

Exhibit No. __ T (BAE-1T)
Docket UE-130043
Witness: Betty A. Erdahl

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP,

Respondent.

DOCKET UE-130043

TESTIMONY OF

BETTY A. ERDAHL

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

*Revenue Requirement Adjustments:
Depreciation & Amortization Reserve to June 2012 Balance (6.2),
Tax Adjustments – Property Tax Expense (7.2), Power Tax ADIT Balance (7.4),
Jim Bridger Mine (8.1), and Adjust June 2012 AMA Plant balances
to June 2012 Balance (8.12 – 8.12.3)*

June 21, 2013

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 Adjustment 7.4, Power Tax ADIT (accumulated deferred income
 tax) Balance, Jim Bridger Mine (8.1), and 8.12 – 8.12.3, Adjust
 June 2012 AMA Plant Balance to June 2012 EOP Balance5

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Betty A. Erdahl and my business address is the Richard Hemstad
5 Building, 1300 S. Evergreen Park Drive SW, Olympia, Washington 98504.

6

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

8 A. I am employed by the Washington Utilities and Transportation Commission
9 (“Commission”) as a Regulatory Analyst in the Telecommunications Section of the
10 Regulatory Services Division.

11

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

13 A. I have been employed at the Commission for 22 years.

14

15 Q. Please describe your education and relevant work experience.

16 A. I graduated from Washington State University in 1988 with a Bachelor of Arts
17 degree in Accounting. I have also completed coursework in “Basics of Regulation”
18 offered by New Mexico State University, Rate Making Process Technical Program,
19 USTA class on Understanding Separations, Access Charges, and Settlements, as well
20 as Utility Ratemaking: The Fundamentals and the Frontier. Before joining the
21 Commission in June 1991, I worked for two years as an accountant in the financial
22 sector.

1 As a Regulatory Analyst, I am responsible for auditing the books and records
2 of regulated companies, analyzing cost of service studies, and examining affiliated
3 interest transactions. In addition, I participate in the development of Staff
4 recommendations concerning tariff filings by regulated companies for presentation to
5 the Commission at open public meetings and adjudications. I have also worked on
6 policy recommendations relating to spin-offs and mergers of regulated companies,
7 payphone deregulation, local calling areas, bundling of regulated and nonregulated
8 telecommunications services, implementation of N11 pursuant to the
9 Telecommunications Act of 1996, and numbering resources.

10

11 **Q. Have you testified before this Commission?**

12 A. Yes. I testified in Docket TG-920090, regarding affiliated interests of Waste
13 Management, Inc.; Docket UT-950200, regarding a general rate case of US WEST
14 Communications, Inc.; Docket UT-970066, regarding payphone access line rates of
15 Toledo Telephone Company; Docket UT-020406, a complaint by AT&T
16 Communications of the Pacific Northwest, Inc. against Verizon Northwest Inc.'s
17 access charge rates; and Dockets UE-111048 and UG-111049, regarding a general
18 rate case of Puget Sound Energy, Inc. I also prepared testimony in Docket UT-
19 040788, regarding a general rate case of Verizon Northwest Inc.; Docket UT-
20 051291, regarding affiliated interest contracts, overall earnings review, and provision
21 of a quality of service guarantee program in the Sprint spin-off of its local exchange
22 companies; and Docket UT-082119, regarding retention of pre-merger settlement

1 provisions, a requirement to offer a quality of service guarantee program, and
2 affiliated interest reporting in the CenturyTel/Embarq merger case.

3

4

II. SCOPE AND SUMMARY OF TESTIMONY

5

6 **Q. What is the purpose of your testimony in this proceeding?**

7 A. My testimony presents Staff's recommendation regarding the following adjustments
8 proposed by PacifiCorp, d/b/a Pacific Power & Light Company ("Company") for its
9 Washington results of operations that are contested by Staff:

- 10 • Adjustment 6.2, Depreciation & Amortization Reserve to June 2012 Balance
- 11 • Adjustment 7.2, Property Tax Expense
- 12 • Adjustment 7.4, Power Tax ADIT Balance
- 13 • Adjustment 8.1, Jim Bridger Mine
- 14 • Adjustment 8.12 – 8.12.3, Adjust June 2012 AMA Plant Balances to June 2012
15 EOP Balance

16 The results of my analysis are incorporated into the summary revenue requirement
17 Exhibit No. __ (JH-2) of Staff witness Joanna Huang.

18

19 **Q. Are you sponsoring any exhibits in support of your testimony?**

20 A. No, all of my adjustments are fully presented in Staff witness Joanna Huang's
21 Exhibit No. __ (JH-2).

22

1 **III. CONTESTED ADJUSTMENTS**

2

3 **A. Adjustment 7.2, Property Tax Expense**

4

5 **Q. Please describe the Company's adjustment to property tax expense.**

6 A. The Company proposes a pro forma adjustment to increase property tax expense to
7 reflect plant additions beyond the test year ended June 2012. The Company's
8 adjustment removes the accrual that was booked in the test year and replaces it with
9 an estimated amount of property tax expense for the year ended June 2013. In order
10 to calculate the estimated June 2013 property tax expense, the Company proposes the
11 average of the estimated property tax expense for the years ended December 2012
12 and December 2013, as shown on Company work paper 7.2.1.

13

14 **Q. How does Staff's adjustment to property tax expense differ from the**
15 **Company's adjustment?**

16 A. Staff rejects the Company pro forma adjustment, thereby, keeping property tax
17 expense at the accrual level that was booked during the test year. The test year level
18 of accrued expense is representative of what the Company paid in the test year. The
19 Company's response to Staff Data Request 214 shows that the accrual for each year
20 is not materially different from what the Company actually paid in property tax
21 expense.

1 **Q. Why should the Commission accept Staff's adjustment over the Company's**
2 **adjustment for property tax expense?**

3 A. Staff's adjustments should be adopted by the Commission because the accrual for
4 property tax expense that is booked by PacifiCorp each year has been very close in
5 dollar amount to the actual property tax expense paid by the Company. It is unfair
6 for rate payers to bear the burden of an expense that is not realized by the Company.
7 To reject the pro forma adjustment proposed by the Company allows for a
8 representative amount of property tax expense related to revenue and investment to
9 be included in rates.

10 Staff's adjustment maintains the test year amount booked to property tax
11 expense, as shown in Ms. Huang's Exhibit No. ____ (JH-2), page 19, rather than the
12 Company's proposed adjustment which decreases net operating income by \$214,813.

13

14 **B. Adjustments: 6.2, Depreciation & Amortization Reserve to June 2012**
15 **Balance, 7.4, Power Tax ADIT (accumulated deferred income tax)**
16 **Balance, 8.1, Jim Bridger Mine, and 8.12 – 8.12.3, Adjust June 2012**
17 **AMA Plant Balance to June 2012 EOP Balance**
18

19 **Q. Please describe the Company's adjustments to Depreciation & Amortization**
20 **Reserve, Power Tax ADIT Balance, Jim Bridger Mine, and June 2012 AMA**
21 **Plant Balance.**

22 A. PacifiCorp restates all of these rate base adjustments from the average of monthly
23 average ("AMA") balances to the end of period ("EOP") June 2012 test year
24 balances. These adjustments are proposed by Company witness Steven R.

1 McDougal. However, the Company does not provide any explanation or reason
2 supporting its proposed use EOP rate base balances.

3
4 **Q. Please explain Staff's corresponding adjustments for these items.**

5 A. Staff proposed Adjustments 7.4, Power Tax ADIT (accumulated deferred income
6 tax) Balance, and 8.1, Jim Bridger Mine, restate the balances on an AMA basis.
7 These adjustments are shown on Exhibit No. __ (JH-2), pages 11 and 12,
8 respectively.

9 Additionally, Staff proposes the Commission reject Adjustments 6.2, and
10 8.12 – 8.12.3 in their entirety, therefore, maintaining the test year AMA balances for
11 each adjustment. My treatment of these adjustments is shown on Exhibit No. __
12 (JH-2), pages 10 and 14, respectively.

13
14 **Q. Please explain the rationale for Staff's proposal to retain AMA balances for all
15 of these adjustments, rather than EOP balances as PacifiCorp proposes.**

16 A. The Commission's traditional treatment of rate base items is to determine test period
17 rate base on the basis of AMA plant balances. The purpose of this calculation is to
18 be consistent with the matching principle of ratemaking. The AMA plant balances
19 accurately match rate base over the course of the test year with revenue and expenses
20 incurred over that same period of time.

21 In contrast, the EOP rate base balances that the Company proposes violate the
22 matching principle. The rate base balance at the end of the test period is overstated

1 and the operating profit is not adjusted if no corresponding end of period adjustments
2 to revenues and expenses are performed.

3

4 **Q. Are you aware of any circumstance where the Commission accepted the use of**
5 **EOP rate base?**

6 A. The Commission accepted EOP rate base in Cause No. U-80-111.¹ The Commission
7 acknowledged that “utilization of average rate base was not cast in stone,” but also
8 stated that:

- 9 1) Average rate base is the most favored
- 10 2) Year-end rate base is an appropriate regulatory tool under one or
11 more of the following conditions:
- 12 (a) Abnormal growth in plant
- 13 (b) Inflation and/or attrition
- 14 (c) As a means to mitigate regulatory lag
- 15 (d) Failure of utility to earn its authorized rate of return over an
16 historical period

17 In that case, the Commission also stated that the use of EOP rate base requires
18 adjustments to the entire results of operations statement to capture all end of period
19 effects.

20

¹ *WUTC v. Washington Natural Gas Company*, Cause No. U-80-111, Third Supplemental Order at 5-7 (September 24, 1981).

1 **Q. Did PacifiCorp provide any evidence that it was facing similar or any other**
2 **special circumstances that would justify a shift from AMA rate base balances to**
3 **EOP rate base balances?**

4 A. No. PacifiCorp did not provide any supporting testimony to justify the use of EOP
5 rate base in its direct case. Company witness Richard P. Reiten provided only broad
6 statements concerning the “primary factors driving the need for a price increase.”²
7 Neither he nor any other Company witness made any connection between these
8 assertions and the need to diverge from the use of AMA rate base balances. Thus,
9 Staff has little option but to maintain the traditional use of an AMA rate base long
10 favored by the Commission.

11

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

13 A. Yes.

14

² He listed these as increases in net power costs, new investment, and falling normalized retail revenues. Reiten, Exhibit No. ___ (RPR-1T) at 3:14-5:2. He also stated that the Company’s earned return on equity is only 3.9 percent. Reiten, Exhibit No. ___ (RPR-1T) at 2:22-23.