Exhibit No. JRS-1T
Docket UE-15____
Witness: Joelle R. Steward

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PACIFIC POWER & LIGHT COMPANY, Petition For a Rate Increase Based on a Modified Commission Basis Report, Two-Year Rate Plan, and Decoupling Mechanism.	Docket UE-15____

PACIFIC POWER & LIGHT COMPANY

DIRECT TESTIMONY OF JOELLE R. STEWARD

November 2015

increase to the average LIBA participant benefit for the May 1, 2017 increase, which is shown in Exhibit No. JRS-3. The Company will convene a stakeholder group to discuss any additional program changes to be effective beginning with the 2017-2018 winter heating season, in conjunction with the end of the five-year plan.

Q. Has the Company included an increase in this filing to Schedule 91, Low Income Bill Assistance Program surcharge, which funds LIBA?

A. No. Under the five-year LIBA plan, the Company is to file changes to the Schedule 91 monthly surcharge around May 1 each year to reflect the increased funding requirements associated with the five-year LIBA plan, or as part of a compliance filing following a general rate case order. Schedule 91 was included in the compliance filing for the 2014 Rate Case to reflect the increased customer benefits approved in that case. Following a final order in this filing, the Company proposes to again file changes to Schedule 91 as part of the compliance filing to recover the increase in the participant benefits and any other necessary changes.

DECOUPLING MECHANISM

Q. Why is the Company proposing a decoupling mechanism in this rate case?

A. In the 2014 Rate Case, the Commission invited a proposal from Pacific Power to implement a decoupling mechanism similar to that adopted for PSE and Avista.[7] The decoupling mechanism will provide the Company better fixed cost recovery in light of changes in usage due to weather or energy efficiency.

[7] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762 et al., Order 08 at 94, ¶ 222 (March 25, 2015).

Q. What is the Commission's policy concerning a decoupling mechanism?

A. In 2010, the Commission established policy guidance on regulatory mechanisms designed either to remove barriers to utilities acquiring all cost-effective conservation or to encourage utilities to acquire all cost-effective conservation.[8] Specifically, the Commission articulated policy regarding three types of regulatory mechanisms, including full decoupling. The Commission expressed support for full decoupling and provided utilities and other parties with guidance on the elements that full decoupling should include. Essential to the Decoupling Policy Statement was recognition that the mechanism should aid the company when revenue per customer decreases and the customer when revenue per customer increases. The Commission stated that it believed that "a properly constructed full decoupling mechanism that is intended, between general rate cases, to balance out both lost and found margin from any source can be a tool that benefits both the company and its ratepayers."[9]

Q. Please describe the Company's proposed decoupling mechanism.

A. The decoupling proposal follows the Commission's Decoupling Policy Statement and is modeled on decoupling mechanisms the Commission has approved for Avista and PSE. It operates independently of the other proposals in this case, except the allowed revenues will be updated to reflect the second-year increase. The proposed mechanism is a revenue-per-customer decoupling mechanism that compares the actual non-weather adjusted revenues to the allowed revenues, with the difference

[8] *See In the Matter of the Washington Utilities and Transportation Commission's Investigation into Energy Conservation Incentives*, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed their Conservation Targets (Nov. 4, 2010) (Decoupling Policy Statement). The Decoupling Policy Statement largely overlaps with the requirements for decoupling the Commission articulated in the Company's 2005 GRC. *See Wash Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-050684 and UE-050412, Order 04 at ¶¶101-110 (Apr. 17, 2006).

[9] In the Matter of the Washington Utilities and Transportation Commission Investigation into Energy Conservation Incentives, Docket U-100522, ¶ 27 (Nov. 4, 2010).

deferred later for a surcredit or a surcharge. The mechanism will be applicable for residential (Schedules 16, 17 and 18), small general service (Schedule 24), large general service (Schedule 36) and irrigation (Schedule 40) customers.

The historical test period (12-months ended June 30, 2015) revenues have been adjusted by the requested rate increase effective May 1, 2016, to establish the allowed decoupled revenue rate per customer and the decoupled revenue per kWh for each of the applicable schedules listed above. The difference between total allowed revenues and total actual revenues represents the annual deferral amount. Beginning with rates effective May 1, 2017, the historical test period was updated to include the effects of the rate increase effective May 1, 2016, and the rate increase effective May 1, 2017. This updated test period was used to establish the allowed decoupled revenue rate per customer and the allowed decoupled revenue per kWh for each applicable rate schedule.

Q. What costs will the Company track and recover through the decoupling mechanism?

A. Because differences between forecast and actual net power costs (NPC) are separately tracked and recovered through the Power Cost Adjustment Mechanism (PCAM), the Company is proposing to track and recover only non-NPC related costs through the decoupling mechanism. The Company will exclude revenues recovered from the basic charge and NPC in rates from the calculations. Thus, the mechanism focuses on the fixed costs that the Company recovers through its non-NPC volumetric charges.

Q. What rate schedules are excluded from the decoupling mechanism?

A. The Company is proposing to exclude from the decoupling mechanism Schedule 48,

Large General Service 1,000 kW and Over; Schedule 47, Large General Service Partial Requirements Service 1,000 kW and Over; and the lighting, Schedule 15, 51, 52, 53, 54, and 57. All other rate schedules will be included in the mechanism with differences between allowed and actual recovery tracked separately through the deferral.

Q. Why is the Company proposing to exclude the lighting schedules and Schedules 47 and 48?

A. The rate structures for these schedules already provide better fixed cost recovery because their revenues are less dependent upon changes in energy volume due to weather or other changes in usage. For the lighting schedules, their revenues are largely recovered from fixed charges per luminaire. Revenues from lighting schedules that are not recovered through fixed charges are not temperature sensitive, and therefore their fixed cost recovery is less volatile than other rate schedules.

For Schedule 48, a significant portion of non-NPC revenue is recovered through demand charges and revenues are much less subject to weather-related volatility. For the most part, the demand charges are set at a level to adequately recover the demand-related costs from the cost of service study. Table 2 below shows the percent of revenue recovered from demand and customer charges as a percent of demand- and customer-related costs from the cost of service study from the 2014 Rate Case, excluding net power costs, for the non-residential rate schedules.

Table 2

Revenues from Billing Components as a % of Costs (excl. NPC)	Schedule 48	Schedule 48 -Ded.	Schedule 36	Schedule 24
Demand/Customer	109.8%	92.5%	91.7%	36.3%
Energy and Reactive	90.2%	105.4%	109.5%	194.6%

This table shows that Schedule 48 rates, other than rates for Dedicated Facilities, are already adequately tied to cost of service compared to the other non-residential rate schedules. For Schedule 48 Dedicated Facilities, as previously discussed, the Company is proposing to apply a higher percentage increase to the demand charges in this filing, which will move the recovery of demand/customer charge revenue to 102 percent of demand/customer-related costs compared to the current 92 percent. Similarly, Schedule 47 rates are tied to the rates on Schedule 48.

Additionally, Schedule 48 is largely comprised of industrial customers whose usage is primarily driven by industrial processes not affected by weather. Schedule 48 revenue and fixed cost recovery is therefore significantly less subject to weather-related volatility when compared to other rate schedules. Table 3 shows minimal temperature adjustment for Schedule 48 over the last few years compared to the other schedules.

TABLE 3

Class	Sch. No.	CY 2014	CY 2013	CY 2012
Residential	16,17,18	1.9%	-2.8%	1.0%
Small General Service	24	-1.6%	-1.4%	-0.5%
Large General Service < 1,000 kW	36	-1.5%	-1.2%	-0.1%
Irrigation	40	-7.2%	-7.8%	-3.6%
Large General Service => 1,000 kW	48	-0.4%	-0.3%	0.0%

Q. The decoupling mechanisms for both PSE and Avista combine non-residential rate schedules into one or more groups instead of separately tracking and deferring by rate schedule. Why is the Company proposing to separately track revenues by rate schedule for the non-residential rate Schedules 24, 36, and 40 in its decoupling mechanism?

A. The Company is proposing to separately track and defer revenue differences on these

schedules to minimize cost or benefit shifting between these classes. For instance, combining into one decoupling class shifts irrigation Schedule 40 volatility due to weather to Schedules 24 and 36. Likewise, Schedule 36 may not see any potential benefits from growth if combined with the other schedules. Additionally, as shown in Table 2 above, the current rate structure for Schedule 24 collects a significant amount of revenue from energy charges, which could shift fixed cost recovery to Schedules 36 and 40. Separately tracking and recovering deferrals by rate schedule will minimize any cost or benefit shifting between rate schedules and provide for a more equitable outcome.

Q. Please describe the calculation of the Monthly Allowed Decoupled Revenue per Customer.

A. The monthly allowed revenue per customer is determined as follows:

Step 1 – Determine the Total Revenue - The total revenue is equal to the present revenues for the test period used to set rates, which in this case is the 12-months ending June 30, 2015, for each applicable rate schedule.

Step 2 – Determine Net Power Cost Revenue in rates – Table 4 below shows the calculation of the total NPC revenue in rates, as approved in the 2014 Rate Case. The amount set in rates in the 2014 Rate Case, which is tracked through the PCAM, is divided by the kWh sales from that case to derive a $/MWh. The $/MWh is then multiplied by the total Washington loads in the June 30, 2015 test period to calculate the NPC in present revenues.