

Exhibit No. ___ T (CRM-1T)

Docket UE-130043

Witness: Chris McGuire

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFIC POWER & LIGHT
COMPANY,**

Respondent.

DOCKET UE-130043

TESTIMONY OF

CHRIS MCGUIRE

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Pro Forma Plant Additions

June 21, 2013

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Exhibit No. ____ (CRM-2), Attachment WUTC 262

1 I. INTRODUCTION

2

3 Q. Please state your name and business address.

4 A. My name is Chris R. McGuire. My business address is The Richard Hemstad
5 Building, 1300 S. Evergreen Park Drive S.W., Olympia, WA 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 Conservation and Energy Planning
10 Section of the Regulatory Services Division.

11

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

13 A. I have been employed by the Commission since May 2012.

14

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

16 A. I graduated from the University of Washington in 2002 with a Bachelor of Science
17 degree in Cell and Molecular Biology. I graduated from the University of Colorado
18 in 2010 with Master’s degrees in Business Administration and Environmental
19 Studies. Prior to my employment with the Commission, I held various research
20 analyst positions at the University of Washington, the University of Colorado and the
21 National Renewable Energy Laboratory’s Strategic Energy Analysis Center in
22 Golden, Colorado.

23

1 **Q. What are your responsibilities at the Commission?**

2 A. My responsibilities at the Commission involve analysis of resource acquisition
3 prudence and ratemaking policy, integrated resource planning, energy conservation
4 program development and implementation, and compliance with the conservation
5 and renewable portfolio standards of RCW 19.285, the Energy Independence Act. I
6 have presented Staff recommendations to the Commission at open public meetings,
7 and have participated on a Staff team in prior rate case proceedings.

8

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

10 A. No.

11

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

13

14 **Q. Please explain the purpose of your testimony.**

15 A. My testimony addresses the appropriate ratemaking treatment of significant post-test
16 period capital improvements to Jim Bridger Unit 2 and various hydroelectric projects
17 owned by PacifiCorp d/b/a Pacific Power & Light (“PacifiCorp” or “Company”).

18 These major hydroelectric plant additions are the Swift Fish Collector, Soda Springs
19 Fish Passage, Prospect In-Stream Flow/Automation, and Merwin Fish Collector.

20 The Company witnesses that describe these capital investments are Mark R.
21 Tallman and Dana M. Ralston. Company witness Steven R. McDougal presents the
22 corresponding pro forma rate base and expense adjustments proposed by PacifiCorp
23 in Adjustment 8.4, Major Plant Additions, as shown in Exhibit No. ___ (SRM-3).

1 Staff's corresponding ratemaking adjustments are similarly included in
2 Adjustment 8.4, Major Plant Additions. Staff witness Juliana M. Williams provides
3 a detailed description of the hydroelectric plant improvements and addresses the
4 prudence of these major plant additions in her testimony.

5
6 **Q. Have you prepared any exhibits in support of your testimony?**

7 A. Yes. I have prepared Exhibit No. ___ (CRM-2), which identifies Staff's pro forma
8 adjustments for these major plant additions. My exhibit corresponds to Mr.
9 McDougal's Exhibit No. ___ (SRM-3).

10
11 **Q. Please summarize Staff's recommendation on the appropriate ratemaking
12 treatment for these major plant additions.**

13 A. Commission rules specify that a pro forma adjustment must "give effect for the test
14 period to all known and measurable changes that are not offset by other factors."¹

15 Based on a reasonable application of these criteria in light of relevant
16 Commission precedent, Staff recommends pro forma rate base adjustments for the
17 Soda Springs Fish Passage, the Swift Fish Collector, and the Prospect In-Stream
18 Flow/Automation addition because those projects were in service as of January 11,
19 2013, the date the Company filed this general rate case. Using that same cut-off
20 date, Staff recommends that the Company's pro forma rate base adjustments for the
21 Merwin Fish Collector and the turbine upgrade at Jim Bridger Unit 2 should be
22 rejected in their entirety.

¹ WAC 480-07-510(3)(iii).

1 Staff's recommended pro forma adjustments also correct depreciation
2 expense and accumulated reserve, and remove projected O&M expenses for the
3 Merwin and Swift Fish Collectors. Staff's pro forma rate base and related expense
4 adjustments are presented in column (b) of Exhibit No. __ (CRM-2).

5
6 **III. COMMISSION POLICY ON PRO FORMA RATE BASE ADJUSTMENTS**

7
8 **Q. Please explain the general approach for your recommendation in this case.**

9 A. As a general matter, pro forma rate base additions beyond the test period are
10 inconsistent with historical rate making principles. That is because they violate the
11 matching principle by distorting the historical relationship between rate base,
12 revenues and expenses. However, Staff has acknowledged,² and the Commission
13 has accepted,³ reasonable exceptions to the strict application of historical rate base
14 presentations. In this case Staff seeks to apply these standards again.

15
16 **Q. What is the Commission's general approach to pro forma rate base additions?**

17 A. The Commission's long-established ratemaking practice requires companies filing
18 for revised rates to start with an historical test year,⁴ and typically with an average of
19 monthly averages rate base balance. After the establishment of an average of

² Parvinen, Exhibit No. MPP-1T at 9:16-20 and Kermode, Exhibit No. DPK-1T at 37:1-6, in *WUTC v. Avista Corporation*, Dockets UE-090134, UG-090135 and UG-060518. Mr. Parvinen noted that the Commission has allowed, on a limited basis, pro forma transmission investment related to reliability. Mr. Kermode explains that certain plant projects required by laws, regulations or directives from regulatory bodies are generally acceptable as they do not necessarily have offsetting factors.

³ *WUTC v. Avista Corporation*, Dockets UE-090134, UG-090135 and UG-060518, Order 10 at ¶43 (December 22, 2009).

⁴ *WUTC v. Avista Corporation*, Dockets UE-090134, UG-090135 and UG-060518, Order 10 at ¶41 (December 22, 2009).

1 monthly averages rate base balance, the Commission relies most heavily on its rule
2 specifying that a pro forma adjustment must “give effect for the test period to all
3 known and measurable changes that are not offset by other factors.”⁵
4

5 **Q. What concepts underlie this definition?**

6 A. There are two basic concepts: the “known and measurable” concept and the “offset
7 by other factors” concept.
8

9 **Q. Please explain the “known and measurable” concept.**

10 A. The known and measurable concept requires that the event that causes a change in
11 revenue, expense or rate base must be *known* to have occurred during or after the
12 historical 12 months of actual results of operations, but the effect will be in place
13 during the 12-month period when new rates will be in effect.⁶

14 The actual amount of the change must also be *measurable*. Costs that are
15 documented by actual expenditure, invoice, contract, or other specific obligation
16 usually meet this test. Amounts that will not meet this test are estimates or amounts
17 that are the product of a projection, budget forecast, or some similar exercise of
18 judgment concerning future revenue, expense or rate base.⁷
19

⁵ WAC 480-07-510(3)(iii).

⁶ *WUTC v. Avista Corporation*, Dockets UE-090134, UG-090135 & UG-060518 Order 10 at ¶45 (December 22, 2009).

⁷ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11 at ¶26 (April 2, 2010).

1 **Q. Please explain the “offset by other factors” concept.**

2 A. This concept requires that all factors affecting the known and measurable change
3 must be considered in determining the pro forma level of revenue, expense or rate
4 base. An offsetting factor is one that mitigates the impact of the known and
5 measurable event. If all offsetting factors are not taken into account, that would
6 overstate or understate the known and measurable change and create a mismatch in
7 the relationship of revenues, expenses, and rate base.⁸

8

9 **Q. Are there any categories of post-test period plant additions that generally meet**
10 **the “offset by other factors” criterion?**

11 A. Yes. Assuming capital costs are “known and measurable” and the addition is “used
12 and useful”⁹ for service, there are three general situations when capital additions
13 completed after the test period may be included in rate base: (1) the additions are
14 neither revenue-producing nor expense-reducing assets; (2) the additions do not
15 affect the overall level of operations; and (3) the additions are specifically made to
16 improve the environment or improve the quality of service.¹⁰

17

18 **Q. What has been the Commission practice for determining if capital additions**
19 **occur too far outside of the test year to be considered proper pro forma**
20 **adjustments to rate base?**

⁸ *WUTC v. Avista Corporation*, Dockets UE-090134, UG-090135 and UG-060518, Order 10 at ¶46 (December 22, 2009).

⁹ *WUTC v. Avista Corporation*, Dockets UE-090134, UG-090135 and UG-060518, Order 10 at ¶¶48 and 71 (December 22, 2009).

¹⁰ Robert L. Hahne and Gregory E. Aliff, *Accounting for Public Utilities* § 4.04[4] (2012).

1 A. Commission practice has been historically highly variable. Previous Commission
2 decisions have ranged from rejecting all pro forma plant additions,¹¹ to allowing pro
3 forma plant additions that were projected to be placed into service well into the rate
4 year.¹² In the latter case, however, the Commission endorsed, in principle, the
5 establishment of an “in service” cut-off date for consideration of pro forma plant
6 additions that lies between these two extremes.¹³ The guiding principle in this case
7 was one of practicality, acknowledging that there are limitations to Staff’s ability to
8 perform a continuous audit during the pendency of a rate proceeding.

9 The historically wide range for Commission consideration of pro forma plant
10 additions demonstrates that there is no set rule for the establishment of a cut-off date.
11 The lack of a set rule enables Staff considerable flexibility in developing its
12 recommendation.

14 IV. COMPANY’S REQUESTED ADJUSTMENTS

16 A. Rate Base Adjustments

18 Q. What post-test period plant additions does the Company include in rate base?

¹¹ *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-060266 and UG-060267, Order 08 at ¶¶49-52 (January 5, 2007).

¹² *WUTC v. Avista Corporation*, Dockets UE-090134, UG-090135 and UG-060518, Order 10 at ¶¶80-81 (December 22, 2009).

¹³ *Id.*, at ¶71.

1 A. The Company requests the inclusion of five major plant additions, as described by
2 Company witnesses Tallman and Ralston:¹⁴

- 3 • Soda Springs Fish Passage (“Soda Springs”), completed October, 2012
4 (Tallman);
- 5 • Swift Fish Collector (“Swift”), completed November, 2012 (Tallman);
- 6 • Prospect In-Stream Flow/Automation system (“Prospect”), completed
7 December, 2012 (Tallman);
- 8 • Merwin Fish Collector (“Merwin”), expected completion in December,
9 2013¹⁵ (Tallman); and
- 10 • Jim Bridger Unit 2 turbine upgrade, expected completion in May, 2013
11 (Ralston).

12
13 **Q. Please explain Staff’s standard for evaluating these plant additions in the**
14 **context of the policy discussion you described in Section III of your testimony.**

15 A. There are three distinct aspects of an acceptable pro forma rate base addition. First,
16 any pro forma rate base addition beyond the test year should be “in-service” by
17 January 11, 2013, the filing date of this rate case. Second, any adjustment must be
18 known and measurable by this date. Finally, the pro forma addition to rate base must
19 have no offsetting factors. Staff considered this third aspect sufficiently satisfied as
20 long as the addition: (a) is neither revenue-producing nor expense-reducing; and (b)

¹⁴ The Company defines major plant additions as those that are greater than \$10 million. McDougal, Exhibit No. ___ (SRM-1T) at 22:16-17.

¹⁵ PacifiCorp Response to Staff Data Request 243. This projected in-service date updates the projected multi-phase placement into service presented in the Company’s initial filing in Exhibit No. ___ (MRT-1T). The third and final phase was previously projected to be placed into service in February 2014. The Company now projects the three phases of the Merwin Fish Collector to be placed into service in December 2013.

1 does not affect the overall level of operations. Also, Staff considered that non-
2 generating projects that are required by laws or directives from regulatory bodies are
3 unlikely to have significant offsetting factors other than depreciation expense and
4 associated tax impacts that can be captured in a pro forma adjustment.

5
6 **Q. Why is it appropriate to use the date the Company filed its case as the “in-
7 service” cut-off date for consideration of a rate base addition?**

8 A. The request that any rate base plant addition must have been completed and in
9 service by January 11, 2013, and must be based on known and measurable
10 expenditures as of that date, allows Staff full use of the time allowed by statute to
11 evaluate the adjustments without burdening the process, the record, and Staff’s and
12 the Commission’s limited resources. Allowing pro forma plant additions that are
13 placed into service subsequent to the filing of this rate case is tantamount to
14 requiring a continuous audit during the pendency of the rate proceeding and requires
15 Staff to analyze a continuously evolving case. This is an unreasonable and
16 unnecessary expectation that compromises Staff’s ability to perform a thorough
17 analysis of the proposed adjustments and, in turn, fully assist the Commission in its
18 evaluation of the issues.

19
20 **Q. Which of the Company’s proposed pro forma plant additions were in service
21 prior to the filing of this case on January 11, 2013?**

22 A. The Soda Springs Fish Passage, the Swift Fish Collector, and the Prospect In-Stream
23 Flow/Automation addition were placed into service in October, November, and
24 December of 2012, respectively.

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Q. Were the capital costs for Soda Springs, Swift and Prospect known and measurable as of January 11, 2013?

A. Yes, with one exception. Although the Soda Springs Fish Passage was placed into service in October 2012, the Company has requested recovery of \$1.6 million in estimated final closeout costs for the project through May 2013. These closeout costs remained projections as of January 11, 2013, so they do not satisfy the known and measurable criterion I described in Section III above.

Q. Do Soda Springs, Swift and Prospect have offsetting factors that are unaccounted for in the Company's filing?

A. Not likely. These additions are neither revenue-producing nor expense-reducing assets and do not affect the overall level of operations. Additionally, they were all required by conditions outlined in each facility's respective FERC license.

Q. Please summarize Staff's recommended rate base adjustments based on the "in-service" cut-off date you recommend.

A. Staff recommends adding to rate base the capital costs incurred as of January 11, 2013, for the Soda Springs Fish Passage, the Swift Fish Collector, and the Prospect In-Stream Flow/Automation addition. Any costs, including project closeout costs, projected beyond this date should be excluded from rate base. For the purposes of this case Staff bases its adjustment on the gross plant value less one year of accumulated depreciation for these three facilities.

1 In contrast, the Merwin Fish Collector and the turbine upgrade at Jim Bridger
2 Unit 2 were not in service by the January 11, 2013, cut-off date. Therefore, Staff
3 has rejected the Company's pro forma adjustments for those projects in their entirety.
4 Allowing these projects into rates at this time suffers from all of the process and
5 audit difficulties I addressed earlier.

6
7 **Q. Is the Company disadvantaged unfairly by excluding from rate base at this time**
8 **the turbine upgrade at Jim Bridger Unit 2 and the Merwin Fish Collector?**

9 A. No. Aside from the fact that these projects are projected to be placed in service well
10 beyond January 11, 2013, Staff witness Deborah J. Reynolds recommends an
11 expedited rate filing that will allow the Company to update its rate base in a timely
12 way in 2014, presumably after both plant additions are complete and the associated
13 costs are known and measureable.

14
15 **B. Expense Adjustments**

16
17 **Q. Does the Company include pro forma expense adjustments related to post-test**
18 **period plant additions?**

19 A. Yes. The Company proposes pro forma adjustments to O&M for the Merwin Fish
20 Collector in the amount of \$63,807 and for the Swift Fish Collector in the amount of
21 \$171,056. The Company also pro forms the depreciation expense associated with all
22 five of its requested plant adjustments.

23

1 **Q. Does Staff include the Company's pro forma adjustments to O&M?**

2 A. No. The Company's O&M adjustments are not based on sufficient operational data.
3 The Swift Fish Collector was placed into service in November 2012 so the Company
4 had operational data for only a fraction of a year at the time of its filing. The Merwin
5 Fish Collector is not projected to be in service until December 2013, so the Company
6 has no operational data for that facility whatsoever. Given that the O&M expenses
7 for these projects are derived substantially, if not completely, from projections of
8 future expenditures, they do not conform to the "known and measurable" standard
9 described in Section III of this testimony. Staff's adjustment does not include pro
10 forma O&M expense.

11
12 **Q. Does Staff's proposal include an adjustment to depreciation expense?**

13 A. Yes. Staff includes depreciation expense that corresponds to the annual depreciation
14 for Soda Springs, Swift and Prospect.

15
16 **Q. Does Staff accept the WCA allocation factor of 22.6265 percent the Company
17 uses to allocate major plant additions to Washington?**

18 A. No. Staff uses a Control Area Generation West allocation factor of 22.6055 percent,
19 as described in the testimony of Staff witness Kendra White.

20
21 **Q. Does this conclude your testimony?**

22 A. Yes.

23