

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO DATA REQUEST

DATE PREPARED: July 24, 2017  
DOCKETS: UE-170033/UG-170034  
REQUESTER: Public Counsel

WITNESS: Thomas E. Schooley  
RESPONDER: Thomas E. Schooley  
TELEPHONE: (360) 664-1307

**REQUEST NO. 4:**

**Re: Direct Testimony of Thomas Schooley, Exhibit TES-1T at 29:21-23 (Formalized ERF)**

At page 29, Mr. Schooley states, “An ERF is limited in scope with few, or no, pro forma adjustments and holds constant certain controversial rate making elements such as cost of capital and rate spread/rate design.” Please respond to the following:

- a. Does Mr. Schooley contend that a utility’s revenue requirement is more accurately determined when “few, or no, pro forma adjustments” are considered, rather than when all needed pro forma adjustments are considered? Please explain.
- b. Should the utility, Staff, or intervenors in an ERF proceeding be allowed to develop and present the “few” pro forma adjustments that may be needed? Please state with specificity each of the criteria that should apply to define the adjustments to be included in an ERF.
- c. Does Mr. Schooley contend that a utility’s revenue requirement is more accurately determined when “controversial rate making elements such as cost of capital” are not considered and updated? Please explain.
- d. Does Mr. Schooley contend that a utility’s approved rate levels are more accurately determined when “controversial rate making elements such as ... rate spread/rate design” are not considered and updated? Please explain.

**RESPONSE:**

- a. No. Determining a utility’s revenue requirement is not an exercise in hairsplitting accuracy. Several subjects in regulatory ratemaking cannot be precisely measured or directly observed. Ratemaking is thus a balancing of various costs, benefits, projections, and interests to arrive at a reasonable outcome. All parties should recognize that the goal of ratemaking is to develop rates that represent the ongoing costs of operating the utility plus the opportunity to earn a sufficient rate of return to the shareholders. In certain circumstances, an expedited filing process may result in a well-supported, reasonable outcome for all parties, including residential and small commercial customers. For example, leaving out pro forma adjustments is one way to expedite the processing of the rate filing. Those pro forma adjustments also generally increase the utility’s revenue requirement, so leaving these out nearly always benefits customers.
- b. No. It is sufficient to review the restating adjustments for completeness and veracity. No specific criteria can be or need be defined.

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- c. No. Cost of capital is, however, controversial and time consuming for all concerned, and, depending on financial market conditions, the cost of capital may not measurably fluctuate over certain periods. The cost of debt is usually one element of capital that is not controversial and readily observable through arms-length transactions in financial markets. Updating this element may reasonably update the overall cost of capital to the present time.
- d. Cost-of-service studies, rate spread, and rate design are never precisely accurate. There is great controversy between the parties. Keeping these issues at the latest status quo is another way to expedite the rate making process.