4:17

<sup>12</sup> Exhibit No. \_\_\_ (RPR-1T) at 2:14

1 **Q. What is the effect of an increase in the basic charge that is greater than the**  
2 **overall increase?**

3 A. Increasing the basic charge commensurately reduces the energy charge. A customer  
4 with average consumption sees an average increase however the basic charge and  
5 energy charges are set. The low use customer's bill will increase by a higher  
6 percentage than the bill of a high use customer. Using PacifiCorp Exhibit No. \_\_\_\_  
7 (WRG-5) as an example, a customer using 50 kWh per month would her/his bill  
8 increase by \$3.57 to \$12.56, an increase of about 40 percent. On the other hand, a  
9 higher use customer sees a less than average increase. PacifiCorp's Washington  
10 customers use 1,300 kWh per month on average. A customer using 3,000 kWh per  
11 month would see their bill increase by \$45.96 to \$275.92 per month, or 20.0 percent,  
12 a bit lower than the 21 percent average increase.

13  
14 **Q. How much electricity is 50 kWh per month?**

15 A. This consumption is about what three 13 watt compact fluorescent light bulbs burn if  
16 left on 24 hours per day for a month. Obviously this is not a typical customer, but a  
17 customer with such very small loads incurs the same the costs as a higher use  
18 customer. It is reasonable to expect these customers to contribute a fair share to the  
19 costs they impose.

20



1 **Q. What customers might use 3,000 kWh per month?**

2 A. It would not be surprising to find a family with an all electric house that is poorly  
3 insulated using this much electricity in the winter time. Many low-income customers  
4 may be in this situation.

5  
6 **Q. Are low-use customers the same as low-income customers?**

7 A. No. Some are, but many are not. But all low-use customers benefit by artificially  
8 keeping the basic charge low, regardless of income level.

9  
10 **Q. What is your conclusion from these two examples?**

11 A. I conclude that maintaining a low basic charge and higher energy charges harms low-  
12 income customers who have higher energy use than average. Conversely, the higher  
13 basic charge and lower energy charges will cause higher percentage increase in the  
14 bills of low use customers. This increase fairly imposes on these customers the cost  
15 to serve that group.

16  
17 **Q. What is your rate design recommendation?**

18 A. I recommend the monthly basic charge be increased to \$7.50 per month for  
19 residential customers. For other schedules I recommend that, at a minimum, the  
20 Commission accept the Company's proposed basic charges and demand charges  
21 regardless of the total revenue increase granted.

22

1                                   **VI.    LOW INCOME BILL ASSISTANCE PROGRAM**

2

3   **Q.    What do you recommend for the low income bill assistance tariffs?**

4   A.    I recommend the Commission accept the rates filed for Schedule 91, Surcharge to  
5       Fund Low Income Bill Assistance Program (“Schedule 91” or “Bill Assistance  
6       Surcharge”), regardless of the level of revenues granted. I also recommend the  
7       Commission accept the proposals to increase the number of participating customers,  
8       to increase the income cap to 150 percent of federal poverty levels, to increase the  
9       rate credit, and to revise the recertification process.

10

11   **Q.    What is PacifiCorp’s proposal for the low income programs?**

12   A.    PacifiCorp proposes a 21 percent increase in monies raised to fund the low income  
13       programs by increasing the Schedule 91 surcharge. This is the same percentage  
14       increase proposed by PacifiCorp for most of its customers. Also, Pacific proposes to  
15       increase the number of qualifying customers by 245 to a total of 4,720; and proposes  
16       to increase the average credit per customer. Additionally, the Company proposes to  
17       decrease program costs by recertifying the eligibility of participants every two years  
18       instead of annually.

19

20   **Q.    How much more revenue will this increase raise from the Bill Assistance**  
21       **Surcharge?**

22   A.    The proposed Schedule 91 rates will raise an additional \$254,000 for low income bill  
23       assistance.

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**Q. How much more revenue will be raised if Schedule 91 surcharges increase by Staff's recommended 12.08 percent?**

A. If the Commission grants PacifiCorp an increase of about 12.08 percent and increases the Bill Assistance Surcharge the same percentage, the increase in dollars would be about \$146,000.

**Q. How does PacifiCorp compare to Puget Sound Energy and Avista in the amount of monies collected for low income bill assistance?**

A. PacifiCorp would raise \$1,463,000 from its customers for low income bill assistance, or 0.45% of its requested total revenues of \$328,512,000. In comparison, Puget's customers provide 0.57% of its total revenues, and Avista's customers provide 0.61% of its total revenues. It is evident that PacifiCorp's customers incur a lower "tax" for low income assistance than the other electric utilities.

**Q. Why is the basis of your recommendation?**

A. If the Company's proposed surcharge rates are maintained and the revenues granted are closer to Staff's recommended level, then the dollars raised will be a slightly larger portion of the total revenues granted, about 0.48%. This will move PacifiCorp's customers a smidgeon closer to the levels of support given by the other utilities' customers.

1 **Q. Please describe the Company's proposal to recertify participant eligibility every**  
2 **other year, rather than annually as is current practice.**

3 A. PacifiCorp proposes to recertify participating households every other year beginning  
4 in 2011. During 2011, all participants will be certified and recertification will occur  
5 thereafter every other year. This will save the program almost \$215,000 of overhead  
6 costs beginning in 2012.

7  
8 **Q. What is Staff's opinion of this administrative change to the bill assistance**  
9 **program?**

10 A. This change is acceptable. Staff also recognizes that the "savings" to the program is  
11 a reduction to the income of the local administrating agencies ("the agencies").<sup>13</sup> If  
12 the agencies wish to maintain their income levels, they, and their advocates, have the  
13 opportunity to consider significantly increasing the number of participants. Of  
14 course, this would necessitate a substantial increase in the surcharge. The agencies  
15 through their advocates may bring such proposals to the Commission for  
16 consideration.

17  
18 **Q. Please describe the Company's proposed changes to participation rates, to the**  
19 **income eligibility cap, and to the discount per customer in the bill assistance**  
20 **programs.**

21 A. PacifiCorp proposes to increase the number of participants by 245, to increase the  
22 income cap to 150 percent of federal poverty guidelines, and to increase the per kWh

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<sup>13</sup> The agencies that administer the bill assistance programs are the Blue Mountain Action Council, the Opportunities Industrialization Center of Washington, and the Northwest Community Action Center. *Exhibit No. \_\_\_ (WRG-1T) at 6:22-7:1.*

1 discount for participating customers. These changes were determined through  
2 discussions between PacifiCorp, the Energy Project, and the agencies. It was agreed  
3 that 30 percent of the increase in funds available from the surcharge would go to  
4 increasing the number of qualifying customers; and that 70 percent of the available  
5 funds would increase the rate discount to qualifying customers.

6 The proposal will allow 245 more customers to participate in the bill  
7 assistance program. The increase in the rate discount is about 15.5 percent.

8  
9 **Q. What do you recommend for the proposed changes to the bill assistance  
10 program?**

11 A. These proposals appear reasonable and I recommend the Commission accept them.  
12

13 **VI. SERVICE QUALITY**

14  
15 **Q. Does Staff have any issues related to PacifiCorp's compliance with Commission-  
16 prescribed service quality standards?**

17 A. No. The Company is meeting the service quality standards prescribed by the  
18 Commission in Order 07, Docket UE-051090.<sup>14</sup> Recent customer complaints on file  
19 with the Commission declined from 2008 to 2009, and are the lowest of the three  
20 electric utilities. In total the Commission's Consumer Protection division received 32  
21 complaints in 2009. Of those, 27 concerned billing issues; disconnects, disputed

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<sup>14</sup> *In the Matter of the Joint Application of MidAmerican Energy Holdings Co. and PacifiCorp, d/b/a Pacific Power & Light Co. For an Order Authorizing Proposed Transaction, Docket UE-051090, Order 07, Attachment (February 22, 2006). The actual service quality standards approved by the Commission in this order are found in the cover letter for the Company's initial filing, dated December 2, 2004, in Docket UE-042131.*

1 bills, and deposits. Only two complaints concerned quality of service. There were  
2 two miscellaneous complaints and one customer service complaint.

3

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

5 A. Yes.