

Exhibit No. ___ T (BAE-1T)
Dockets UE-140762, et al.
Witness: Betty A. Erdahl

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

BETTY A. ERDAHL

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

WA Low Income Tax Credit (7.5)
Plant Additions (Adjustment 8.4)
Misc. Asset Sales and Removals (Adjustment 8.11)
Colstrip Deferral (Schedule 92) & Depreciation Deferral (Schedule 92)
Investor Supplied Working Capital (Adjustment 8.13)

October 10, 2014

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LIST OF EXHIBITS

Exhibit No. ____ (BAE-2) Colstrip and Depreciation Deferral
Exhibit No. ____ (BAE-3) Pacific Power Response to WUTC Data Request No. 60

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 Energy Section of the Regulatory
10 Services Division.
11

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

13 A. I have been employed at the Commission for 23 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 relevant coursework such as the
18 "Basics of Regulation" offered by New Mexico State University, Rate Making
19 Process Technical Program, USTA class on Understanding Separations, Access
20 Charges, and Settlements, as well as Utility Ratemaking: The Fundamentals and the
21 Frontier. Before joining the Commission in June 1991, I worked for two years as an
22 accountant in the financial 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; Dockets UE-111048 and UG-111049, regarding a general rate
18 case of Puget Sound Energy, Inc.; and Docket UE-130043, regarding a general rate
19 case of Pacific Power & Light Company. I also prepared testimony in Docket UE-
20 140188/UG-140189, regarding a general rate case of Avista Corporation; Docket
21 UT-040788, regarding a general rate case of Verizon Northwest Inc.; Docket UT-
22 051291, regarding affiliated interest contracts, overall earnings review, and provision
23 of a quality of service guarantee program in the Sprint spin-off of its local exchange

1 companies; and Docket UT-082119, regarding retention of pre-merger settlement
2 provisions, a requirement to offer a quality of service guarantee program, and
3 affiliated interest reporting in the CenturyTel/Embarq merger case.

4
5 **II. SCOPE AND SUMMARY OF TESTIMONY**

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

8 **A.** My testimony presents Staff's recommendations regarding the following
9 adjustments:

- 10 1. WA Low Income Tax Credit (Adjustment 7.5),
11 2. Plant Additions (Adjustment 8.4),
12 3. Misc. Asset Sales and Removals (Adjustment 8.11),
13 4. Colstrip Deferral (UE-131384) and Depreciation Deferral (UE-
14 132350) recovery as part of revenue requirement rather than Pacific
15 Power and Light Company's (Pacific Power or Company) proposed
16 Schedule 92, and
17 5. Investor supplied working capital (Adjustment 8.13).

18 I respond to Pacific Power witness Ms. Natasha C. Siores.¹ The results of my
19 analysis are incorporated into Staff's revenue requirement model presented in Staff
20 witness Mr. Ball's Exhibit No. ____ (JLB-2).²

21

¹ Siores Direct, Exhibit No. ____ (NCS-1T) at pp. 26 (Plant Additions), 31 (Deferrals), 29 (Investor Supplied Working Capital).

² Ball, Exhibit No. ____ (JLB-2), Adjustment 8.10.

1 **Q. Please provide a brief overview of your testimony.**

2 A. Section III of my testimony recommends rejecting the Company's adjustment to WA
3 Low Income Tax Credit, Adjustment 7.5.

4 Section IV of my testimony provides an explanation of Plant Additions and
5 Staff's recommendation that the Company update Adjustment 8.4 on the date it files
6 rebuttal testimony.³ This recommendation is consistent with the Commission's
7 decision in Pacific Power's last general rate case, Docket UE-130043.

8 Section V of my testimony addresses an update to Misc. Asset Sales and
9 Removal Adjustment 8.11 that the Company will file on Rebuttal.

10 Section VI of my testimony recommends recovery of the deferral amounts of
11 the Colstrip outage and the depreciation deferral as adjustments to revenue
12 requirement.⁴

13 Lastly, Section VII of my testimony discusses Staff's recommendation
14 regarding the investor supplied working capital (ISWC) calculation.

15

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

17 A. Yes, I have two supporting exhibits.

18 **Exhibit No. ___ (BAE-2), Colstrip and Depreciation Deferral,** depicts
19 Staff's recommendation for recovery of the deferred expenses associated with these
20 two deferrals. The results are presented in my exhibit and are incorporated into Staff
21 witness Mr. Ball's Exhibit No. ___ (JLB-2), Adjustment 8.10.

³ Under the procedural schedule currently in effect, PacifiCorp will file rebuttal testimony on November 14, 2014.

⁴ The Company proposes to recover Colstrip outage and depreciation deferrals through Schedule 92 of its tariff.

1 **Exhibit No. ____ (BAE-3), Pacific Power Response to WUTC Data**

2 **Request No. 60**, supports the correction to Adjustment 8.11, Misc. Asset Sales and
3 Removal to be filed in Company's Rebuttal. In reviewing the numbers for this
4 response, the Company discovered that hydro decommissioning expense was
5 inadvertently removed as part of the Condit adjustment.

6
7 **III. WA LOW INCOME CREDIT (ADJUSTMENT 7.5)**

8
9 **Q. What is the WA Low Income Credit or Low Income Home Energy Assistance**
10 **Program (LIHEAP)?**

11 A. LIHEAP is a credit that Pacific Power receives that decreases the Company's public
12 utility tax. The LIHEAP credit is based upon the following information: 1) Billing
13 discounts, or 2) Qualifying contributions. Billing discounts are reductions in the
14 amount charged for providing service to qualifying persons. Qualifying
15 contributions are amounts given by a light and power business to an organization that
16 contracts with Department of Commerce (DOC) to administer LIHEAP funds.

17 DOC administers LIHEAP in cooperation with light and power businesses
18 and gas distribution businesses. DOC administers funds from various sources to
19 reduce energy costs for low income persons. Each year the Company completes the
20 Public Utility Tax Credit Application and submits it to the Department of Revenue
21 (DOR). DOR notifies the Company in July if it has been approved for a tax credit
22 and the amount of the credit for the current fiscal year. This credit has been

1 increasing each year based on information that the Company has provided in this
2 case and prior cases.

3
4 **Q. Please describe the Company's proposed adjustment.**

5 A. The Company proposes a pro forma adjustment to change the credit available for the
6 period. The Company's adjustment increases net operating expenses.

7 The Company used the 2013 DOR credit amount of \$222,651 as a starting
8 point for the adjustment with two decreases to the credit. The Company reduces the
9 credit by \$174,573 and then by an additional \$87,882, creating a \$39,804 debit.⁵

10 The calculation does not consider any future credits that the Company will receive.

11

12 **Q. Is the Company's adjustment supported?**

13 A. No. Pacific Power provided two letters from DOR in Natasha Siores's Exhibit No.
14 ____ (NCS-3), Tab 7, Pages 7.5.2 and 7.5.3. One letter is from 2012 with an
15 approved credit amount of \$210,197, and the other letter is from 2013 with an
16 approved credit amount of \$222,651. No other documentation was provided.

17

18 **Q. What is Staff's recommendation for this adjustment?**

19 A. Staff recommends eliminating the adjustment in its entirety. Each year the credit
20 received by Pacific Power has grown, and there is no evidence supporting the
21 adjustment to decrease the credit this year. The adjustment is an attempt to reconcile
22 a fiscal credit to a calendar year balance. In the Company's adjustment, the

⁵ Siores Direct, Exhibit No. ____ (NCS-3) at Tab 7, or p. 7.5.1.

1 Company totaled the credits in account 408 for calendar year 2013, which equals
2 \$262,454. The Company's approved credit from DOR for fiscal year 2014 is
3 \$222,651, a difference of \$39,803. The Company is proposing to increase its
4 operating revenue by \$39,803 (NOI impact of \$25,873). However, a portion of the
5 credit in account 408 is a credit from fiscal year 2013's approved credit. There is
6 also an unrealized portion outstanding from fiscal year 2014's approved credit. In
7 the past, the Company has accounted for this credit as a decrease to net operating
8 income regardless of whether the test year was fiscal or calendar year.

9
10 **Q. What is the impact of Staff's recommendation regarding Washington Low**
11 **Income Tax Credit?**

12 A. Staff's recommendation removes the Company's pro forma decrease to net operating
13 income of \$25,873 to maintain the test year level of Washington Low Income Tax
14 Credit as shown on Mr. Ball's Exhibit No ____ (JLB-2), Adjustment 7.5 WA Low
15 Income Tax Credit.

16
17 **IV. PLANT ADDITIONS (ADJUSTMENT 8.4)**

18
19 **Q. Please explain Pacific Power's Adjustment 8.4, Major Plant Additions.**

20 A. Pacific Power proposes Adjustment 8.4 to increase rate base for plant additions
21 greater than \$250,000 on a Washington-allocated basis placed in service between the
22 end of the test year and prior to the rate year. The proposed plant additions are
23 scheduled to be in service by December 2014. The Company proposes to include

1 plant additions on a year-end rate base balance.⁶ This adjustment also incorporates
2 the associated depreciation expense and accumulated reserve impacts.

3
4 **Q. Does Staff agree with Pacific Power's major plant additions adjustment?**

5 A. Staff will support the Company's adjustment provided Pacific Power updates
6 Adjustment 8.4, major plant additions, to reflect actual costs for rate base placed into
7 service. Staff's position reflects the Commission's statements in Order 05 from
8 Docket UE-130043.⁷

9
10 **Q. Please explain the relevant regulatory standards and treatment articulated by
11 the Commission in Docket UE-130043.**

12 A. In the Company's most recent rate case, the Commission accepted Pacific Power's
13 end-of-period plant additions based on updated actuals as revised by the Company in
14 its rebuttal testimony.⁸

15
16 **Q. Does Pacific Power's testimony regarding the major plant addition adjustment
17 comply with the most recent general rate case order in Docket UE-130043?**

18 A. No. The Company estimated the final costs for many projects up to the period just
19 before new rates are in effect, but Ms. Siore's testimony does not mention filing an
20 update to the plant additions at the time that rebuttal is scheduled to be filed.

21

⁶ Siore Direct, Exhibit No. ____ (NCS-1T) at 26.

⁷ *Utilities and Transp. Comm'n v. Pacific Power & Light Co.*, Docket. UE-130043, Order 05, at pp: 79-80.

⁸ *Id.* at p. 80

1 **Q. Please summarize Staff's recommendation for this Commission.**

2 A. The Commission should accept the Company's proposed adjustment provided the
3 Company updates its estimated plant additions to actual plant in service at the time
4 of its rebuttal testimony.

5

6 **V. MISC. ASSET SALES REMOVALS (ADJUSTMENT 8.11)**

7

8 **Q. Please explain Pacific Power's Misc. Asset Sales and Removals Adjustment 8.11.**

9 A. Pacific Power adjusts the Company's filing for various assets that were sold or
10 removed. The supporting calculation is provided in Natasha Siores's Exhibit No.
11 ____ (NCS-3), Tab 8, page 8.11.

12

13 **Q. Does Staff propose a correction to Pacific Power's Misc. Asset Sales and**
14 **Removals Adjustment 8.11?**

15 A. Yes. Staff recommends including a Condit depreciation expense related to hydro
16 decommissioning. Pacific Power inadvertently removed its Condit depreciation
17 expense while preparing its filing. I have attached the Company's response to Staff
18 Data Request 60 as my Exhibit No. ____ (BAE-3) in which the Company states that it
19 will fix the error in its rebuttal filing.

20

1 **Q. Please explain the impact of Staff's recommendation.**

2 A. Staff recommends accepting the correction as filed by the Company in rebuttal. The
3 correction increases depreciation expense by approximately \$1.5 million on a total-
4 company basis, or approximately \$0.36 million on a Washington-allocated basis.

5

6 **VI. COLSTRIP AND DEPRECIATION DEFERRALS (SCHEDULE 92)**

7

8 **Q. Please describe the Colstrip and Depreciation Deferrals.**

9 A. Pacific Power previously filed separate accounting petitions to defer certain costs
10 and now proposes to recover those deferred costs through a rate tracker in Schedule
11 92.⁹ My testimony addresses the following deferrals relating to Colstrip outages and
12 Depreciation:¹⁰

13 1. **UE-131384** - Pacific Power requested authority to defer the increased
14 expense of power costs and capitalized maintenance to repair
15 damages for a forced outage at the Colstrip generation plant.

16 2. **UE-132350** - Pacific Power requested authority to defer the results of
17 a reduction in depreciation expense due to revised depreciation rates.

18 This petition was approved in December 2013.

19 The Company provides a detailed calculation in the direct testimony of Ms. Siores at
20 Exhibit No. ___ (NCS-9), which includes the proposed recovery amounts.

21

⁹ See Siores Direct, Exhibit No. ___ (NCS-1T) at 31.

¹⁰ My testimony responds to the Colstrip Deferral and the Depreciation Deferral only. Staff witness Mr. David Gomez addresses the Company's Hydro Deferral request from Docket UE-140094.

1 **Q. Please explain any differences between the Company's proposal and Staff's**
2 **recommendation in relation to Colstrip and Depreciation Deferrals.**

3 A. There are two primary differences between Staff and the Company on this issue.
4 First, Staff recommends the Commission allow recovery of the Colstrip and
5 Depreciation Deferrals through the revenue requirement model; conversely, the
6 Company proposes to recover Colstrip and Depreciation Deferrals through a newly-
7 created Schedule 92. Second, Staff disagrees with the Company's proposal to apply
8 interest to the deferrals.

9
10 **Q. What is Staff's recommendation regarding the recovery of these deferrals?**

11 A. Staff recommends the Colstrip and Depreciation Deferrals be treated as expenses that
12 have not yet been recovered in rates. These expenses were incurred to purchase
13 power during the plant outage. Typically, expenses such as the power costs in
14 question do not earn interest, and if recoverable, would be amortized over a period of
15 time. Therefore, Staff recommends that the Company recover the expense amount in
16 the rate year and not accrue interest.

17 My Exhibit No. ___ (BAE-2) shows a calculation to recover \$1,878,383
18 increased expense related to Colstrip and a decreased expense of \$836,250 related to
19 depreciation in the rate year. On Page 2 of my exhibit, the amounts of \$1,878,383
20 and \$836,250 are shown in the columns labeled Colstrip Deferral and Depreciation
21 Deferral, respectively. As shown in the column on page 2 labeled "Interest Rate,"
22 neither of these amounts includes interest in the calculation.

1 Staff proposes recovery of the net power cost and depreciation expense
2 related to Colstrip outage and the amount of the Depreciation Deferral from Docket
3 UE-132350 as part of the revenue requirement determination. This is consistent with
4 the approach recommended by Staff witness Mr. Ball regarding the Merwin Deferral.
5 The increased expense amount of \$1,878,383 and the decreased expense amount of
6 \$836,250 can be seen on Staff witness Mr. Ball's Exhibit No ____ (JLB-2),
7 Adjustment 8.10.
8

9 **Q. Does Staff have an alternative recommendation regarding interest should the**
10 **Commission allow the company to collect interest on these deferrals?**

11 A. Yes. Staff's primary recommendation is to exclude interest. However, should the
12 Commission determine interest is appropriate, Staff proposes to remove revenue-
13 sensitive taxes from the Company's interest calculation. The Company's model
14 calculates interest on a revenue requirement amount, which grosses up the deferral
15 amount to include revenue sensitive taxes rather than calculating interest solely on
16 the deferral amount.¹¹ Thus, the Company's proposal seeks recovery of interest paid
17 on revenue sensitive taxes.
18

¹¹ Siores Direct, Exhibit No. ____ (NCS-3) at Tab 8, page 2 of 8, "Interest Col."

1 **VII. INVESTOR SUPPLIED WORKING CAPITAL (ADJUSTMENT 8.13)**

2

3 **Q. Please summarize Staff's recommendation to this Commission.**

4 A. Staff recommends the Commission allow the Company's proposed ISWC,
5 Adjustment 8.13.

6

7 **Q. Did Staff evaluate Pacific Power's proposed ISWC?**

8 A. Yes. Staff evaluated Pacific Power's ISWC calculation. Staff reviewed the
9 underlying balance sheet accounts included in Pacific Power's ISWC calculation,
10 and determined the accounts are appropriate and properly categorized as investments
11 or current assets and current liabilities. Accordingly, there are no substantive
12 differences between Staff and the Company on this issue.

13

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

15 A. Yes.