

Exhibit No. \_\_\_T (JH-1T)  
Docket UE-130043  
Witness: Joanna Huang

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PACIFICORP D/B/A PACIFIC POWER  
& LIGHT COMPANY,**

**Respondent.**

**DOCKET UE-130043**

**TESTIMONY OF**

**Joanna Huang**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

*Results of Operations and Revenue Requirement,  
General Wage Increase - Pro Forma (4.3),  
Hydro Decommissioning (6.1),  
Interest True Up (7.1),  
Production Factor (9.1)*

**June 21, 2013**

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**List of Exhibits**

Exhibit No. \_\_\_\_ (JH-2), Electric Results of Operations and Revenue Requirement

Exhibit No. \_\_\_\_ (JH-3), Adjustment 4.3, Pro Forma Wages

Exhibit No. \_\_\_\_ (JH-4), Adjustments 9.1, Production Factor

1 **I. INTRODUCTION**

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

A. My name is Joanna Huang. My business address is Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington 98504.

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

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

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

A. I have been employed by the Commission for 17 years.

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

A. I received a Bachelor of Business Administration degree majoring in Accounting from National Chung-Hsing University, Taiwan, in 1987 and a Masters of Accounting degree from Washington State University in 1991. Prior to my employment at the Commission, I was employed by the Washington State Department of Revenue as an Excise Tax Examiner. I performed desk audits on Business & Occupation tax returns.

I began my employment with the Commission in 1996. My work generally includes financial, accounting and other analyses for general rate case proceedings

1 and other tariff filings by the electric and natural gas utilities regulated by the  
2 Commission. I attended the National Association of Regulated Utility  
3 Commissioners Annual Utility School in 1996 and 2001. In addition, I have  
4 attended numerous training seminars and conferences regarding utility regulations  
5 and operations.

6

7 **Q. Have you testified previously before the Commission?**

8 A. Yes. I testified in a Puget Sound Energy, Inc. (“PSE”) general rate case Dockets  
9 UE-090704 and UG-090705, and Dockets UE-072300 and UG-072301; PacifiCorp  
10 general rate case Docket UE-032065; Avista general rate case Dockets UE-120436  
11 and UG-120437, Dockets UE-090134 and UG-090135, and Dockets UE-991606 and  
12 UG-991607; and a Northwest Natural filing in Docket UG-111233.

13 I have also participated in Staff’s investigation in the following general rate  
14 cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483,  
15 Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and  
16 Dockets UE-110876 and UG-110877 (all Avista); Docket UG-060256 (Cascade);  
17 Docket UG-080546 (Northwest Natural), Docket UG-031885 (Northwest Natural);  
18 and Dockets UE-070725 and UG-130137 (PSE).

19

20 **II. SCOPE AND SUMMARY OF TESTIMONY**

21

22 **Q. What is the scope of your testimony in this proceeding?**

1 A. I present Staff’s overall revenue requirement recommendation for PacifiCorp d/b/a  
2 Pacific Power & Light Company (“PacifiCorp” or “Company”). This presentation  
3 incorporates all Staff ratemaking adjustments and recommended cost of capital upon  
4 which that overall revenue requirement is based. I also present Staff’s analysis of  
5 several individual accounting adjustments for which I am responsible. These  
6 adjustments include Adjustment 4.3, General Wage Increase-Pro Forma, for which I  
7 respond to the incentive plan proposals presented by Company witness Erich D.  
8 Wilson.

9

10 **Q. Please summarize Staff’s revenue requirement analysis for PacifiCorp.**

11 A. Staff’s revenue requirement analysis shows that PacifiCorp, on a pro forma basis, is  
12 earning a 5.93 percent overall rate of return on rate base. Based on Staff witness  
13 Kenneth L. Elgin’s recommended 7.03 percent overall rate of return, Staff’s analysis  
14 supports an increase in annual revenues of \$14,619,641, which is an overall increase  
15 of 4.8 percent.

16

17 **Q. Have you prepared any exhibits in support of your testimony?**

18 A. Yes. Exhibit No. \_\_\_\_ (JH-2), entitled Results of Operations and Revenue  
19 Requirement, is an 81-page exhibit showing PacifiCorp’s operating results for the  
20 test year ended June 30, 2012, for its Washington operations. The exhibit is  
21 organized as follows:

- 22 • Results of Operations Summary, page 1;
- 23 • Calculation of Revenue Requirement Deficiency, page 2;



1 shown in column (c), Pro Forma Adjustments are shown in column (d), and Total  
 2 Adjusted at Present Rates are shown in column (e). Column (e), line 59 shows the  
 3 overall earned rate of return of 5.93 percent that I mentioned earlier. Staff's  
 4 proposed recommended revenue increase of about \$14.6 million is shown in column  
 5 (f), line 5. Column (g) shows the Company's overall Results of Operations with the  
 6 additional revenues Staff recommends to reach a 7.03 percent overall rate of return.

7  
 8 **Q. Please continue with your explanation of Exhibit No. \_\_ (JH-2).**

9 A. Page 2 is Staff's calculation of the recommended revenue increase that also appears  
 10 on page 1, column (f), line 5. Page 3 is the net-to-gross conversion factor, which is  
 11 contested between Staff and the Company, as explained by Staff witness Christopher  
 12 T. Mickelson in his testimony. Page 4 shows the calculation of Staff's overall  
 13 proposed rate of return, as recommended by Staff witness Elgin.

14  
 15 **Q. What are the components of Staff's overall proposed rate of return?**

16 A. The overall cost of capital recommended by Mr. Elgin is 7.03 percent, based upon  
 17 the following capital structure and cost rates:

	<u>Component</u>	<u>Cost (%)</u>	<u>Weight (%)</u>	<u>Weighted Cost (%)</u>
18	Equity	9.00	46.00	4.14
19	Preferred	5.43	0.28	0.02
20	Total Debt	5.34	53.72	<u>2.87</u>
21				
22	<b>Cost of Capital</b>			<b>7.03</b>

1 The debt component of Staff’s proposed capital structure includes 4.0 percent short-  
2 term debt.

3

4 **Q. Please explain page 5 of your Exhibit No. \_\_\_\_ (JH-2).**

5 A. Page 5, labeled “Summary of Adjustments,” shows the difference in revenue  
6 requirement for each contested adjustment between the Company and Staff.

7

8 **Q. Please explain pages 6-22 of your Exhibit No. \_\_\_\_ (JH-2).**

9 A. Pages 6-14 itemize Staff’s restating adjustments, as summarized in column (b) of  
10 page 1 of the exhibit. Pages 15-22 itemize Staff’s pro forma adjustments, as  
11 summarized in column (d) of page 1. Pages 23-81 include the “Lead Sheet” showing  
12 the calculation detail for each Staff-proposed restating or pro forma adjustment.

13 My exhibit uses similar adjustment titles as the Company uses in Mr.  
14 McDougal’s Exhibit No. \_\_\_\_ (SRM-2).

15

16 **Q. Please identify the adjustments in Exhibit No. \_\_ (JH-2) that are contested**  
17 **between Staff and PacifiCorp, along with the Staff witness responsible for the**  
18 **adjustment.**

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

20	<u>Adjustment</u>	<u>Staff Witness</u>
21	Adjustment 3.8, Schedule 300 Fee Change	Mickelson
22	Adjustment 4.3, General Wage Increase-Pro Forma	Huang
23	Adjustment 4.12, Uncollectible Expense	Mickelson



1	Adjustment 5.1.1, Net Power Cost-Pro Forma	Gomez
2	Adjustment 6.1, Hydro Decommissioning	Huang
3	Adjustment 7.1, Interest True Up	Huang
4	Adjustment 7.2, Property Tax Expense	Erdahl
5	Adjustment 8.4, Major Plant Additions	McGuire
6	Adjustment 9.1, Production Factor	Huang

7 In addition, there are three general categories of adjustments that are  
8 contested between Staff and PacifiCorp but only as a result of either: 1) Staff’s use  
9 of average of monthly averages (“AMA”) rate base balances versus the Company’s  
10 use of end-of-period (“EOP”) balances; 2) Staff’s use of the Commission-accepted  
11 West Control Area interstate cost allocation methodology versus PacifiCorp’s use of  
12 a partially revised West Control Area interstate cost allocation methodology; or 3)  
13 differences between Staff and the Company that arise solely because of their  
14 different treatment for uncollectibles and the corresponding effect on the net-to-gross  
15 conversion factor.

16

17 **Q. Please identify the adjustments that fall into the first general category of**  
18 **contested adjustments.**

19 A. The following adjustments are contested as between Staff and PacifiCorp, but only  
20 because Staff uses AMA rate base balances to calculate its adjustment, while the  
21 Company uses EOP balances to calculate its adjustment:

- 22 Adjustment 6.2, Deprec. & Amort. Reserve to June 2012 Balance
- 23 Adjustment 7.4, Power Tax ADIT Balance

1 Adjustment 8.1, Jim Bridger Mine Rate Base Adj.  
2 Adjustment 8.12.-8.12.3, Adjust June 2012 AMA to June 2012 Balance  
3 Staff witness Betty A. Erdahl explains Staff's use of AMA balances over EOP  
4 balances for these adjustments.

5  
6 **Q. Please identify the adjustments that fall into the second category of contested**  
7 **adjustments.**

8 A. The following adjustments are contested between Staff and the Company, but only  
9 due to differences in the allocation factors used to derive Washington-allocated  
10 revenue, expense and rate base amounts from total Company results:

11 Adjustment 3.6, Wheeling Revenue Adjustment

12 Adjustment 3.7, Ancillary Revenue – WA

13 Adjustment 4.2, General Wage Increase - Restating Adjustment

14 Adjustment 4.8, Insurance Expense

15 Adjustment 4.13, Legal Expenses

16 Adjustment 5.1, Net Power Costs - Restating

17 Adjustment 5.2, James River Royalty Offset

18 Adjustment 5.4, Colstrip #3 Removal

19 Adjustment 6.3, Proposed Depreciation Rates<sup>1</sup>

20 Adjustment 7.3, Renewable Energy Tax Credit

21 Adjustment 7.6, WA Flow-Through Adjustment

22 Adjustment 8.5, Miscellaneous Rate Base Adjustment

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<sup>1</sup> Staff's Adjustment 6.3 reflects the revised depreciation rates proposed by the Company in Docket UE-130052, which is pending before the Commission. Staff accepts those revised depreciation rates for ratemaking purposes in this proceeding.

1 Adjustment 8.6, Powerdale Hydro Removal  
2 Adjustment 8.7, Removal of Colstrip #4 AFUDC Adjustment  
3 Adjustment 8.11, Misc. Asset Sales and Removal  
4 Staff witness Kendra A. White explains the allocation factors that Staff used to  
5 calculate its adjustments.

6  
7 **Q. Are all of the remaining adjustments shown in Exhibit No. \_\_ (JH-2) in the**  
8 **third and last category of contested adjustments?**

9 A. Yes. All of the remaining adjustments on Exhibit No. \_\_ (JH-2) are contested  
10 between Staff and the Company, but only due to differences in the conversion factor  
11 as a result of the different treatment of uncollectibles. As I stated earlier, Staff  
12 witness Mickelson is responsible for this issue.

13

14 **IV. CONTESTED RATEMAKING ADJUSTMENTS**

15

16 **A. Adjustment 4.3, General Wage Increase – Pro Forma Adjustment**

17

18 **Q. Please summarize the Company’s Adjustment 4.3, General Wage Increase –**  
19 **Pro Forma.**

20 A. There are two elements of the Company’s adjustment. First, PacifiCorp applies a  
21 one to two percent general wage increase to various labor groups (union, non-exempt  
22 and officer/exempt) to June 2013. Staff does not oppose this proposal.

1                   Second, the Company includes in the adjustment compensation related to its  
2                   Annual Incentive Plan by increasing the test period amount by the non-union wage  
3                   increase percentage of about two percent, as described by Company witness Wilson.  
4                   Staff opposes this aspect of the adjustment.

5  
6     **Q.    Please explain why Staff opposes including compensation related to the Annual**  
7     **Incentive Plan in Adjustment 4.3, General Wage Increase – Pro Forma.**

8     A.    Compensation related to the Annual Incentive Plan is always at risk because it is  
9           based on achieving annual performance measurements established by the Company.  
10          Therefore, incentive compensation can be up or down depending on performance  
11          each year.

12                 Moreover, always adjusting the compensation upward by the non-union wage  
13                 increase percentage, as proposed by PacifiCorp, removes the incentive aspect of the  
14                 program. Instead, “incentive” compensation becomes nothing more than another  
15                 form of base salary increase.

16  
17     **Q.    Please describe the calculation of Staff’s proposed Adjustment 4.3, General**  
18     **Wage Increase – Pro Forma.**

19     A.    Staff’s adjustment removes only the incentive compensation expense included by  
20           PacifiCorp above the test period amount. The incentive paid out (per book) during  
21           the test year is representative and fair to recover from ratepayers. My Exhibit No. \_\_  
22           (JH-3), page 2 shows the calculation of the Staff adjustment.

1                   The difference between the Company and Staff incentive pay expense  
2 included in Adjustment 4.3, General Wage Increase – Pro Forma is \$26,769 for  
3 Washington operations. The net effect of Staff’s Adjustment 4.3 decreases  
4 Washington net operating income by \$143,943.

5  
6           **B.     Adjustment 6.1, Hydro Decommissioning**

7  
8   **Q.    Please describe Staff proposed Adjustment 6.1 Hydro Decommissioning.**

9   A.    The Staff adjustment differs from the Company’s because Staff corrected the  
10 Company’s adjustment by including East Control Area Accruals and by updating  
11 actual Spend amounts. The Company provided the information necessary to make  
12 these corrections in response to Staff Data Request 233, 1<sup>st</sup> Supplemental.

13  
14           **C.     Adjustment 7.1, Interest True Up**

15  
16   **Q.    Please describe Staff proposed Adjustment 7.1, Interest True Up.**

17   A.    Staff’s proposed Adjustment 7.1, Interest True Up calculates the tax effect on  
18 interest using Staff witness Elgin’s recommended weighted average cost of debt  
19 applied to the Staff recommended level of rate base. The only difference between  
20 the Company and Staff adjustments relates to differences in those inputs.

21                   The Federal income tax effect of the restated level of interest for the test  
22 period increases Washington net operating income by \$531,821 in total under Staff’s

1 adjustment (restating adjustment of \$318,765 and pro forma adjustment of  
2 \$213,056). My Exhibit No. \_\_ (JH-2), page 11 and 19 shows the calculation.

3

4 **D. Adjustment 9.1, Production Factor**

5

6 **Q. Please describe Adjustment 9.1, Production Factor.**

7 A. The production factor is used to adjust generation-related components of the revenue  
8 requirement to test period expense and balance levels. The production factor is  
9 calculated by dividing Washington's normalized historic retail load by the  
10 Washington pro forma load for the 12-months ending December 2014. This factor is  
11 then applied to the generation-related components of the revenue requirement, such  
12 as Net Power Costs (Adjustments 5.1 and 5.1.1) and Major Plant Additions  
13 (Adjustment 8.4).

14

15 **Q. Do you agree with the Company's methodology for calculating the production  
16 factor?**

17 A. Yes. The Company's methodology decreases test year net operating income and  
18 increases test year rate base, due to the decreased load forecast for the rate year.  
19 This is consistent with prior Commission treatment that applied a production factor  
20 adjustment when loads were projected to decrease during the rate year.<sup>2</sup>

21

22 **Q. How does Staff's adjustment differ from the Company's Adjustment 9.1?**

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<sup>2</sup> *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11 at ¶¶225-226 (April 2, 2010).

1 A. The difference between Staff and Company adjustments arises only from differences  
2 in the corresponding adjustments for Net Power Costs and Major Plant Additions.  
3 As I noted earlier, changes in allocation factors and in the included plant affect these  
4 adjustments. Staff witnesses David C. Gomez and Christopher R. McGuire explain  
5 the underlying adjustments.

6 Staff Adjustment 9.1 decreases Washington net operating income by  
7 \$1,373,296 and increases rate base by \$368,706. The calculation is shown on  
8 Exhibit No. \_\_ (JH-3), page 2.

9

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

11 A. Yes.