

Exhibit No. (JLB-1T)
Dockets UE-140762 et al.
Witness: Jason L. Ball

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT
COMPANY,

Respondent.

UE-140762 and UE-140617
(consolidated)

In the Matter of the Petition of

PACIFIC POWER & LIGHT
COMPANY,

For an Order Approving Deferral of
Costs Related to Colstrip Outage.

DOCKET UE-131384 (consolidated)

In the Matter of the Petition of

PACIFIC POWER & LIGHT
COMPANY,

For an Order Approving Deferral of
Costs Related to Declining Hydro
Generation.

DOCKET UE-140094 (consolidated)

TESTIMONY OF

Jason L. Ball

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Policy and General Overview
Revenue Requirement
Insurance Expense, Adjustment 4.7
IHS Adjustment 4.13
Property Tax Adjustment 7.2
Prudence of Merwin Fish Collector Project

October 10, 2014

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LIST OF EXHIBITS

- Exhibit No. ___ (JLB-2) – Revenue Requirement Model
Exhibit No. ___ (JLB-3) – Calculation of Adjustment 4.7 Insurance Expense
Exhibit No. ___ (JLB-4) – Public Counsel Data Request 78
Exhibit No. ___ (JLB-5) – Public Counsel Data Request 48
Exhibit No. ___ (JLB-6) – Calculation of Adjustment 4.13 IHS Global Insight Escalation

1 I. INTRODUCTION

2

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

4 A. My name is Jason L. Ball. My office address is the Richard Hemstad Building, 1300
5 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.
6 My email address is jball@utc.wa.gov.

7

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (Commission) as a Regulatory Analyst. Among other duties, I am responsible for
11 financial and accounting analysis, certain power costs issues, and inter-jurisdictional
12 allocations of the investor-owned electric and gas utilities under the jurisdiction of the
13 Commission.

14

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

16 A. I have been employed by the Commission since June 2013.

17

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

19 A. I graduated from New Mexico State University in 2010 with a Bachelor of Arts dual-
20 major in Economics and Government. In 2013, I graduated with honors from New
21 Mexico State University with a Masters of Economics specializing in Public Utility
22 Policy and Regulation. Since joining the Commission I have participated in several
23 dockets providing analysis in support of other witnesses including: Avista Corporation

1 (Avista) Purchased Gas Adjustment in Docket UG-131748, Puget Sound Energy's (PSE)
2 Power Cost Only Rate Case in Docket UE-130617, and Pacific Power & Light
3 Company's (Pacific Power or Company) general rate case (GRC) in Docket UE-130043.
4 I presented Staff recommendations to the Commission at open meetings in Dockets UE-
5 131623, UE-131565, and UE-140617. I prepared memoranda summarizing Staff's
6 positions in Dockets UE-131625 and UG-131626 involving low income assistance
7 programs. I also reviewed Avista's Energy Recovery Mechanism annual true-up in
8 Docket UE-140540. I am the lead analyst for matters relating to the Bonneville Power
9 Administration's Residential Exchange Program. I presented testimony in Avista's GRC
10 Docket UE-140188 concerning net power costs, changes to Avista's Energy Recovery
11 Mechanism, and load forecasting.

12

13 II. SCOPE AND ORGANIZATION OF TESTIMONY

14

15 **Q. What is the purpose of your testimony?**

16 A. My testimony has four components. First, I summarize and discuss the key differences
17 between Staff's responsive testimony and Pacific Power's direct case. Second, I respond
18 generally to Company witnesses Bryce Dalley and present Staff's revenue requirement in
19 response to Company witness Natasha Soares. Third, I address accounting adjustment 4.7
20 Insurance Expense, adjustment 4.13 IHS Global Insight Escalation, and adjustment 7.2
21 Property Taxes. Finally, I address the prudence of the Merwin Fish Collector Project and
22 Staff's proposal to handle the related accounting petition consolidated into this GRC.

1 **Q. Please introduce the other Staff witnesses testifying in this proceeding and the**
2 **subjects of their testimony.**

3 A. The following witnesses present testimony and exhibits for Staff:

- 4 • Ms. Betty Erdahl addresses the Washington Low Income Tax Credit, adjustment 7.5
5 and two of the accounting petitions consolidated into the present case: 1) the deferral
6 of costs related to the Colstrip outage originally filed in Docket UE-131384 and 2)
7 deferral of reduced depreciation expense initiated in Docket UE-132350. She also
8 presents Staff's response to Pacific Power's proposed Plant Addition in adjustment
9 8.3, and an update to Miscellaneous Asset Sales and Removals in adjustment 8.11.
10 Finally, she is responsible for responding to the Company's proposal on Investor
11 Supplied Working Capital in Adjustment 8.13.
- 12 • Mr. David Gomez presents Staff's analysis of the Company's Net Power Costs and
13 the Company's proposed allocation of costs related to Qualifying Facilities Power
14 Purchase Agreements (QF PPAs) in the Western Control Area (WCA). Mr. Gomez
15 also addresses the Company's petition to defer costs related to Hydro Generation
16 initiated in Docket UE-140094 and consolidated into this proceeding. Finally, Mr.
17 Gomez presents Staff's proposal for a Power Cost Adjustment Mechanism (PCAM).
- 18 • Mr. Roger Kouchi presents Staff's response to the Company's proposed changes to
19 modify Section B of Rule 11D Field Visit Charge, collection agency charges in Rule
20 11D, and connection and reconnection charges in Schedule 300. He addresses the
21 related adjustment 3.8 in the Company's proposed revenue requirement.
- 22 • Mr. David C. Parcell serves as Staff's cost of capital witness and presents a
23 recommendation on a fair rate of return.

- 1 • Mr. Jeremy Twitchell presents Staff's recommendations on cost of service, rate
2 spread, and rate design. He also presents Staff's response to the Company's proposed
3 Renewable Resources Tracking Mechanism.

5 III. OVERVIEW

6 A. OVERVIEW OF COMPANY'S DIRECT CASE

7 **Q. Please provide an overview of the Company's direct case**

8 A. The Company's direct testimony seeks additional annual revenue of approximately \$27.2
9 million.

10 Additionally, three deferrals related to Colstrip¹, Depreciation expense², and Hydro
11 Generation³ have been consolidated into this proceeding. Collectively, these three
12 petitions represent \$4.94 million in deferred expenses and depreciation, including
13 interest.

14 Finally, the Commission has consolidated Docket UE-140617 – Deferral of Costs
15 related to the Merwin Fish Collector Project into this proceeding (Merwin Deferral).⁴
16 The petition as-filed represents an additional \$1.67 million deferred revenue requirement
17 plus approximately \$118,606 interest.

18 In total, the Company's filing for this proceeding includes requests of
19 approximately \$27.2 million in the direct testimony, \$4.94 million in deferrals related to
20 Colstrip, Depreciation, and Hydro Generation, and \$1.79 million related to the Merwin

¹ *Petition of Pacific Power & Light Company For an Order Approving Deferral of Costs Related to Colstrip Outage*, Docket UE-131384, Order 01 (June 24, 2014).

² *Petition of Pacific Power & Light Company For an Accounting Order Authorizing a Deferral of a Reduction in Depreciation Expense*, Docket UE-132350, Order 01 (January 30, 2014).

³ *Petition of Pacific Power & Light Company For an Order Approving Deferral of Costs Related to Declining Hydro Generation*, Docket UE-140094, Order 01 (June 24, 2014).

⁴ *WUTC v. Pacific Power & Light Company*, Docket UE-140617, Order 01 (May 29, 2014).

1 Fish Collector. Therefore, the Company's consolidated filings represent an increase to
2 revenues of approximately \$34 million during the first year of the rate effective period.⁵

	Docket	Revenue Requirement Increase
Direct Case	UE-140617	\$ 27,201,266
Colstrip	UE-131384	\$ 1,978,487
Depreciation Expense	UE-132350	\$ (877,345)
Hydro Generation	UE-140094	\$ 3,288,839
Interest	UE-131384, UE-132350, UE-140094	\$ 550,358
Merwin Deferral	UE-140617	\$ 1,668,757
Interest	UE-140617	\$ 118,606
Total Requested Rate Year Revenue Requirement		\$33,928,968

3
4 **Q. How would you characterize the Company's proposed Revenue Requirement?**

5 A. The Company has presented an accounting case similar to its previous GRC in Docket
6 UE-130043. The Company's case has three main elements that significantly impact its
7 revenue requirement:

- 8 ○ The allocation of the full cost of QF PPA's from Oregon and California used
9 to calculate Net Power Costs (NPC) in the WCA.
- 10 ○ Changes in the capital structure proposed by the Company.
- 11 ○ The inclusion of estimates in pro forma adjustments to non-labor operations
12 and maintenance expense in adjustment 4.13, IHS Global Insights Escalation.

13

⁵ The Company is requesting that the Colstrip, Depreciation, and Hydro Generation deferrals be amortized through Schedule 92. Once fully amortized, the schedule would be reduced to \$0 through a compliance filing. Therefore, these amounts are for one year only and do not represent a permanent increase. Staff assumes the same treatment would be proposed by the Company for the Merwin Deferral.

1 **B. OVERVIEW OF STAFF'S CASE**

2 **1. POLICY SUPPORTING STAFF'S CASE**

3 **Q. Please summarize the fundamental principles and regulatory standards supporting**
4 **Staff's case.**

5 A. Staff's approach in the present case is consistent with the direction and principles issued
6 by the Commission in the Company's last GRC, Docket UE-130043.⁶ Staff's case
7 balances the administrative need to avoid re-litigating issues while still providing a
8 complete recommendation based on objective analysis.

9 In particular, Staff focuses on the principles of cost causation. As discussed by
10 Mr. Gomez, we do not support the Company's proposed changes to the allocation and
11 cost recovery principles underlying the WCA. The matching of benefit with burden is an
12 important regulatory objective that is reflected throughout Staff's case.

13 Mr. Gomez also proposes a PCAM to help address the Company's concerns of
14 "chronic under-recovery".⁷ Staff's proposed PCAM is consistent with the Commission's
15 specific direction on the design elements necessary for such a mechanism.

16 Mr. Twitchell's rate design reflects the realignment of costs to those users most
17 directly responsible for them. Further, Mr. Twitchell proposes a three-block rate
18 structure for residential customers and an increased basic charge. This approach balances
19 the Company's concern about fixed cost recovery with the Commission's policy
20 objectives to invest in energy efficiency.

21
22 **2. STAFF'S REVENUE REQUIREMENT**

⁶ See *Utilities & Transp. Comm'n. v. Pacific Power & Light Co.*, Docket UE-130043, Order 05, December 4, 2013.

⁷ Dalley, Direct Exhibit No. __ (RBD-1T) at 9:5

1 **Q. Please provide an overview of Staff's recommended revenue requirement increase.**

2 A. Staff recommends an increase to the Company's revenue requirement of \$6,135,340 or
3 1.91 percent. Additionally, Staff recommends approving \$1,530,186 related to the four
4 deferral's consolidated into this case. As discussed later in my testimony, Staff
5 recommends these deferrals be recovered through general rates rather than through a
6 separate schedule. Therefore, Staff's final revenue requirement proposal is \$7,740,733 or
7 a 2.41 percent increase.

	Docket	Staff Proposal
Direct Case	UE-140617	\$ 6,135,340
Colstrip	UE-131384	\$ 1,879,965
Depreciation Expense	UE-132350	\$ (836,250)
Hydro Generation	UE-140094	\$ -
Merwin Deferral	UE-140617	\$ 486,471
Revenue Sensitive Items related to Deferrals		\$ 75,207
Total Proposed Revenue Requirement		\$ 7,740,733

8

9 **Q. Have you prepared an exhibit that calculates revenue requirement?**

10 A. Yes. My Exhibit No. ___ (JLB-2) presents Staff's adjustments, proposed capital
11 structure, and revenue requirement in a format similar to Ms. Siores's Exhibit No. ___
12 (NCS-3).

13

14 **Q. Please describe your Exhibit No. ___(JLB-2).**

15 A. Page 1 provides an overview of Staff's analysis of the Company's 2013 results of
16 operations. It summarizes the results of restating and pro forma adjustments on the
17 Company's results of operations report. Finally, this page summarizes the results of
18 Staff's proposed price change.

19 Page 2 compares the net operating income impact, net rate base impact, and
20 revenue requirement impact of each adjustment as proposed by Staff and Pacific Power.

1 It also shows the impact resulting from Staff's proposed capital structure and conversion
2 factor.

3 Page 3 provides the calculation of Staff's proposed revenue requirement as
4 reflected in the previous two pages.

5 Pages 4 and 5 show Staff's conversion factor and proposed cost of capital
6 structure, respectively.

7 Pages 6 - 18 provides a summary of all restating and pro forma adjustments and
8 their impact on the per-books operations of the Company.

9 Pages 19 – 44 provide summaries of the individual restating and pro forma
10 adjustments, respectively, and their impact on the per-books operations of the Company.

11 Pages 44 – 105 represent each individual adjustment, their treatment, and a brief
12 explanation.

13 Page 106 and 107 lists the WCA allocation factors used throughout the model.

14
15 **Q. Please identify the adjustments in Exhibit No. ___ (JLB-2) that Staff contests and**
16 **the Staff witness responsible for the proposed adjustment.**

17 **A.** The following adjustments are contested between Staff and the Company:

Adjustment	Staff Witness
Adjustment 3.8 – Schedule 300 Fee Change	Kouchi
Adjustment 4.7 – Insurance Expense	Ball
Adjustment 4.12 – Collection Agency Fees	Kouchi
Adjustment 4.13 – IHS Global Insight Escalation	Ball
Adjustment 5.1.1 – Net Power Costs – Pro Forma	Gomez
Adjustment 7.2 – Property Tax Expense	Ball

Adjustment 7.5 – WA Low Income Tax Credit Erdahl
 Adjustment 8.4 – Major Plant Additions Erdahl
 Adjustment 8.10 – Regulatory Asset Amortization Erdahl/Ball

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Q. What is Staff’s proposed capital structure and conversion factor for determining revenue requirement?

A. The overall rate of return recommended by Mr. Parcell is 7.06 percent and uses the following capital structure:

Component	Cost (%)	Weight (%)	Weighted Cost (%)
Long-term Debt	50.62%	5.18%	2.622%
Short term Debt	0.00%	0.00%	0.000%
Preferred Stock	0.28%	5.43%	0.015%
Common Stock	49.10%	9.00%	4.419%
Weighted Average Cost of Capital			7.060%

Staff’s conversion factor is 61.955%. This differs from the Company due to Staff’s rejection of the Company’s adjustment 4.12, Collection Agency Fees and 4.13, IHS Global Insights Escalation.

3. QUALIFYING FACILITIES

Q. Please summarize Staff’s recommendation concerning continued situs allocation of the cost of Oregon and California QF PPAs in calculating NPC in the WCA.

A. Staff’s case proposes the continued situs allocation of the cost of each state’s QF PPAs. This is discussed more fully by Mr. Gomez. As noted above, the Commission previously rejected the Company’s proposal to include the full cost of Oregon and California QF

1 PPA's in the net power costs allocated to Washington. Staff's analysis relies on the
2 Commission's final order in Pacific Power's last GRC.⁸

3
4 **4. STAFF'S RESPONSES TO PACIFIC POWER'S ALTERNATIVE**
5 **PROPOSALS TO ADDRESS UNDER-RECOVERY**

6 **Q. Please provide an overview of Staff's recommendations on the Company's other**
7 **proposals to address "chronic under-recovery."⁹**

8 **A.** Below I lay out each of the individual proposals and summarize Staff's response:

- 9 ○ End of Period Rate Base Adjustments – The End of Period Rate Base
10 adjustments were accepted by the Commission in the last case as a means of
11 reducing regulatory lag.¹⁰ The Company included pro forma adjustments for
12 End of Period in its direct case as adjustments 6.2, 6.3, and 8.12. Staff does
13 not contest these adjustments.
- 14 ○ Pro forma Capital additions for projects over \$250,000 - As discussed by Staff
15 witnesses Betty Erdahl, Commission Staff accepts, with certain updates, the
16 proposed capital additions.
- 17 ○ Renewable Resource Tracking Mechanism (RRTM) – as discussed by Mr.
18 Twitchell in his direct testimony, Staff recommends the Commission reject
19 the Company's proposed mechanism. The RRTM as proposed does not meet
20 the principle foundations of a power cost adjustment mechanism that the

⁸ *Utilities & Transp. Comm'n. v. Pacific Power & Light Co.*, Docket UE-130043, Order 05 at ¶¶ 97-114 (December 4, 2013)

⁹ Dalley, Direct Exhibit No. __ (RBD-1T) at 9:5

¹⁰ *Utilities & Transp. Comm'n. v. Pacific Power & Light Co.*, Docket UE-130043, Order 05 at ¶¶ 181-185, (December 4, 2013)

1 Commission has laid out in previous orders.¹¹ Mr. Gomez presents a PCAM
2 consistent with previous Commission guidance and decisions.
3

4 **Q. Are there other mechanisms available to the Company to help alleviate its alleged**
5 **“chronic under-recovery”¹²?**

6 A. Yes. The Company has the option to use other regulatory mechanisms such as Expedited
7 Rate Filings – this was proposed by Staff in the previous case.¹³ To this point, the
8 Company has not come forward with requests for decoupling, attrition, or an appropriate
9 PCAM. The Commission has provided guidance on all of these mechanisms and
10 approved their use for other utilities operating within the state.
11

12 **Q. Does the use of the WCA aggravate the Company’s under-recovery?**

13 A. No. This Commission adopted the WCA as the allocation methodology to apportion
14 costs to Pacific Power’s six jurisdictions. The WCA allocations to Washington fully
15 consider all aspects of the electric plant in service used to meet the needs of Pacific
16 Power’s Washington customers and the costs necessary to provide that service. The rates
17 developed from those costs give the Company a fair opportunity to achieve its authorized
18 rate of return in Washington. Washington ratepayers are not liable for under-recovery
19 that may occur as a result of another jurisdiction’s allocation methodologies. The

¹¹ Twitchell Direct , Exhibit No. __ (RBD-1T) at 5:16 – 13:19

¹² Dalley, Direct Exhibit No. __ (RBD-1T) at 9:5

¹³ *Utilities & Transp. Comm’n. v. Pacific Power & Light Co.*, Docket UE-130043, Direct Testimony of Deborah Reynolds, Exh. No. DJR-1T at 12:5-10.

1 Company explicitly agreed to this potential outcome in the merger between Pacific Power
2 & Light Company and Utah Power & Light Company.¹⁴

3
4 **Q. Can the Company's concern about "allocation gaps"¹⁵ be addressed in a proceeding
5 such as this?**

6 A. No. Inter-jurisdictional "allocation gaps"¹⁶ need to be addressed in a forum which
7 includes participants from all of Pacific Power's operating jurisdictions. Staff continues
8 to be active participants in the latest multi-state process meetings which are attempting to
9 address these issues. These meetings seek to resolve inter-jurisdictional cost allocation
10 issues with Pacific Power by engaging all six states in a collaborative environment.

11
12 **5. SUMMARY OF STAFF'S POSITIONS ON CONSOLIDATED**
13 **ACCOUNTING PETITIONS**

14 **Q. Please provide an overview of Staff's response to the accounting petitions
15 consolidated in this docket**

16 A. I summarize Staff's treatment of each deferral and their effect on revenue requirement
17 below:

¹⁴ *In the Matter of the Application of PacifiCorp and PC/UP&L Merging Corp. for an Order Authorizing the Merger of PacifiCorp and Utah Power & Light Company into PC/UP&L Merging Corp. (to be Renamed PacifiCorp upon Completion of the Merger), and Authorizing the Issuance of Securities, Assumption of Obligations, Adoption of Tariffs, and Transfer of Certificates of Public Convenience and Necessity, Allocated Territory, and Authorizations in Connection Therewith*, Public Utility Commission of Oregon Docket UF 4000, Order 88-767 at ¶6 (July 15, 1988) (Oregon Merger Order); see also *In the Matter of the Application of PacifiCorp (Maine) to Merge with PC/UP&L Merging Corp. (PacifiCorp Oregon), and to Issue such Securities and Assume such Obligations as May be Necessary to Effect a Merger with Utah Power & Light Company*, WUTC Docket U-87-1338-AT, Second Supplemental Order Approving Merger with Requirements at 14 (July 15, 1988) (Washington Merger Order).

¹⁵ Dalley, Direct Exhibit No. __ (RBD-1T) at 6:10

¹⁶ *Id.*

- 1 • Colstrip – Staff recommends that the Colstrip Deferral be allowed and
2 recovered through general rates over one year. Staff revises the deferral
3 amount to remove interest as described in Ms. Erdahl’s testimony.
- 4 • Depreciation expense - Staff recommends that the Depreciation Deferral be
5 allowed and recovered through general rates over one year. Staff revised the
6 deferral amount to remove interest as described in Ms. Erdahl’s testimony.
- 7 • Hydro Generation - Staff recommends that the Hydro Deferral be denied as
8 described in Mr. Gomez’s testimony.
- 9 • Merwin Fish Collector Project - Staff recommends that the Merwin Deferral
10 be allowed as adjusted and recovered through general rates over one year. As
11 discussed in Section VI of my testimony, Staff’s proposal reduces the total
12 deferral amount to \$486,471.

14 IV. ACCOUNTING ADJUSTMENTS

16 A. ADJUSTMENT 4.7, INSURANCE EXPENSE

17 **Q. Please summarize the Company’s Adjustment 4.7, Insurance Expense.**

18 A. The adjustment replaces the per-books base period liability and property damage expense
19 with a rolling six-year average. A rolling average is representative of fluctuations
20 occurring in insurance expenses year over year.

21
22 **Q. Does Staff propose any changes to this adjustment?**

1 A. Yes. Staff calculates a rolling six-year average insurance expense using the 2007
2 insurance expense level of \$10,087,289 in place of the 2012 insurance expense level of
3 \$30,859,248.

4
5 **Q. Please explain why Staff replaces the 2012 actual insurance expense levels with the**
6 **2007 insurance expense levels.**

7 A. The replacement of the 2012 insurance expense is more representative of the level of
8 expense that is expected to occur during the rate effective period. The 2012 insurance
9 expense of approximately \$30.8 million is more than 10 times higher than the amount in
10 2011 of approximately \$2.9 million. The increase in expense is largely due to “increased
11 reserves required for certain fires, an oil spill, personal injury claims, and other injuries
12 and damages claims that occurred in 2012.”¹⁷ Excluding 2012, the highest amount of
13 insurance expense to occur since 2007 was approximately \$10 million. This is a third of
14 the expense level in 2012.

15 It is appropriate to remove the 2012 insurance expense from the average and
16 replace it with a more representative year. Staff used the next available year, 2007, to
17 calculate a new six-year rolling average for this adjustment.

18
19 **Q. Have you prepared an exhibit showing Staff’s calculation for Adjustment 4.7?**

20 A. Yes. Page 1 of My Exhibit No. ___ (JLB-3) shows the calculation of Staff’s adjustment.
21 The difference between the Company and Staff’s Washington allocated insurance
22 expense in Adjustment 4.7 is a reduction in expense of \$237,283. Page 2 is Pacific

¹⁷ Pacific Power’s response to Public Counsel Data Request 78 is attached as page 2 of Exhibit No. ___ (JLB-3)

1 Power's response to Staff data request number 42 providing the 2007 accrual amount for
2 insurance expense.

3
4 **B. ADJUSTMENT 4.13, IHS GLOBAL INSIGHT ESCALATION**

5 **Q. Please describe the Company's Adjustment 4.13, IHS Global Insight Escalation.**

6 A. The IHS Global Insight Escalation Adjustment (IHS Adjustment) estimates future non-
7 labor and non-power cost operations and maintenance (O&M) expenses. According to
8 Company witness Ms. Siores:

9 This adjustment escalates non-labor and non-power cost operation and
10 maintenance (O&M) expenses using industry-specific escalation indices.
11 Projected increases or decreases in this adjustment are based on IHS Global
12 Insight indices that provide a detailed assessment of the electric utility costs for
13 materials and services only, and exclude labor expense, according to the Uniform
14 System of Accounts defined by FERC for major electric utilities... The IHS study
15 used to prepare this filing was the fourth quarter 2013 forecast, released February
16 4, 2014.¹⁸
17

18 **Q. What are the IHS Global Insight indices?**

19 A. The IHS Global Insight indices (IHS Indices) are forecasted inflation factors for electric
20 utility costs broken out by category. IHS Indices provide a detailed assessment of
21 electric utility costs for materials and services only and exclude labor expense.¹⁹
22

23 **Q. What is Staff's response to the use of the IHS indices for estimating costs?**

24 A. Staff opposes the Company's use of IHS Indices to escalate non-labor and non-power
25 cost related O&M expenses in its Washington jurisdiction for two reasons:

¹⁸ Siores Direct, Exhibit No. ___ (NCS-1T) at 19:2-12

¹⁹ Pacific Power's Response to Staff Data Request No. 12

1 First, Washington uses a historical test year, not a future test year. IHS Indices
2 are used to escalate certain O&M costs to a future test year level. The use of these
3 escalation factors for a small subset of costs effectively creates a budgeted, future test
4 year for ratemaking purposes.

5 Second, the IHS Indices used to forecast future electric utility costs in the
6 Company's direct case are overstated and unreliable. All expenses from FERC accounts
7 500 to 935 that are non-labor and non-power cost O&M expenses will be overstated by
8 using these escalation factors. Therefore, Staff removed Adjustment 4.13 from the
9 Company's results of operation completely.

10
11 **Q. Other Investor Owned Utilities have proposed trending and escalation analysis**
12 **through the use of an Attrition adjustment. Is the IHS Adjustment similar to an**
13 **Attrition adjustment?**

14 A. No. While the mechanics of the IHS Adjustment proposed by the Company are
15 conceptually similar to trending analysis done in an attrition adjustment there are a few
16 important distinctions. Perhaps most importantly an attrition adjustment is a holistic tool
17 that analyzes the Company's entire operations. The purpose behind an attrition study is
18 to identify historical test year relationships that may not be present in the rate effective
19 period.²⁰ The results of an attrition study are then applied to a historical test year to
20 ensure the appropriate relationships are being represented across the company's
21 operations. Specifically, attrition adjustments are based on the Company's actual
22 historical results of operations unique to the utility in question. Attrition studies trend

²⁰ *Utilites and Transp. Comm'n v. Avista Utilities*, Docket UE-140188 et al., Testimony of Chris McGuire, Exhibit No. ___ (CRM-1CT) at 7:9-20 (July 22, 2014)

1 both costs and revenues in accordance with the matching principle of accounting. Any
2 escalation of costs is incomplete without an appropriate recognition for the same period's
3 revenues.

4
5 **Q. Does the Company use the IHS Indices in any of its other six jurisdictions?**

6 A. Yes. The Company uses IHS Indices to escalate non-labor and non-power cost O&M
7 expenses in its California, Oregon, Utah, and Wyoming jurisdictions. The Company has
8 not proposed an IHS Adjustment in its Idaho jurisdiction.²¹

9
10 **Q. Why did the Company not propose an IHS Adjustment in its Idaho jurisdiction?**

11 A. The Company does not use an IHS Adjustment in Idaho because, like Washington, Idaho
12 uses an historical test year for ratemaking purposes. California, Oregon, Utah, and
13 Wyoming all use a future forecasted test year for ratemaking purposes. Attached as
14 Exhibit No. ___(JLB-5) is Pacific Power's response to Public Counsel data request
15 number 48 in which the Company responds to the question of why it does not use an IHS
16 Adjustment in Idaho by saying:

17 "Like Washington, Idaho uses an historical test year with known and measurable
18 adjustments..."

19 Staff's agrees with the Company's implication that the use of escalation factors in the
20 manner proposed by the Company is not appropriate for jurisdictions that use an
21 historical test year.

22

²¹ Dalley, Direct Exhibit No. ___ (RBD-1T) at 10:18 – 11:7.

1 **Q. What other flaws did Staff detect in using the IHS Indices to forecast costs?**

2 A. The IHS Indices provided by the Company are not consistent. Staff's Exhibit, No. ___
3 (JLB-6C) shows the inconsistencies in the data provided by the Company.

4 For 2013 data, the IHS Indices used in the Company's direct case²² is much
5 higher compared to data provided in the Company's supplemental response to Staff data
6 request 16 (Supplemental DR 16). Some of the IHS Indices used by the Company are
7 more than two times higher than the data provided in Supplement DR 16.

8

9 **Q. What causes the discrepancy between the 2013 IHS Indices in Confidential Exhibit**
10 **No. ___ (NCS-8C) and data presented in Confidential Exhibit No. ___ (JLB-6C)?**

11 A. According to the Company's response to Staff's data request No. 71, the 2013 IHS
12 Indices in Confidential Exhibit No. ___ (NCS-8C) used 1992 as a starting basis and the
13 data provided in Supplemental DR 16 used 2012 as a base year.²³ Due to inflation
14 occurring since 1992, the IHS Indices provided in the Company's direct case are
15 overstated compared to Supplemental DR 16. Further, inflationary trends dating back to
16 1992 are not reliable or useful in projecting the Company's relevant costs from 2012
17 through 2016.

18

19 **Q. Were any analysis or studies conducted by or for the Company to show that Pacific**
20 **Power's non-labor and non-power cost related O&M expenses have historically**
21 **been increasing at similar rates as the IHS Indices?**

²² Soares, Exhibit No. ___ (NCS-8C)

²³ Pacific Power's Response to Staff Data Request No. 71 is attached as page 4 to Exhibit No. ___ (JLB-6C)

1 A. No. The Company has not conducted such an analysis.²⁴

2

3 **C. ADJUSTMENT 7.2, PROPERTY TAX EXPENSE**

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

5 A. The Company proposes a pro forma adjustment to increase property tax expense to
6 reflect plant additions beyond the test year ended December 2013. The Company's
7 adjustment removes the accrual that was booked in the test year and replaces it with an
8 estimated amount for the rate year ended 2014.

9

10 **Q. What is Staff's recommendation for property tax expense?**

11 A. Staff rejects the Company's pro forma adjustment, thereby keeping the property tax
12 expense at the accrual level that was booked during the test year.

13

14 **Q. Why should the Commission reject the adjustment as proposed by the Company?**

15 A. Property taxes are calculated on many factors most of which are not known until the
16 actual payment is made. The basis of the tax and the tax rate for the upcoming year are
17 sufficiently firm to record the liability and tax expense for that near-term year; beyond
18 the upcoming year, the data becomes more speculative. It is not necessary to revise the
19 cost to a different assumed level. Rejection of this pro forma adjustment retains a
20 representative amount of property tax expense relative to the revenues and rate base
21 included in rates.

22

²⁴ Pacific Power's Response to Public Counsel Data Request No. 50.

1 **Q. What is the impact of Staff's recommendation regarding Property Tax Expense,**
2 **Adjustment 7.2?**

3 A. Staff's recommendation removes the Company's pro forma increase to net operating
4 expenses of \$515,798 and maintains the test year level of property tax expense.
5

6 **V. MERWIN FISH COLLECTOR PROJECT**

7
8 **A. DESCRIPTION AND HISTORY**

9 **Q. Please describe the Merwin Fish Collector Project**

10 A. The Merwin Fish Collector Project (Merwin Project) was built as a requirement of the
11 FERC relicensing for the Lewis River hydroelectric project. In negotiating the
12 relicensing, Pacific Power reached a settlement with 26 parties, including Cowlitz PUD,
13 the Washington Department of Ecology, and the Washington Department of Fish and
14 Wildlife, to receive a 50-year license from the FERC. Specifically, the license required
15 the construction of a fish passage system that collects and transports fish around the three
16 dams included in the license.

17 **Q. What is the Company's proposal for the Merwin Project in the present GRC,**
18 **Docket UE-140762?**

19 A. The Company's proposed treatment for the Merwin Project during the rate effective
20 period is to include the project in rate base. This is shown in a part of 8.4 pro forma
21 Major Plant Additions.
22

23 **Q. Please describe the procedural history relating to the Merwin Project.**

1 A. Pacific Power requested rate recovery of costs associated with the Merwin Project in its
2 last GRC, Docket UE-130043. Staff testified that the inclusion of the Merwin Project in
3 the development of rates was, at that time, premature.²⁵ Specifically, Staff objected to the
4 inclusion in rates of a project that was not used and useful at the time of the filing. The
5 Commission rejected the inclusion of the Merwin Project on the basis that it was not used
6 and useful until after rates went into effect.²⁶ The prudence of the investment was not
7 mentioned in Order 05. The Merwin Project went into service on March 28, 2014.

8

9 **Q. Please continue.**

10 A. In April 2014, after the Merwin Project went into service, the Company presented a
11 separate proposal through Docket UE-140617 for the treatment of the Merwin Project. In
12 that docket, which has been consolidated into the present proceeding, the Company
13 proposed to collect the revenue requirement associated with the Merwin Project through a
14 separate Tariff Rider; if the Commission rejected the Tariff Rider, the Company proposed
15 an accounting petition to defer the related costs. In either case, the Merwin Project would
16 ultimately be rolled into general rates during the next filed GRC (the present case). At an
17 open meeting in May 2014, the Commission heard from the Company, Staff, and other
18 parties on implementing the Tariff Rider, or in the alternative, the accounting petition.
19 The Commission rejected the Tariff Rider and approved the accounting petition but made
20 no finding of the prudence of the Merwin Project or the eligibility of the costs included in
21 the accounting petition for recovery. The Commission's order consolidated the

²⁵ *Utilities and Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-130043, Testimony of Juliana Williams, Exhibit No. ___ (JMW-1CT) at 5:18 – 6:3 (June 21, 2013)

²⁶ *Utilities and Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-130043 Order 05 at ¶ 203 (December 14, 2013).

1 accounting petition into the recently filed GRC by the Company for determination of cost
2 recovery.

3
4 **Q. What was Staff's recommendation at the Open Meeting discussing the deferral?**

5 A. Staff recommended that prudence review be conducted in the Company's recently filed
6 GRC (the present case Docket UE-140762). Further, Staff recommended that the
7 proposed tariff be rejected and that Pacific Power be authorized to defer and recover the
8 operation and maintenance expense and depreciation expense associated with the Merwin
9 Project. Finally, Staff recommended to the Commission that the Company not be
10 allowed to accrue interest on the deferred balances.²⁷ Staff's position in the present case
11 has not changed since the Open Meeting.

12
13 **B. PRUDENCE EVALUATION**

14 **Q. Is a prudence determination for the Merwin Project necessary?**

15 A. Yes. The Commission did not discuss the prudence of the Merwin Project in its final
16 order for Pacific Power's last GRC. Therefore, the prudence of the Merwin Project is
17 still in question.

18
19 **Q. Please summarize your conclusion about the prudence of the Merwin Fish Collector
20 Project.**

21 A. I recommend the Commission find that the Merwin Fish Collector Project is a prudent
22 investment used and useful to Washington ratepayers. This is based on the level of

²⁷ *Utilities and Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-140617, Staff Opening Meeting Memo

1 involvement by other agencies, the information provided through the Company's direct
2 testimony, and its responses to various data requests.

3
4 **Q. What is the purpose of a prudence review?**

5 A. The Commission has stated that prudence reviews determine the reasonableness of a
6 decision made by the Company before it is supported by ratepayers:

7 The Commission has consistently applied a reasonableness standard when
8 reviewing the prudence of decisions relating to power costs, including those
9 arising from power generation asset acquisitions. The test the Commission
10 applies to measure prudence is what would a reasonable board of directors and
11 company management have decided given what they knew or reasonably should
12 have known to be true at the time they made a decision. This test applies both to
13 the question of need and the appropriateness of the expenditures. The company
14 must establish that it adequately studied the question of whether to purchase these
15 resources and made a reasonable decision, using the data and methods that a
16 reasonable management would have used at the time the decisions were made.²⁸

17
18 **Q. What standards or factors are applied in assessing prudence and issuing a
19 recommendation?**

20 A. There is no single set of factors used to determine prudence. However, in Pacific
21 Power's previous case, Staff relied upon the following four factors to issue its
22 recommendation:

- 23 1) The Need for the Resource – The utility must determine the necessity of a
24 resource as well its cost-effectiveness. During its evaluation process, a utility
25 must perform a comparative cost analysis using other resources available for
26 purchase as well as building new ones.
27
28 2) Evaluation of Alternatives – The utility must look at any alternatives for which
29 information exists and recognize the importance of such factors as capital cost,
30 dispatchability, transmission cost or access, long-term planning, or any other
31 factors necessary to make an appropriate decision.

²⁸ *Utilites and Transp. Comm'n v. Puget Sound Energy*, Docket UE-031725, Order 12 at ¶19, (April 7, 2004).

- 1
2 3) Involvement of the Company's Board of Directors - The utility should be in
3 contact with its Board of Directors and Chief Executives about the purchase
4 decision. The utility should provide up to date information to its Board of
5 Directors and Executive Management on the costs and alternatives.
6
7 4) Adequate Documentation - The utility must keep adequate records of its decision
8 making process that will allow the Commission to evaluate the Company's
9 decision. The documentation should be sufficient to allow the Commission to
10 understand and follow the utility's decision process and to understand the factors
11 and information that the utility relied upon in making its determination.²⁹

12
13 **Q. Does the Merwin Project meet these standards?**

14 A. Yes. The Merwin Project meets Staff's prudence standards on all four counts:

- 15 1) The Need for the Resource – As outlined in the Company's testimony, the
16 Merwin Project was a requirement of the FERC.³⁰ The Lewis River
17 Hydroelectric project provides clean, cheap, hydropower to the region and
18 is a vital resource for the Company's power operations.³¹
- 19 2) Evaluation of Alternatives – the Company evaluated several different
20 options for meeting the licensing requirement as well as the business case,
21 if any, for not pursuing relicensing with the FERC.³²
- 22 3) Communication with and Involvement of the Company's Board of
23 Directors –The Company included several top level executives as well as
24 its Board of Directors in the decision making process. Various memos

²⁹ *Utilities and Transp. Comm'n v. Pacific Power & Light Co.*, Docket UE-130043 Exhibit No. ___ (JMW-1CT) at 8:17-9:5 (June 21, 2013)

³⁰ Tallman Direct Exhibit No. ___ (MRT-1T) at 3:2

³¹ Tallman Direct Exhibit No. ___ (MRT-1T) at 2:5-8

³² Pacific Power response to Staff Data Request 78, Confidential Attachment and Pacific Power Response to Staff Data Request 81, Confidential Attachment.

1 and documentation were provided to the Board of Directors so that they
2 could make an appropriate decision.³³

3 4) Adequate Documentation – The Company has provided Staff with all
4 requested information and presented a direct case showing the
5 reasonableness of the process used to make the decision to invest in the
6 Merwin Project.

7 Therefore, Staff recommends the Commission recognize the Merwin Project as a
8 prudently-incurred investment.

9
10 **C. ACCOUNTING DEFERRAL**

11 **Q. What is Staff's proposed treatment for the deferral of costs related to the Merwin**
12 **Project?**

13 A. Staff proposes the Company be allowed to include in general rates the amortization of the
14 deferred O&M expense as well as the depreciation expense for the Merwin Project from
15 the date of the accounting petition until final rates go into effect. The amount of this
16 deferral represents approximately \$486,000. Further, Staff proposes the Company not be
17 allowed to recover accrued interest on the amount of these expenses during the deferral
18 period. Staff also recommends that the proposed treatment for this deferral be limited to
19 this specific instance and its surrounding circumstances.

20 Staff's recommendation focuses on a balance between the Company's recovery of
21 costs and preventing frequent accounting petitions for rate base additions. The deferral of

³³ Pacific Power response to Staff Data Request 78, Confidential Attachment

1 inter-period costs or rate base additions should be allowed on an infrequent and unusual
2 basis warranted by specific circumstances.

3
4 **Q. Please describe the Merwin Deferral.**

5 A. The Merwin Deferral seeks authorization to defer the full revenue requirement for the
6 Merwin Project from the date of the accounting petition, April 15, 2014. The Company's
7 calculated revenue requirement on a Washington allocated basis is \$1,668,757. Below is
8 a breakdown of the revenue requirement before taxes:

Pre Tax Return on Rate Base	\$1,103,724
Operation & Maintenance Expense	\$56,334
Depreciation Expense	\$430,137
<hr/>	
Total	\$1,668,757

9
10 The Company requests to accrue interest on this amount at its currently authorized rate of
11 return.

12 Staff's proposal is to allow the Company to defer only the O&M and depreciation
13 expense. As shown above, this represents \$486,471.

14
15 **Q. Has the Commission laid out the circumstances under which inter-period deferrals
16 may be considered?**

17 A. Yes. The Commission has stated:

18 ...there is nothing that precludes [the company] from seeking additions to rate
19 base between rate cases so long as the amounts are not so large as to trigger a
20 general rate proceeding under our rules. If the investments are shown to be
21 prudent, the amounts are reasonable, and the plant is demonstrated to be used and
22 useful, the Commission may exercise its discretion to allow recovery in rates.

1 Important considerations guiding that discretion would be whether there has been
2 a very recent general rate proceeding or the company commits to making a
3 general rate filing soon after the additions are allowed.³⁴
4

5 **Q. Does the Merwin Deferral meet the Commission's conditions?**

6 A. Yes. The Merwin Project, as described above, is a prudent business investment that is
7 used and useful in Washington. The Company included the project in a GRC filing that
8 ended four months before its in-service date.

9
10 **Q. Does Staff hold concerns about recommending inter-period adjustments to rate
11 base?**

12
13 A. Yes. The Commission has previously expressed concern with inter-period adjustments to
14 rate base and Staff shares those concerns.³⁵ The primary concern is that granting such
15 petitions provides an incentive for frequent accounting petitions.

16
17 **Q. Does Staff's proposal remove the incentive for frequent accounting petitions?**

18 A. Partially. Staff's proposal removes one of the major incentives for frequent accounting
19 petitions – interest on the rate base and deferral. Although the deferral and recovery of
20 incurred costs is itself an incentive to use accounting petitions, the interest on rate base
21 represents the return to shareholders that is the core business of the public utility model.
22 By not allowing this interest on the deferral, companies are provided a stronger reason to
23 use other ratemaking mechanisms such as expedited rate filings or GRC's when seeking

³⁴ *Utilities & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-060266, Order 08 ¶ 51 (January 5, 2007)

³⁵ *Utilities & Transportation. Commission v. Puget Sound Energy, Inc.*, Docket Nos. UE-060266 and UG-060267–
Order 08 at ¶47 and footnote 33 (January 5, 2007).

1 to add rate base. Further, Staff recommends that the Merwin Deferral be treated as
2 unusual and granted relief under circumstances specific to the Merwin Project.

3
4 **Q. Why should the Commission recognize this deferral petition and its surrounding
5 circumstances as unique?**

6 A. The conditions surrounding the Merwin Project are unique – the project was required by
7 a FERC Licensing process involving 26 total agencies and is a non-revenue producing
8 item. Most large rate base additions a Company can make provide some sort of direct
9 benefit, either through additions to revenue or reduced costs, which allows the Company
10 to offset its operating expense and investment. The Merwin Project does not directly
11 produce any of these benefits. Additionally, Pacific Power attempted to include the
12 project in a GRC that was finalized four months before it began operating.

13
14 **Q. Has the Commission previously granted a no-interest deferral?**

15 A. Yes. The Commission authorized Avista to defer costs associated with the oxygenation
16 of Spokane Lake as mandated by the Washington Department of Ecology.³⁶ Avista's
17 efforts to comply with the requirement led to a low-cost solution. Avista petitioned the
18 Commission to defer the costs incurred while attempting to comply with the State
19 requirement.³⁷ The Commission authorized the deferral.

20

³⁶ *Petition of Avista Corp. For an Accounting Order to Defer Costs Related to Improving Dissolved Oxygen Levels in Lake Spokane*, Docket No. UE-131576, Order 01 (September 26, 2013).

³⁷ Avista was operating under a stay-out period during the time of the deferral and therefore could not present a rate proceeding, such as an ERF or GRC, to include the costs.

1 **Q. Do you have any alternative recommendations should the Commission authorize**
2 **Pacific Power to defer and recover the full amount of its request?**

3 A. Yes. The Company requests permission to defer the full revenue requirement of the
4 Merwin Project from the date of the accounting petition with compound interest on the
5 cumulative balance until the Project is in rates. This includes the return on and return of
6 rate base for the Merwin Project plus operating costs. If the Commission authorizes the
7 Company to collect the full deferral amount as proposed in the petition, I recommend that
8 the Commission reject additional accrual of interest on the revenue requirements.

9 The Company's request functionally creates a double compounding of interest
10 payments. Additionally, the request is not consistent with the purpose of regulatory asset
11 petitions. The accounting standards codified by FASB and the FERC Uniform System of
12 Accounts state the proper accounting for deferrals of *period costs* for recovery in future
13 time periods. By applying interest to the requested deferral, companies would have a
14 direct incentive to seek such accounting treatment for any potential rate base additions.
15 Ms. Erdahl's recommendation for the Colstrip and Depreciation Deferrals also rejects
16 allowing the accumulation of interest on those projects and only allowing the deferral of
17 the period costs for recovery in rates.

18

19 **Q. Does this conclude your Testimony?**

20 A. Yes