**Exhibit No. \_\_\_T (JH-1T)**

**Docket UE-152253**

**Witness: Joanna Huang**

**BEFORE THE WASHINGTON**

**UTILITIES AND TRANSPORTATION COMMISSION**

|  |  |
| --- | --- |
| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,**  **Complainant,**  **v.**  **PACIFIC POWER & LIGHT COMPANY,**  **Respondent.** | **DOCKET UE-152253** |

**TESTIMONY OF**

**Joanna Huang**

**STAFF OF**

**WASHINGTON UTILITIES AND**

**TRANSPORTATION COMMISSION**

***End-of-Period Plant Reserves (Adjustment 6.1–6.1.3)***

***Accelerated Depreciation of Jim Bridger and Colstrip Unit 4 (Adjustment 6.4)***

**March 17, 2016**

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**I. INTRODUCTION**

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

A. My name is Joanna Huang. My business address is the Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington, 98504. My email address is jhuang@utc.wa.gov.

**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 since June 1996.

**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 and Occupation tax returns.

I began my employment with the Commission in June 1996. My work generally includes financial, accounting and other analyses for general rate case proceedings and other tariff filings by the electric and natural gas utilities regulated by the Commission. I attended the National Association of Regulated Utility Commissioners Annual Utility School in 1996 and 2001. In addition, I have attended numerous training seminars and conferences regarding utility regulations and operations.

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

A. Yes. I testified in Puget Sound Energy (“PSE”) general rate cases in Dockets UE-090704 and UG-090705, and Dockets UE-072300 and UG-07230; a PSE Power Cost Only Rate Case (“PCORC”) in Docket UE-130617; a Pacific Power general rate case in Dockets UE-130043 and UE-032065; Avista general rate cases in Dockets UE-140188 and UG-140189, Dockets UE-120436 and UG-120437, Dockets UE-090134 and UG-090135, and Dockets UE-991606 and UG-991607; and a Northwest Natural filing in Docket UG-111233.

I have also participated in Staff’s investigation in the following general rate cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483, Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and Dockets UE-110876 and UG-110877 (all Avista); Docket UG-152286, and UG-060256 (Cascade); Docket UG-080546 (Northwest Natural), and Docket UG-031885 (Northwest Natural); and Dockets UE-070725 and UG-130137 (PSE).

**II. SCOPE AND SUMMARY OF TESTIMONY**

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

A. I present Staff’s response to Pacific Power & Light Company’s (“Pacific Power” or “Company”) proposed adjustments regarding End-of-Period Plant Reserves (Adjustment 6.1–6.1.3) and Accelerated Depreciation of Jim Bridger and Colstrip Unit 4 (Adjustment 6.4).

**III.** End-of-period plant reserveS (ADJUSTMENT 6.1–6.1.3)

**Q. Please describe the Company’s End-of-Period Plant Reserves adjustment (Adjustment 6.1-6.1.3).**

A.This restating adjustment adjusts the Company’s depreciation and amortization reserves for all plant from the June 2015 average-of-monthly-averages (AMA) balance to the June 30, 2015 end-of period (EOP) balance.

**Q. Why did the Company propose this restating adjustment?**

A. The Company proposed using plant in service balances at EOP levels, rather than at AMA levels, to reduce regulatory lag. Plant in service balances at EOP levels are a more accurate reflection of rate base balances during the rate year. EOP is one way to improve the Company’s opportunity to earn the authorized rate of return on its investments.

**Q. Does the Company provide sufficient testimony to support its proposed adjustment?**

A. Yes. In my opinion, Company witnesses Mr. Dalley[[1]](#footnote-2) and Ms. McCoy[[2]](#footnote-3) sufficiently support the Company’s proposal to use EOP plant in service balances.

**Q. Is it appropriate to use EOP in the context of a two-year rate plan?**

A. Yes. EOP brings AMA rate base balances forward six months, thereby more appropriately aligning rate base balances with the rate effective period in both year one and year two of the rate plan.

**Q. Does Staff support the Company’s adjustment?**

A. Yes. Staff believes using EOP plant in service balances will reduce the impacts of regulatory lag, thereby enhancing the Company’s ability to earn its authorized return. EOP rate base adjustments were used by the Commission to set rates in the Company’s 2013 general rate case, in Docket UE-130043,[[3]](#footnote-4) and in PSE’s 2013 rate case, in Dockets UE-130137 and UG-130138.[[4]](#footnote-5) Staff believes using EOP is also appropriate in this case, particularly in light of the Company’s proposed two-year rate plan.

**IV.** Accelerated Depreciation oF Jim Bridger and Colstrip UNIT 4 (ADJUSTMENT 6.4)

**Q. What is depreciation?**

A. On a practical level, depreciation represents the lost value of an asset as it is used up over its lifetime.[[5]](#footnote-6) From an accounting perspective, depreciation is the distribution of a cost over an asset’s useful life.[[6]](#footnote-7) From an operations perspective, depreciation represents an expense the company experienced related to wear and tear on an asset.

In accounting, an asset’s useful life and its annual depreciation expense are intrinsically linked. The service life is the expected period from which “services are obtained from the use of the facility.”[[7]](#footnote-8) If the useful life is reduced, then the annual depreciation expense will increase since the total cost of the asset is spread across a shorter period.

**Q. Please explain the Company’s proposed adjustment for accelerated depreciation of Jim Bridger and Colstrip Unit 4.**

A.Pacific Power proposes to shorten the depreciable lives of Jim Bridger to 2025 and Colstrip Unit 4 to 2032. According to the Company’s depreciation study currently on file with the Commission, Jim Bridger’s retirement date is 2037, and Colstrip Unit 4’s retirement date is 2046. The Company thus seeks to shorten Jim Bridger’s depreciable life by 12 years and Colstrip Unit 4’s depreciable life by 14 years.

**Q. When did the Commission approve the current retirement dates of Jim Bridger and Colstrip Unit 4?**

A. The Commission approved the current retirement dates in 2008, in Docket UE-071795,[[8]](#footnote-9) based on the Company’s 2007 depreciation study that extended Jim Bridger’s depreciable life from 2025 to 2037 and extended Colstrip Unit 4’s depreciable life from 2032 to 2046.

The retirement dates that were approved in Washington for Jim Bridger (2037) and Colstrip Unit 4 (2046) were also approved in California, Utah, Wyoming, and Idaho. Oregon was the lone state in the Company’s service territory that rejected the Company’s proposal.[[9]](#footnote-10) In Docket UM 1329, the Oregon Public Utility Commission retained the then-current Oregon retirement dates for Jim Bridger (2025) and Colstrip Unit 4 (2032). Oregon continues to use those dates as of this testimony.

As I will discuss later in my testimony, the Company wants the Commission to “align” the Washington-approved retirement dates for Jim Bridger and Colstrip Unit 4 (2037 and 2046) with those currently approved in Oregon (2025 and 2032).

**Q. For clarity, please list the Jim Bridger and Colstrip 4 retirement dates currently approved by each of the jurisdictions in which the Company operates.**

A. Please refer to the following table:[[10]](#footnote-11)

|  |  |  |
| --- | --- | --- |
| **State** | **Jim Bridger** | **Colstrip Unit 4** |
| Washington | 12/2037 | 12/2046 |
| Oregon | 12/2025 | 12/2032 |
| California | 12/2037 | 12/2046 |
| Utah | 12/2037 | 12/2046 |
| Wyoming | 12/2037 | 12/2046 |
| Idaho | 12/2037 | 12/2046 |

**Q. Has the Company updated its 2007 depreciation study?**

A. Yes. The Company most recently updated its depreciation study in 2013.[[11]](#footnote-12) The Company updates its depreciation study approximately every five years. Staff expects that the Company’s next update will occur in 2018.

**Q. Did the Company propose to accelerate the Washington-approved Jim Bridger and Colstrip Unit 4 retirement dates after it completed its 2013 depreciation study?**

A. No, the Company made no such proposal at that time.

**Q. In the present docket, how does the Company calculate its proposed Jim Bridger and Colstrip Unit 4 accelerated depreciation rates?**

A. The Company included its proposed pro forma plant increases from Adjustment 8.4 – Major Plant Additions to calculate the remaining net book value of Jim Bridger and Colstrip Unit 4 as of April 30, 2016. The Company then divided the net book value for each plant as of April 30, 2016, by the composite remaining life for Jim Bridger (2016–2025) and Colstrip Unit 4 (2016–2032) to calculate the accelerated annual depreciation amounts. This calculated depreciation amount is then divided by the investments amount including Adjustment 8.4 – Major Plant Additions to arrive at the accelerated depreciation rates.

**Q. As you understand the Company’s testimony, what is the Company’s justification for accelerated depreciation of Jim Bridger and Colstrip Unit 4?**

A. The Company’s primary justification appears to be that accelerated depreciation “aligns current depreciation periods between Washington and Oregon, the two states that account for most of the load in the west control area, for the coal-fired resources that serve Washington.”[[12]](#footnote-13) “Alignment” is desirable, the Company claims, because shorter depreciable lives will provide the Commission, the Company, and customers “additional flexibility in resource planning to address state and federal environmental policies, mandates, and the EPA’s Clean Power Plan.”[[13]](#footnote-14)

The Company also observes that its proposal will cause reversion to the “shorter depreciation lives Washington used before the Company’s 2007 depreciation study.”[[14]](#footnote-15) Finally, it suggests there is some recent precedent for accelerated depreciation of coal plants. Pacific Power states, “[Accelerated depreciation of Jim Bridger and Colstrip Unit 4] is also consistent with Pacific Power’s actions in its most recent depreciation study where it accelerated the retirement of the Carbon coal plant by five years to comply with EPA regulations.”[[15]](#footnote-16)

**Q. Has the Company adequately supported its proposal?**

A. No. The Company’s accelerated depreciation proposal represents a $9.9 million increase in annual revenue requirement, yet the Company supports the proposal with only cursory, qualitative testimony, by Mr. Dalley and Ms. McCoy.[[16]](#footnote-17)

Public Counsel asked the Company in discovery to “provide any analysis, evaluations and studies conducted by or for the Company in its evaluation of whether or not to seek to shorten the depreciable lives of the Jim Bridger and Colstrip units in the expedited rate filing.”[[17]](#footnote-18) The Company gave the following candid response:

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The Company has not done any analysis or studies in its evaluation of whether to shorten depreciable lives of Jim Bridger and Colstrip units in its current filing, as the decision to shorten depreciable lives was a policy decision, based on qualitative analysis as discussed in detail in the direct testimony of Mr. R. Bryce Dalley.[[18]](#footnote-19)

Staff also asked the Company to provide “all documents and information relied upon by management to arrive at its decision.”[[19]](#footnote-20) The Company responded, “There are no documents responsive to this request other than those presented as part of the Company’s filing in testimony and exhibits, which provide the analysis of impacts and the rationale for the proposal.”[[20]](#footnote-21)

**Q. What is your analysis of the Company’s “alignment” justification?**

A. It raises questions. No state other than Oregon uses the Company’s proposed Jim Bridger and Colstrip Unit 4 retirement dates. If the Commission “aligns” itself with Oregon, it will fall out of “alignment” with California, Utah, Wyoming, and Idaho (Washington is currently “aligned” with the latter states). The Company suggests it is desirable to align the “two states that account for most of the load in the west control area,”[[21]](#footnote-22) but it fails to clearly explain why this is so.

**Q. According to the Company, what impact will “alignment” have on the actual operating lives of Jim Bridger and Colstrip Unit 4?**

A. The Company’s testimony says nothing about the actual operating lives of Jim Bridger and Colstrip Unit 4. The Company does not promise, for example, that Jim Bridger will close in 2025 if the Commission adopts the Company’s proposal. In discovery, the Company acknowledged that “[c]hanging depreciable lives . . . would not restrict the Company from using generation from these resources to serve Washington customers after the end of the facilities’ depreciable lives.”[[22]](#footnote-23)

**Q. What is your analysis of the Company’s claim that accelerated depreciation of Jim Bridger and Colstrip Unit 4 will provide “additional flexibility for compliance with major state and federal environmental initiatives?”[[23]](#footnote-24)**

A. It is difficult to analyze this claim because the Company does not clearly explain what it means by “additional flexibility” or how alignment with Oregon will provide this flexibility.

**Q. In your opinion, does the Company justify its accelerated depreciation proposal?**

A. No. In my opinion, the Company fails to justify its proposal. The Company does not adequately explain its “alignment” and “flexibility” rationales. Importantly, the Company also fails to explain why the Commission should approve new depreciation rates without the benefit of an updated depreciation study. Staff contends that the Commission should postpone any adjustments until the Company updates its study.

**Q. What are the benefits of an updated depreciation study?**

A. Periodic depreciation studies are an important and well established accounting practice to update depreciation rates. Depreciation studies recognize additions to investment in plants and reflect any changes in plant asset characteristics, technology, salvage, removal costs, life span estimates, and other factors. With a complete depreciation study conducted by an independent consultant, the Company’s depreciation rates will be more reliable for ratemaking purposes.

**Q. Is a plant’s economic life or its retirement date permanently set when the plant is placed into service?**

A. No. Economic lives and retirement dates are estimates and may be adjusted over time as circumstances change. Specifically, legal changes such as EPA’s Clean Power Plan may significantly impact the operating lives of the Company’s plants. The Company reevaluates its plants’ economic lives each time it performs a depreciation study.

**Q. If the Commission rejects the Company’s proposed adjustment, will the Company still be able to recover its original investments from ratepayers through its current depreciation expense?**

A. Yes. The investmentsfor Jim Bridger and Colstrip Unit 4 are currently spread over longer periods through current depreciation expense and are recovered in current rates. The Company’s proposal merely shortens the time frame over which this expense is recovered. The Company will still have the opportunity to recover all of its investment if its proposed adjustment is rejected.

**Q. How is Staff’s recommendation reflected in the present case?**

A. Staff rejects the Company’s adjustment and recommends that the Commission postpone any further adjustments to the depreciation rates for Jim Bridger and Colstrip Unit 4 until the Company updates its depreciation study (Staff expects that the Company will update its study in 2018). The effect of Staff’s adjustment is to reduce Pacific Power’s revenue request by $9.9 million.

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

A. Yes.

1. Dalley, Exh. No. RBD-1T 7:11–8:18. [↑](#footnote-ref-2)
2. McCoy, Exh. No. SEM-1T 4:16-5:16, 20:6-8. [↑](#footnote-ref-3)
3. *Wash. Utils. & Transp. Comm’n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Docket UE-132027, Order 04, 68-73, ¶¶ 174-85 (Dec. 4, 2013). [↑](#footnote-ref-4)
4. *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-130137 and UG-130138, Order 07, 20-21, ¶¶ 46-48 (June 25, 2013). [↑](#footnote-ref-5)
5. *In the Matter of the Petition of Puget Sound Energy for an Accounting Order Approving the Allocation of Proceeds of the Sale of Certain Assets to Public Utility District #1 of Jefferson County*, Docket UE-132027, Order 04, ¶ 16 (Sept. 11, 2014). [↑](#footnote-ref-6)
6. Financial Accounting Standard Board ASC 360-35-4. [↑](#footnote-ref-7)
7. *Id.* [↑](#footnote-ref-8)
8. *In the Matter of the Petition of PacifiCorp, d/b/a Pacific Power for an Accounting Order Authorizing a Revision to Depreciation Rates*, Docket UE-071795, Order 01 (April 10, 2008). [↑](#footnote-ref-9)
9. *See* Huang, Exh. No. JH-2. [↑](#footnote-ref-10)
10. Huang, Exh. No. JH-3. [↑](#footnote-ref-11)
11. *In the Matter of the Petition of Pacific Power & Light Co. for an Accounting Order Authorizing a Revision to Depreciation Rates*, Docket UE-130052, Order 01 (Dec. 27, 2013). [↑](#footnote-ref-12)
12. Dalley, Exh. No. RBD-1T 4:20-22. [↑](#footnote-ref-13)
13. *Id.* at 11:3-6. [↑](#footnote-ref-14)
14. *Id.* at 4:22–5:1. [↑](#footnote-ref-15)
15. *Id.* at 11:7-9. [↑](#footnote-ref-16)
16. Dalley, Exh. No. RBD-1T 3:1-4, 4:20–5:1-5, 10:13–11:14; McCoy, Exh. No. SEM-1T 12:11-21. [↑](#footnote-ref-17)
17. Huang, Exh. No. JH-4. [↑](#footnote-ref-18)
18. *Id.* [↑](#footnote-ref-19)
19. Huang, Exh. No. JH-5. [↑](#footnote-ref-20)
20. *Id.* [↑](#footnote-ref-21)
21. Dalley, Exh. No. RBD-1T 4:21-22. [↑](#footnote-ref-22)
22. Huang, Exh. No. JH-6. [↑](#footnote-ref-23)
23. Dalley, Exh. No. RBD-1T 3:1-2. [↑](#footnote-ref-24)