**EXHIBIT NO. \_\_\_(JT-1T)   
DOCKET NO. UE-111190   
WITNESSES:  R. BRYCE DALLEY, MICHAEL D. FOISY, DONALD W. SCHOENBECK, CHARLES EBERDT,  
LEA DAESCHEL**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,  **Complainant,**  **v.**  **PACIFICORP d/b/a PACIFIC POWER AND LIGHT COMPANY,**  **Respondent.** | DOCKET UE-111190 |

**PREFILED JOINT TESTIMONY OF**

**R. BRYCE DALLEY, MICHAEL D. FOISY, DONALD W. SCHOENBECK, CHARLES EBERDT, LEA DAESCHEL**

**SUPPORTING STIPULATION**

**FEBRUARY 21, 2012**

**PREFILED JOINT TESTIMONY  
SUPPORTING SETTLEMENT STIPULATION**

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**PREFILED JOINT TESTIMONY   
SUPPORTING STIPULATION**

# I. INTRODUCTION

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony recommends that the Washington Utilities and Transportation Commission (Commission) approve the Settlement Stipulation (Stipulation) in this case among PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or the Company); Staff of the Washington Utilities and Transportation Commission (Staff); the Public Counsel Section of the Washington State Attorney General’s Office (Public Counsel); the Industrial Customers of Northwest Utilities (ICNU); and the Energy Project[[1]](#footnote-1) (individually, Party; collectively, Parties ). Because all parties to this docket support the Stipulation, it is a “full settlement” pursuant to WAC 480-07-730(1).[[2]](#footnote-2) The Stipulation culminates a significant expenditure of time and effort by the Parties and the Parties submit that approval of the Stipulation is consistent with the public interest. The purpose of this Joint Testimony is to present the common recommendation of the Parties and request that the Commission approve the Stipulation in its entirety.

Q. Please state your names, titles, and the party you represent in this matter.

A. My name is R. Bryce Dalley. I provide this testimony on behalf of PacifiCorp. I am Director, Regulatory Affairs and Revenue Requirement for PacifiCorp. Please see Exhibit No. \_\_\_(RBD-1T) filed on July 1, 2011, for testimony describing my education and relevant experience.

My name is Michael D. Foisy. I am a Regulatory Analyst employed by the Commission. I represent Staff in this filing. Exhibit No. \_\_\_ (MDF-1CT) dated January 6, 2012 describes my education and experience.

My name is Donald W. Schoenbeck. I provide this testimony on behalf of ICNU. I am a principal at Regulatory and Cogeneration Services, Inc. Please see Exhibit No. \_(DWS-1CT) filed on January 6, 2012 for testimony describing my education and relevant experience.

My name is Charles Eberdt.  I am the director of the Energy Project.  I represent the interests of the three agencies who provide program eligibility certification for the Company's Low Income Bill Assistance (LIBA) program.  My qualifications are listed in Exhibit No. \_\_ (CME-2) which was filed in this matter with my initial testimony.

My name is Lea Daeschel and my business address is 800 Fifth Avenue, Suite 2000, Seattle, Washington, 98104. I am employed as a Regulatory Analyst with the Public Counsel Section of the Washington Attorney General’s Office.

**Q. Ms. Daeschel, please provide information pertaining to your educational background and professional experience.**

**A.** I received a B.A. in International Studies from the University of Oregon in 2006. In 2008, I received a Masters in Public Administration from Portland State University. Since joining Public Counsel in August 2008, I have worked on a wide range of energy issues, including review and evaluation of utility conservation programs, decoupling mechanisms, service quality, low-income rate assistance programs, renewable energy credits, integrated resource planning, and other analyses of electric and natural gas general rate case and tariff filings before the Commission. In addition, I have presented before this Commission at Open Meetings on various issues, and testified as part of the settlement panel in Avista’s 2010 general rate case, Docket Nos. UE-100467 and UG-100468 and Avista’s 2011 general rate case, Docket Nos. UE-110876 and UG-110877.

# II. BACKGROUND

Q. Please describe the Company’s initial filing in this proceeding.

A. On July 1, 2011, PacifiCorp filed a general rate case requesting a revenue increase of $12.9 million, or 4.3 percent. The filing was based on an historic twelve-month period ended December 31, 2010. In particular, net power costs reflected the normalized pro forma costs for the 12-month period ending May 31, 2013, the rate effective period in this case, scaled back to the historic test period using the production factor.[[3]](#footnote-3) The Commission suspended the filing and commenced discovery by Order 01, dated July 28, 2011, with the suspension period ending on May 31, 2012.[[4]](#footnote-4)

Q. Did the Parties conduct discovery on the Company’s filing?

A. Yes. Pursuant to Order 01, Staff, Public Counsel, and ICNU conducted extensive discovery on the Company's direct testimony. The Company responded to 638 data requests, or over 1,660 data requests including sub-parts. The Company also served several sets of discovery on the responsive testimony of Staff, ICNU and Public Counsel.

**Q. Please describe the responsive testimony of non-Company Parties filed in this case.**

A. Staff, Public Counsel, ICNU and the Energy Project filed Responsive Testimony on January 6, 2012. Staff filed testimony on policy, various revenue requirement issues, net power costs, cost of service and rate design, and low-income issues. Staff recommended a revenue requirement increase of $3.3 million. Public Counsel filed testimony on revenue requirement issues, recommending adjustments of $3.1 million. ICNU filed testimony on revenue requirement issues and net power costs, recommending adjustments of $3.7 million and $10.1 million, respectively. The Energy Project filed testimony supporting a plan to resolve the low-income issues raised in this case, a plan also outlined in the testimony of Staff.

**Q. How did this Stipulation develop?**

A. The Parties gathered for an initial settlement conference on November 18, 2011, but were unable to reach settlement at that time. On February 1, 2012, the Parties participated in a second settlement conference facilitated by Settlement Judge Gregory J. Kopta. At the settlement conference, the Parties presented proposals and counter-proposals culminating in an agreement to a comprehensive settlement of this case in the form of the Stipulation.

# III. THE SCOPE OF THE STIPULATION AND ITS KEY ASPECTS

Q. Please describe the scope of the Stipulation and its key aspects.

A. The Stipulation is a full settlement of the issues presented in this proceeding, although Parties have reserved certain positions related to the disposition of the Company’s 2010 renewable energy credit (REC) revenues. Thus, the Stipulation does not address or impact 2010 REC revenues. The Stipulation recommends a revenue requirement increase lower than that proposed by the Company in its original filing. The Stipulation sets forth the Parties’ agreements on the Company’s rate spread and rate design. The Stipulation also sets forth agreements related to the Company’s Low Income Bill Assistance Program, the filing of the Company’s next general rate case, the development of a collaborative process to address specific issues identified in the Stipulation, timing of the review process for the West Control Area inter-jurisdictional allocation methodology, and the treatment of revenues from the sale of RECs. In addition, the Stipulation resolves a request made in PacifiCorp’s direct testimony for a reserve account related to property insurance expense and addresses Public Counsel’s request that PacifiCorp prepare a report regarding executive compensation.

Revenue Requirement Increase

Q. Please describe the revenue requirement increase agreed upon by the Parties.

A. The Parties request that the Commission authorize PacifiCorp to implement rate changes designed to increase annual revenues from Washington customers by $4.5 million, or 1.5 percent.

**Q. When will this rate increase be effective?**

A. The Parties recommend that the agreed rate changes be effective on June 1, 2012.

**Q. Does the rate increase reflect specifically agreed upon updates and adjustments to the Company’s filed case?**

A. Yes. The specifically agreed upon updates and adjustments are set forth in Section III, Paragraph A of the Stipulation and the specific revenue requirement impacts are detailed in Appendix A to the Stipulation. These specific updates and adjustments were accepted only as part of a comprehensive settlement stipulation that resolves all issues associated with the Company’s original filing. As such, they should be viewed in the broader context of the total settlement stipulation. The Parties agree that costs and revenues will not be subject to further updates under this Stipulation.

**Q. Please describe the updates and corrections reflected in the Stipulation.**

A. The Stipulation reflects three updates and corrections identified in the discovery process, including a $2.9 million reduction in revenue requirement associated with net power costs, a $2.2 million reduction in revenue requirement related to an increase in revenues related to a new Seattle City Light contract, and a $0.06 million correction to remove a non-recurring Demand Side Management (DSM) expense.

**Q. Please describe the specific adjustments reflected in the Stipulation.**

A. The adjustments fall into the following general categories: (1) legal expense; (2) self-insurance; (3) administration and general expense; (4) miscellaneous rate base; and (5) net power cost expense. The last category reflected the largest adjustment, rejecting the Company’s proposed update to its coal costs, a revenue requirement decrease of $1.49 million.

**Q. Taking into account the update to net power costs and the adjustment removing the coal cost update, what are the resulting net power costs?**

A. These updates and adjustments produce west control area net power costs of $548.6 million and Washington allocated net power costs of $124.0 million.

**Q. In addition to the specific adjustments, does the Stipulation also include a non-specific adjustment?**

A. Yes. The Parties agreed to a general, non-specific adjustment that reduces the revenue requirement by an additional $1.2 million. The Parties agreed on this amount as part of the overall compromise of the issues in this case.

**Q. Does this proposed revenue increase represent a reasonable result in this case?**

A. Yes, for the reasons outlined below by each Party. While the Parties agreed to the amount of these specific updates and adjustments, unless specifically set forth in the Stipulation, the Parties do not necessarily agree on how the amount of the specific updates and adjustments were determined.

**Q. Does the Stipulation include an adjustment related to the Company’s cost of capital?**

A. No. The Company’s initial filing did not propose any change to the Company’s cost of capital set in Order 06 in Docket UE-100749 other than an update to reduce the Company’s cost of debt from 5.89 percent to 5.76 percent and an associated reduction in the overall rate of return from 7.81 percent to 7.74 percent. No party objected to this approach to cost of capital in their responsive testimony or sought adjustments to it as a part of the Stipulation. Therefore, the Parties agree that, for ratemaking purposes in Washington, the Company’s capital structure and return on equity from Docket UE-100749 will remain unchanged, while the Company’s cost of debt and overall rate of return have been updated as just noted.

**Rate Spread and Rate Design**

**Q. Have the Parties agreed on a rate spread?**

A. Yes. The Parties agree that the increase will be spread to all rate schedules, other than street lighting, on an equal percentage of revenue basis. Street lighting schedules will receive no increase. Stipulation Appendix B to this Joint Testimony shows the results of the agreed rate spread by rate schedule.

**Q. Have the Parties reached an agreement on the proposed rate design?**

A. Yes. The Parties agree to request that the Commission accept the Company’s rate design proposal that applies an equal percentage increase to all billing elements as set forth in the Company's direct testimony in this proceeding[[5]](#footnote-5) with one exception: the residential basic charge will remain at $6.00 per month.[[6]](#footnote-6) Stipulation Appendix B demonstrates this rate design, shows the monthly impact of the rate change on residential customers and contains the workpapers reflecting the rates designed to collect the $4.5 million rate increase. Appendix C contains the proposed tariff schedules designed to collect the $4.5 million rate increase.

**Low-Income Bill Assistance**

**Q. Please describe the low-income issue raised by the Parties and the agreement reached by the Parties on that issue.**

A. The Parties agree to accept a proposal by Staff and the Energy Project for a five-year plan to gradually increase aspects of the Low Income Bill Assistance (LIBA) Program, as described in the testimony of Staff witness Deborah J. Reynolds[[7]](#footnote-7) and Energy Project witness Charles Eberdt[[8]](#footnote-8) (Five-Year LIBA Plan). The key elements of the Five-Year LIBA Plan are the following:

* Certify a share of the client population to be eligible for a two-year period. Beginning in 2012, 10 percent of clients will be certified as eligible for a two-year period, and in each of the following three years, an additional five percent of clients will be certified for two years up to 25 percent in 2015. Up to 40 percent of the customers participating in 2016 will be in some phase of two-year participation.
* Increase agency funding for each client certification to $65.00 following approval of the Stipulation, with additional increases of $2.50 each year after 2012 up to $75.00 in 2016.[[9]](#footnote-9)
* Increase the average benefit to low income bill assistance recipients by 10 percent following approval of the Stipulation, with additional increases to the average benefit of two times the percentage increase of any future residential general rate increase between 2013 and 2016.
* The residential surcharge in Schedule 91 will increase from $0.55 to $0.63 per month when new rates go into effect. Thereafter, absent a pending general rate case filing, the Company will file for an increase to the Schedule 91 monthly surcharge around May 1 of each year to reflect the increased funding requirements specified in the Stipulation. The proposed increases to the Schedule 91 monthly surcharges will be applied on an equal percentage basis to all rate schedules. The Parties agree that the Company’s Schedule 91 filings under the Five-Year LIBA Plan will be limited in scope to implementing the Plan.
* Stipulation Appendix B demonstrates the rates associated with implementation of the Five-Year LIBA Plan in this case.

The Parties also agree that the Five-Year LIBA Plan resolves all LIBA Program issues among the Parties through the duration of the Plan.  The Parties agree to support or not oppose the changes to the LIBA Program in the Five-Year LIBA Plan, as long as the changes are consistent with this Stipulation.  In particular, the Parties agree to support or not oppose the Company’s annual May Schedule 91 filings outside of a general rate case, and the Schedule 17 and 91 and other tariff filings necessary to increase the surcharge within a general rate case, as necessary to implement the Five-Year LIBA Plan.  This proposal is intended to free parties from the need to file testimony about LIBA in each general rate case between now and 2016.

**Future Filings by the Company and Post-Stipulation Collaborative Process**

**Q. Did the Company agree to forgo filing a general rate case for a period of time in the Stipulation?**

A. Yes. The Company agrees that it will not file a general rate case before January 1, 2013. The Parties agree that this provision does not preclude the Company from filing requests for deferred accounting or other accounting petitions before January 1, 2013. The non-Company parties reserve their right to take any position they deem appropriate in response to such a petition, including opposing the petition.

**Q. Have the Parties agreed to further collaboration prior to the Company’s next rate case filing?**

A. Yes. In consideration of the Company’s agreement to delay its next general rate case filing, the Parties have agreed to engage in a collaborative process to review the issues listed in Section III, Paragraph E of the Stipulation. The Parties agree to work cooperatively to ensure that this process is substantively complete by November 1, 2012, to allow the results to be incorporated into the Company’s next general rate case filing. This process does not require Parties to reach agreement and there may be issues that ultimately require Commission resolution. Within 30 days of the issuance of the Commission order approving this Stipulation, the Parties agree to establish milestones to meet this schedule. If the agreed-to milestones are not met or the collaborative process ceases, the Company may raise its concerns to the Commission and may request appointment of an administrative law judge to facilitate the collaborative process.

**Q. What are the issues that the Parties agreed to address in this collaborative process?**

A. The Parties agreed that this collaborative process will:

* Consider methods to streamline the regulatory process;
* Evaluate options for an equitable and balanced power cost adjustment mechanism;
* Evaluate the West Control Area inter-jurisdictional allocation methodology and consider alternative options;
* Consider alternative test period conventions;
* Consider alternatives to the application of the production factor;
* Consider the content of and approach to attrition studies;
* Evaluate the AURORA power cost dispatch model for use in PacifiCorp’s future Washington general rate cases or other net power cost filings where the Company currently relies upon the GRID power cost dispatch model; and
* If necessary, review the Company’s approach to modeling market caps for potential alternate approaches or modeling refinements.

**Q.** **Please elaborate on how the collaborative process will address the West Control Area inter-jurisdictional allocation methodology.**

A. In Docket UE-060817, the Commission required a review of the West Control Area inter-jurisdictional allocation methodology after five years. In footnote 444 of Order 06 in Docket UE-100749, the Commission noted that this review was due in approximately June 2012. The Parties agree to conduct this review as a part of the collaborative process set forth in Section III, Paragraph E of the Stipulation, with PacifiCorp filing the results in its next rate case filing. As a part of the Commission’s approval of this Stipulation, the Parties ask the Commission to extend the review date until January 2013.

**REC Revenues**

**Q.** **Please explain the Parties agreement with regard to the treatment of REC revenues.**

A. This Stipulation does not contain REC revenues. Section III, Paragraph G of the Stipulation explains that the Stipulation does not preclude any Party from seeking clarification or reconsideration in Phase 2 of Docket UE-100749 of whether the Commission’s order in that docket would allow customers to receive of some or all of the 2010 REC revenues in Docket UE-111190. If the Commission’s final order in Phase 2 of Docket UE-100749 or order on clarification or reconsideration directs or allows further litigation on the disposition of the Company’s 2010 REC revenues in Docket UE-111190, Parties may raise this issue in Docket UE-111190 consistent with that order.  Except as expressly specified, the Parties agreed that no other issues related to REC revenues are resolved by this Stipulation.

**Property and Liability Insurance Expense**

**Q. Have the Parties reached an agreement on calculating property and liability insurance expenses?**

A. Yes. PacifiCorp agrees that it will not implement its self-insurance proposal to establish a reserve account related to property insurance expense as proposed in its direct testimony in this case.[[10]](#footnote-10) The Parties agree instead to calculate property and liability expense in this and future proceedings using a six-year average of actual damage expenses. The Parties also agree that PacifiCorp may file for deferred accounting of extraordinary claims, if any.

**Executive Compensation Report**

**Q. Has the Company agreed to develop an executive compensation report?**

A. Yes. The Company agrees to work with Public Counsel, and other Parties if requested, to develop a report on executive compensation that includes the information that the Commission required of Avista Corporation in Order 06 in Dockets UE-110876 and UG-110877. PacifiCorp will provide the report to the Parties no later than 30 days prior to the filing of its next general rate case.

# IV. THE STIPULATION SATISFIES THE PARTICIPATING PARTIES’ INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST

## Q. Please explain why the Settlement Stipulation satisfies the interests of Staff.

A. Staff conducted a complete review of the case presented by the Company. During the course of the review, Staff visited the Company’s Portland office to view actual documents and speak directly with Company personnel. Staff conducted numerous telephone conferences with Company personnel as well as staff members from both Public Counsel and ICNU. Staff reviewed and analyzed in excess of 600 data responses submitted by all parties. Staff completed a complete analysis of the results of operations and completed its own revenue requirement model. Staff’s analysis reviewed other sources of revenue, legal expenses, automated meter reading expenses, insurance expense, and power costs. Based on Staff’s extensive review of this filing, Staff believes the resolution of this case on the terms described in the Settlement Stipulation is consistent with the public interest, satisfies the interests of Staff, and meets the Commission’s settlement approval standard.

**Q. What is the Commission’s settlement approval standard?**

A**.** The Commission’s settlement approval standards are set forth in WAC 480-07-750(1). The Commission will approve a settlement “when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest [.]”

**Q. How is this settlement consistent with the public interest?**

A. This settlement provides rates that are fair, just, and reasonable to customers of PacifiCorp, as well as providing the Company an opportunity to earn a fair return on its investments. Additionally, the settlement contains conditions that assure Company customers that there will be no new general rate increase, after implementation of this settlement, for a period of at least seven months and possibly up to eighteen months. The effective date of the rate increase in this settlement is June 1, 2012. The Company has also agreed to and all parties have accepted a stay-out period that prevents the Company from filing a new general rate case until January 1, 2013. Thus, customers may not see another rate increase until December 2013—assuming that the Company were to ask for and could justify such an increase.

**Q. How does this settlement compare to the revenue requirement submitted by Staff in its responsive testimony?**

A. In Exhibit No. \_\_\_ (MDF-1CT), Staff recommended that the Company receive an increase in revenues of $3.3 million. This revenue increase equates to a 1.1 percent rate increase. The settlement provides for an increase of $4.5 million, an increase of 1.5 percent. When compared to the Company’s original filing requesting a $12.9 million revenue increase, an increase of 4.3 percent, Staff believes this settlement clearly is favorable to the customer. The settlement stipulation represents compromise by all Parties, but closely approaches the revenue requirement calculated by Staff. Through compromise, customers will see an additional 0.4 percent increase above Staff’s original position, but this will be more than compensated for by the fact that further litigation cost will be avoided and the extended stay-out period has been negotiated.

**Q. Please briefly discuss the adjustments that all Parties agreed upon and explain how the results satisfy Staff’s interests.**

A. All parties compromised on a number of items including revenue, O&M expenses, net power costs, rate base and other issues.

**Q. Briefly discuss Staff’s position on net power costs**.

A. Consistent with prior rate cases, the Company has provided all parties with

updated power costs as they relate to this filing. Due to the continuing decline in the electric and gas forward market prices, revenue requirements are significantly lower than when the Company first submitted the filing to the Commission. This decrease in power costs and the subsequent related decrease in revenue requirement will substantially contribute to the lower rate increase.

**Q. How does the self-insurance adjustment benefit customers?**

A. Of particular significance for Staff is the self-insurance adjustment. PacifiCorp’s original adjustment replaces its captive insurance with a self-insurance proposal. The self-insurance would apply to its third-party liability, transmission and distribution (T&D) property and non-T&D property. This adjustment eliminates the self-insurance and provides for using a six-year average of actual damage expenses. Staff views this as a means to support the Company’s decision to eliminate the captive insurance and replace it with a normalized level of expense. This method allows Staff to perform sufficient audits and reviews of all relevant costs in any future rate case.

**Q. How do the O&M adjustments satisfy the interests of Staff?**

A.Staff proposed reallocating legal expenses to more closely follow the directives in the West Control Area (WCA) Allocation Handbook. Prior to this adjustment expenses were often assigned on a system basis. Staff followed the guidelines of the handbook to assign expenses to more accurately assign the allocation factors. Staff also reviewed the Company’s memberships and subscriptions. This resulted in an adjustment that removed certain of these expenses.

**Q. Please explain why Staff did not support the update to coal costs.**

A. The Company submitted a proposal to update coal cost during its last power cost update. Unlike gas and electric costs, there is no simple source to verify the costs of coal. Staff did not have adequate time to sufficiently review and analyze the data supplied.

**Q. Is Staff satisfied with the Low-Income Bill Assistance (LIBA) agreement?**

A. Yes. This proposal provides for greater benefits to low-income earners serviced by PacifiCorp. The plan creates greater efficiencies in the program by certifying clients for a two-year period. The five-year plan can be conveniently applied to the LIBA program during any rate cases over the next five years. This program also increases agency funding by $2.50 per client certification for each of the next five years.

**Q. What is Staff’s view of the collaboration process identified in the settlement stipulation?**

A. Although this Stipulation mandates a stay out period until January 2013, this collaboration offers the opportunity to address and resolve several issues, many of which concern power costs. Docket UE-060817 directed that the parties review the West Control Area inter-jurisdictional allocation after five years. Staff expects to take an active role during this stay-out period to work with all parties to review and if necessary improve upon this allocation methodology. Staff supports the request to extend the review of this issue to allow all parties to review this issue along with the other issues listed in the Stipulation.

**Q. The settlement also addresses REC revenues. What is Staff’s position on this issue?**

A. Staff has addressed this issue in Docket UE-100749. In that filing, Staff’s position is that all REC revenues from January 1, 2009, forward should be returned to the customers. The Stipulation in this case preserves that position by allowing a party to seek clarification or reconsideration in Docket UE-100749 of whether the Commission’s order in that docket would allow customers to receive some or all of the 2010 REC revenues in Docket UE-111190. If the Commission’s final order in Phase 2 of Docket UE-100749 or order on clarification or reconsideration directs or allows further litigation on the disposition of the Company’s 2010 REC revenues in Docket UE-111190, Parties may raise this issue in Docket UE-111190 consistent with that order.

**Q. Does Staff fully accept the conditions of this Stipulation?**

A. Yes, Staff recommends that the Commission accept this settlement in its entirety, as being in the best interest of the ratepayers, satisfying the interests of Staff, and reaching a result that is consistent with the public interest.

**Q. Does this complete your testimony on behalf of Staff?**

A. Yes.

## Q. Please explain why the Stipulation satisfies the interests of Public Counsel.

**A.** The Settlement Stipulation is the result of compromises by all Parties and was negotiated as a comprehensive package. Public Counsel believes the Stipulation taken as a whole, and with the consideration of the issues Public Counsel intended to present if the case were to be fully litigated, provides a fair and reasonable outcome that is in the public interest, and beneficial to PacifiCorp’s electric customers. The Stipulation proposes an overall revenue increase which significantly reduces the Company’s revenue request from $12.9 million or 4.5 percent, to $4.5 million or 1.5 percent. The Stipulation also provides that rates would not go into effect rate until June 1, 2012, and in addition, the Company is barred from filing for an additional rate increase until January 1, 2013.[[11]](#footnote-11) The Stipulation also rejects the Company’s proposal for “self insurance” and includes adjustments for a number of administrative and general costs items Public Counsel proposed in its direct testimony. In addition, the Stipulation maintains the residential fixed customer charge at its current level of $6.00 and includes a provision which requires the Company to file a report on executive compensation practices. Lastly, the Stipulation reserves the rights of the Parties to make proposals for the treatment of 2010 REC revenues.

**Q. Please describe Public Counsel’s concerns with the impact of *any* rate increase in the current economic environment.**

**A.** Public Counsel recognizes that PacifiCorp’s Washington service territory includes some of the counties hardest hit by the ongoing economic downturn. Yakima and Walla Walla counties have the fifth and seventh highest rates of poverty in the state respectively[[12]](#footnote-12), thus *any* increase to electric rates creates hardship for PacifiCorp customers. In addition, we recognize that this increase comes on the heels of a 12 percent increase which went into affect in early 2011 and is still being absorbed by PacifiCorp’s customers. The terms of the Stipulation lower the overall increase, maintain the current monthly basic charge and include a rate case “stay-out” period. In addition, the Stipulation includes a five year plan to increase low-income bill assistance by ten percent with additional increases to the average benefit of two times the percentage increase of any future residential rate increases.[[13]](#footnote-13) We believe these provisions will help mitigate this hardship, however, we hope that PacifiCorp will aggressively manage its costs going forward to make any future rate increases less frequent if filed and minimal in amount.

**Q. Please describe why the rate case “stay out” provision and the rate effective date are key components of the Stipulation from Public Counsel’s perspective.**

A. A key component of the Stipulation from Public Counsel’s perspective is the agreement that the Company is not permitted to file another general rate case until January 1, 2013. Under the statutory time frame in this case, had the case been fully litigated the Company would have had the ability to file for an additional rate increase by May 31, 2012, which is the suspension date in this case. This “stay out” provision allows for approximately seven months of rate stability for customers as well as a reprieve from continuing rate hikes. This provides a valuable respite in the current economic climate and an era of back-to-back annual rate cases. In addition, the rate increase in the Settlement Stipulation will take effect on June 1, 2012, about the same time a Commission order in the rate case would otherwise have been expected, which provides an additional benefit to customers.

**Q. Why is the removal of the Company proposed “self-insurance” important to Public Counsel?**

A. Public Counsel had a number of concerns with the Company’s proposal for “self insurance” in this case. These are outlined in detail in Public Counsel witness Bion Ostrander’s direct testimony in this case, BCO-1CT. The Settlement Stipulation rejects the Company’s proposal for “self-insurance” and removes $384,000 in costs associated with this adjustment. Going forward, the Company will use a six-year average of actual damages and the Company will not establish a reserve account. This agreement addresses Public Counsel’s concern with prefunding the cost of future damages through rates and with the concept of utility “self insurance” as a matter of principle.

**Q. Please describe the other adjustments for miscellaneous A&G type expenses which are integral to the Stipulation from Public Counsel’s perspective.**

A. The Settlement Stipulation removes costs for certain A&G type expenses that Public Counsel opposed in its direct testimony. These included certain advertising costs, charitable contributions, a portion of employee meals and entertainment costs, certain legislative and lobbying cost, and a portion of membership fees and dues. The Stipulation represents a compromise among differing points of view on these issues, and while these adjustments do not amount to a large reduction in revenue requirement, they are inappropriate for inclusion in retail rates.

**Q. How does the Stipulation address Public Counsel’s concern with the increase to the residential fixed customer charge?**

A. PacifiCorp proposed to increase the residential fixed customer charges to $6.25 from the currently authorized $6.00 charge. The Stipulation includes no increase to the electric fixed customer charge. The $6.00 residential fixed customer charge was approved by the Commission in the Company’s 2010 general rate case, less than one year ago. In that case the Commission acknowledged the rate burden associated with increasing the fixed customer charge, particularly in difficult economic times, and the perception of many customers that any increase to the fixed customer charge is an additional increase above and beyond rates approved in a case.[[14]](#footnote-14) We are still in the midst of difficult economic times, and thus maintaining the basic customer charge at its currently authorized level with no increase is appropriate and in the public interest.

**Q. Were there any other provisions in the Stipulation that are particularly important to Public Counsel?**

A. Yes, the Stipulation includes a provision which requires PacifiCorp to file a report on the Company’s executive compensation accounting and practices prior to filing its next general rate case. These specific requirements in the Settlement Stipulation mirror those ordered by the Commission for Avista Utilities in Dockets UE-110876 and UG-110877.[[15]](#footnote-15) Public Counsel has concerns with PacifiCorp’s overall level of compensation for its executives and the allocation of this compensation across utility and non-utility operations. The report required under the Settlement Stipulation will provide parties with additional information needed to analyze the Company’s executive compensation practices and offer recommendations on this issue in future cases.

**Q. Please describe the treatment of REC revenues in the Stipulation.**

A. In Phase 2 of Docket UE-100749, the Commission is considering the proper treatment of PacifiCorp’s REC revenues for periods subsequent to January 1, 2009, including 2010 REC revenues. This Stipulation includes a term which clarifies that Parties are not precluded from seeking recovery of all or a portion of 2010 REC revenues in this docket following the Commission’s Order in Docket UE-100749 on this issue. This is a very important provision from Public Counsel’s perspective as it ensures a Party’s ability to advocate for the recovery of 2010 REC revenues in this docket, if necessary. These revenues are potentially very substantial and must properly be returned to customers.[[16]](#footnote-16)

## Q. Please explain why the Stipulation satisfies the interests of ICNU.

A.ICNU supports this Stipulation as a reasonable compromise of the positions in this docket. ICNU does this in the interest of eliminating further litigation in this docket and minimizing its expenses. Of critical importance to ICNU and its members is the Company’s commitment to a “stay out” provision. The Company has committed to not file a rate case in Washington prior to January 1, 2013.

. This commitment, combined with the current suspension period and any future suspension period, gives customers rate stability or rate certainty for almost two years. This is key to ICNU’s support, given the frequency of rate cases over the past five or six years.

## Q. Please explain why the Stipulation satisfies the interests of the Energy Project.

A. In Order No. 6 from the Company's 2010 general rate case, Docket No.

UE-100749, the Commission acknowledged the need to increase funding for the Low-Income Bill Assistance program, but directed the Company, Staff, the Energy Project, and the agencies who certify customers for participation in the program to meet to resolve issues that remained. Those issues included the level of benefits customers received, increasing the number of customers who can participate, and the fee agencies are paid to qualify households for the program. The Energy Project and the agencies it represents fully support the creative resolution of all of those issues as set forth in this settlement Stipulation.

**Q. Please explain why the Stipulation satisfies the interests of PacifiCorp.**

A. When the Company decided to file this case as a “make-whole” filing, it did so with the hope that an all-party settlement could be reached.  The Company believes that the compromises presented in the Stipulation are a balanced solution given the issues raised by other parties in responsive testimony.  The Company’s initial revenue requirement increase has been adjusted downward by $5.2 million to reflect updates to the case related to a reduction in the Company’s net power costs, an offset for a recently re-negotiated contract that increases ancillary services revenues, and a reclassification of DSM expenses that should have been recorded to the DSM balancing account.  The Company provided these updates through the discovery process.  The additional $3.2 million of adjustments that further decrease the revenue requirement in the Stipulation reflect a reasonable compromise of the contested issues in this case.  The Stipulation includes an itemization of the areas of compromise, where possible, with a $1.2 million unspecified adjustment.

The Company recognizes that such compromises can replace the cost and risk of litigation with efficiency and certainty.  The Company also agreed to a seven month rate case stay-out period in order to undertake a collaborative process designed to address a number of important policy issues prior to the Company’s next general rate case filing.  The Company is hopeful that this process will allow for resolution of some of the areas listed in the Stipulation, which will further mitigate the need for litigation.  The Company appreciates the willingness of Staff and other parties to commit resources to this process.  For these reasons, the Company was willing to accept a revenue increase that was lower than it requested, along with other concessions from its case position, in return for an all-party Stipulation supporting a 1.5 percent overall rate increase, effective June 1, 2012.

**Q. How are 2010 revenues related to REC sales handled in the Stipulation?**

A. The Stipulation does not contain REC revenues. It is the Company’s hope and expectation that the Commission will explicitly address the treatment of 2010 REC revenues in Phase 2 of Docket UE-100749, so as to avoid any additional litigation related to 2010 REC revenues. The Stipulation allows Parties to address 2010 REC revenues in this docket only if the Commission, in Phase 2 of Docket UE-100749, directs or allows further litigation on the disposition of the Company’s 2010 REC revenues in this case.

## V. CONCLUSION

## Q. What action do the Parties recommend the Commission take with respect to the Stipulation?

A. The Parties recommend that the Commission find that this Stipulation is in the public interest and would produce rates for the Company that are fair, just, reasonable, and sufficient. Accordingly, the Parties recommend that the Commission adopt this Stipulation in its entirety.

**Q. Do the Parties have specific findings they recommend that the Commission make in an order accepting the Stipulation?**

A. Yes. The Parties recommend that the Commission extend the West Control Area inter-jurisdictional allocation methodology review date from approximately June 2012 to January 2013.

Q. Does this conclude your joint testimony?

A. Yes.

1. Comprised of The Energy Project, Opportunity Council, Northwest Community Action Center, and Industrialization Center of Washington. [↑](#footnote-ref-1)
2. The International Brotherhood of Electrical Workers (IBEW Local 125) was required by the Commission to coordinate its participation with Staff and Public Counsel. Staff and Public Counsel support the Stipulation and IBEW Local 125 has received a copy of the Stipulation and has not expressed a separate position. [↑](#footnote-ref-2)
3. The production factor is the ratio of the loads in the historic test period to the loads in the forecast period. [↑](#footnote-ref-3)
4. *Wash. Utilities and Transp. Comm’n v. PacifiCorp d/b/a Pacific Power & Light Co.,* Docket UE-111190, Order 01 (July 28, 2011). [↑](#footnote-ref-4)
5. Griffith, Exh. No. \_\_\_ (WRG-1T) at 3-5. [↑](#footnote-ref-5)
6. Schedule 16 Residential Service and Schedule 17 Low Income Bill Assistance Program – Residential Service. [↑](#footnote-ref-6)
7. Reynolds, Exh. No. \_\_\_ (DJR-1T) at 13-19 and Exh. No.\_\_\_(DJR-3). [↑](#footnote-ref-7)
8. Eberdt, Exh. No. \_\_\_ (CME-1T) and Exh. No. \_\_\_ (CME-3). [↑](#footnote-ref-8)
9. Reynolds, Exh. No. \_\_\_(DJR-3), Column B. [↑](#footnote-ref-9)
10. Dalley, Exh. No. \_\_\_ (RBD-1T) at 16-20. [↑](#footnote-ref-10)
11. Settlement Stipulation, ¶10 and ¶28. [↑](#footnote-ref-11)
12. Exhibit No. BCO-1CT pp. 15-16, Docket UE-111190. [↑](#footnote-ref-12)
13. Settlement Stipulation ¶26. [↑](#footnote-ref-13)
14. Order 06, ¶333, Docket UE-100749. [↑](#footnote-ref-14)
15. Order 06,¶¶38-44 Dockets UE-110876 and UG-110877. [↑](#footnote-ref-15)
16. *Amended Petition of Puget Sound Energy, Inc. For an Order Authorizing the Use of the Proceeds from the Sale of Renewable Energy Credits and Carbon Financial Instruments,* Docket No. UE-070725, Final Order (Order 03), ¶¶ 41-47 (recognizing that, absent unusual or extraordinary circumstances, REC revenues should be credited to ratepayers). [↑](#footnote-ref-16)