

Exhibit No. ___T (DJR-1T)
Docket UE-130043
Witness: Deborah J. Reynolds

**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

Deborah J. Reynolds

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Policy and General Overview

June 21, 2013

TABLE OF CONTENTS

I. INTRODUCTION 1

II. SCOPE AND SUMMARY OF TESTIMONY 3

III. DISCUSSION 4

IV. STAFF WITNESSES 7

V. EXPEDITED RATE FILING 10

LIST OF EXHIBITS

Exhibit No. ____ (DJR-2), Letter from Governor Gregoire to Chairman Goltz dated January 4, 2013, and Response Letter from Chairman Goltz dated January 15, 2013

Exhibit No. ____ (DJR-3), Enhanced Commission Basis Report

1 **I. INTRODUCTION**

2

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

4 A. My name is Deborah J. Reynolds. My business address is the Richard Hemstad
5 Building, 1300 S. Evergreen Park Dr. SW, Olympia, Washington 98504.

6

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

8 A. I am employed by the Washington Utilities and Transportation Commission
9 (“Commission”) as the Assistant Director of Conservation and Energy Planning in
10 the Regulatory Services Division. My employment at the Commission began in
11 1999.

12

13 **Q. Please describe your education and your professional qualifications.**

14 A. I graduated from the Washington State University, receiving a Bachelor of Science
15 degree in General Studies and a Master of Regional Planning degree. I have
16 attended several regulatory courses, including the 46th Annual National Association
17 of Regulatory Utility Commissioners Regulatory Studies Program, “The Basics:
18 Regulatory Principles Training” seminar presented by the Center for Public Utilities
19 and the National Association of Regulatory Utility Commissioners; the Electric
20 Utility Consultants, Inc.’s cost of service and rate design workshops; and the
21 International Energy Program Evaluation Conference, as well as a number of other
22 utility-related seminars, conferences, and training opportunities.

1 I am responsible primarily for the oversight of Commission Staff members
2 who review and evaluate conservation programs, participate in conservation and
3 resource planning, and analyze issues such as decoupling, reliability, service quality,
4 low-income, and other issues in general rate case (“GRC”) and other tariff filings of
5 the electric and natural gas utilities regulated by the Commission.

6 I provide technical assistance to companies on energy regulatory matters,
7 participate in the development of Commission rules, and examine utility reports for
8 compliance with Commission regulations. I have also presented Staff
9 recommendations at numerous open public meetings.

10
11 **Q. Have you testified before the Commission?**

12 A. Yes. I testified on decoupling and other policy-related issues in GRCs of Avista
13 Corporation (“Avista”) in Dockets UE-090134/UG-090135/UG-060518 and Dockets
14 UE-110876/UG-110877/UE-120436/UG-120437; Puget Sound Energy, Inc. (“PSE”)
15 in Dockets UE-111048/UG-111049; and PacifiCorp d/b/a Pacific Power & Light
16 Company (“PacifiCorp” or “Company”) in Docket UE-111190.

17 I also prepared and presented the formal Staff comments on the initial
18 conservation target filings in Dockets UE-100170 (PacifiCorp), UE-100176 (Avista),
19 and UE-100177 (PSE). I prepared the Staff response to the Commission’s bench
20 requests on decoupling in Avista Dockets UE-110876/UG-110877/UE-120436/UG-
21 120437 and in PSE Dockets UE-111048/UG-111049. I filed testimony on
22 decoupling in PSE Dockets UE-121697/UG-121705 and appeared recently on the
23 settlement panel in those dockets and Dockets UE-130137/UG-130138.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. I present an overview of Staff’s recommendation for an increase in annual revenues of approximately \$14.6 million (4.8 percent) for PacifiCorp. This compares to the Company’s proposal, filed January 11, 2013, to increase revenues by approximately \$42.8 million (14.1 percent). Specifically, my testimony:

- Summarizes the key differences between Staff and PacifiCorp’s case.
- Introduces the witnesses that provide testimony in this proceeding on behalf of Commission Staff.
- Explains Staff’s proposal for an expedited rate filing (“ERF”) that will provide timely rate relief for the Company in 2014 to address more recent capital investment and other non-controversial items.

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

A. Yes, I have prepared the following exhibits:

- Exhibit No. __ (DJR-2), January 4, 2013, letter from Governor Christine O. Gregoire and January 15, 2013, response from Commission Chair Jeffrey D. Goltz.
- Exhibit No. __ (DJR-3), Description of Enhanced Commission Basis Report.

1 **III. DISCUSSION**

2

3 **Q. Please briefly describe the Company's scope of operations.**

4 A. PacifiCorp is a regulated electric company that provides service in Washington,
5 Oregon, and California under the trade name Pacific Power & Light Company.

6 PacifiCorp provides service in Utah, Wyoming and Idaho under the trade name
7 Rocky Mountain Power & Light Company.¹ Washington comprises only 7 percent
8 of the Company's customers, annual revenue, and energy sales.²

9

10 **Q. Please describe the Company's request for an increase in rates in this docket.**

11 A. On January 11, 2013, PacifiCorp filed a GRC with the Commission seeking an
12 increase in annual revenues of approximately \$42.8 million, or 14.1 percent. The
13 Company names three primary factors for its revenue request: (1) increases in the
14 allocation of net power costs to Washington; (2) increases in investment in the
15 system; and (3) declining demand.³

16

17 **Q. Please summarize the revenue requirement increase recommended by Staff for
18 the Company's Washington operations.**

19 A. Staff recommends that the Commission allow the Company to increase its annual
20 revenues for electricity service by \$14.6 million, or 4.8 percent. This
21 recommendation is based on an historical test year ending June 30, 2012, with

¹ Reiten, Exhibit No. ____ (RPR-1T) at 2.

² Company's Annual Report, Washington Supplement, at 13 (June 4, 2013).

³ Reiten, Exhibit No. ____ (RPR-1T) at 3-4.

1 appropriate restating and pro forma adjustments that satisfy the “matching principle”
2 of historical test-period ratemaking. Staff’s recommended increase is roughly one-
3 third of the Company’s requested revenue increase.

4

5 **Q. What are the primary reasons for the \$28.2 million difference between the**
6 **revenue requirement proposals of Staff (\$14.6 million) and the Company (\$42.8**
7 **million)?**

8 A. This difference between Company and Staff revenue requirement cases, as shown on
9 Staff witness Joanna Huang’s Exhibit No. ____ (JH-2), page 5, is attributable largely
10 to three issues: (1) a \$13.7 million decrease resulting mainly from corrections to the
11 allocation of net power costs to Washington presented by Staff witness David C.
12 Gomez; (2) a cost of capital reduction, presented by Staff witness Kenneth L. Elgin,
13 resulting in a \$10.2 million decrease; and (3) a cut-off date for capital investments
14 resulting in a \$3.2 million decrease presented by Staff witness Chris R. McGuire.^{4,5,6}
15 Staff’s rejection of other inadequately supported accounting adjustments makes up
16 the remaining \$1.1 million difference between Staff and the Company.

17

18 **Q. You mention Staff witness Gomez’s net power cost adjustment. How else did**
19 **allocation factor issues affect Staff’s case?**

⁴ Huang, Exhibit No. ____ (JH-2), page 5, column J, row 32. This page of the exhibit removes the embedded effects of the cost of capital reduction and change in conversion factor from each individual adjustment to enable a better comparison between the Staff and Company cases.

⁵ Huang, Exhibit No. ____ (JH-2), page 5, column J, row 75.

⁶ Huang, Exhibit No. ____ (JH-2), page 5, column J, row 59.

1 A. PacifiCorp is proposing selective revisions to the existing jurisdictional cost
2 allocation methodology that increase the revenue requirement for Washington
3 customers by approximately \$800,000.⁷ While that increase is not necessarily
4 problematic, the Company has not presented the comprehensive review of cost
5 allocations necessary to assure the Commission that the Company's proposals do not
6 over-allocate costs to Washington. This is particularly troublesome because, as I
7 mentioned earlier, annual report data shows that Washington sales, revenue, and
8 customers are each only 7 percent of the total Company operations.

9 Staff rejects the Company's cost allocation proposals and retains the existing
10 jurisdictional cost allocation methodology.⁸ Given the importance of this issue to
11 both the Company and Washington customers, we also recommend a report on
12 allocation factors to be filed before the Company's next full general rate case. This
13 report will facilitate the comprehensive review that PacifiCorp's filing did not
14 permit. Staff witness Kendra A. White addresses these issues in detail in her
15 testimony.

16
17 **Q. Are there any other areas of controversy between Staff and the Company?**

18 A. Yes. Staff applied average of monthly averages balances for rate base and related
19 expenses, which is the favored approach of the Commission in accordance with the
20 matching principle of historical test-period ratemaking. The Company's request for
21 end-of-period rate base is not properly supported. This issue is addressed by Staff
22 witness Betty A. Erdahl.

⁷ White, Exhibit No. ___ (KAW-1CT) at 10:7.

⁸ Huang, Exhibit No. ___ (JH-2), page 91.

1 Staff is also recommending adjustments to rate design and cost of service,
2 which are intended to improve the conservation signals in rates and to address the
3 impacts of renewable resources on the Company's cost of service. These issues are
4 addressed by Staff witness Christopher T. Mickelson.

5
6 **IV. STAFF WITNESSES**
7

8 **Q. Please introduce the Staff witnesses testifying in this proceeding and the subject**
9 **matter of their testimony.**

10 A. The following witnesses present testimony and exhibits for Staff:

- 11 • Ms. Kendra A. White recommends that rates be set in this case using the existing
12 West Control Area interstate cost allocation factors, given the Company's failure
13 to present a comprehensive alternative case on that subject matter. She also
14 recommends the Commission order PacifiCorp to submit a report on interstate
15 cost-allocation factors to be used in the Company's next general rate case. Her
16 testimony on cost allocation responds to the presentation of Company witness R.
17 Bryce Dalley. She also accepts the temperature normalization and load
18 forecasting methodologies presented by Company witness Kelcey A. Brown.
- 19 • Mr. David C. Gomez presents recommendations on the treatment of net power
20 costs including an adjustment to disallow allocation of the cost of purchased
21 power from Qualifying Facilities located in California and Oregon. He also
22 recommends that the Commission reject the Company's proposal for a Power
23 Cost Adjustment Mechanism because that proposal does not contain a dead-band

1 and sharing bands, contrary to Commission precedent. His testimony on these
2 subjects responds to Company witness Gregory N. Duvall.

3 • Mr. Kenneth L. Elgin recommends a lower overall cost of capital of 7.03 percent,
4 which includes a return on equity of 9.00 percent, and a capital structure
5 containing 46 percent equity and 4 percent short-term debt. He responds to the
6 Company's witnesses on cost of capital: Mr. Samuel C. Hadaway who
7 recommends a 10 percent return on equity and Mr. Bruce N. Williams who
8 recommends a capital structure with 52.51 percent equity and no short-term debt.

9 • Mr. Chris R. McGuire presents the recommended ratemaking treatment for the
10 Merwin Fish Collector, Swift Fish Collector, Soda Springs Fish Passage, and
11 Prospect In-Stream Flow/Automation hydroelectric project improvements
12 discussed by Company witness Mark R. Tallman, and for a turbine upgrade to
13 the Jim Bridger Unit 2 discussed by Company witness Dana M. Ralston. Based
14 on a proper application of the concept of a pro forma adjustment, he recommends
15 a cut-off date of January 11, 2013, the day the Company filed this case, for
16 allowance of these capital additions and related expenses in rates. Based on that
17 cut-off date, the Jim Bridger upgrade and Merwin Fish Collector are disallowed
18 because these projects were not then in service.

19 • Ms. Juliana M. Williams presents testimony supporting the prudence of the same
20 hydroelectric project improvements other than the Merwin Fish Collector, in
21 response to Company witness Tallman. She excluded the Merwin Fish Collector
22 from her review based on Staff witness McGuire's recommendation. Ms.

1 Williams also responds to the Company’s implementation of the five year Low
2 Income Bill Assistance plan presented by Company witness Joelle R. Steward.

- 3 • Ms. Betty A. Erdahl presents testimony concerning the appropriate ratemaking
4 treatment for property taxes. Staff rejects the Company pro forma adjustment,
5 thereby, keeping property tax expense at the accrual level that was booked during
6 the test year. She also addresses Staff’s overall recommendation to use average
7 of monthly average balances for allowed pro forma rate base adjustments. Her
8 testimony responds to Company witness McDougal.
- 9 • Ms. Joanna Huang presents the Staff electric revenue requirement model in
10 response to Company witness Steven R. McDougal. She also presents an
11 adjustment that removes incentive pay compensation in response to Company
12 witness Erich D. Wilson.
- 13 • Mr. David Nightingale presents testimony concluding that it was prudent for the
14 Company to enter the Klamath Hydroelectric Settlement Agreement, based on
15 the evidence presented by Company witness Andrea L. Kelly and other
16 documentation. He also concurs with her proposals to adopt shorter depreciation
17 lives for the Klamath Hydroelectric Project that coincide with decommissioning
18 and removal and to allow a full year of amortization of the relicensing and
19 settlement process costs associated with the Klamath Project.
- 20 • Mr. Timothy W. Zawislak accepts revisions to the Investor Supplied Working
21 Capital calculation presented by Company witness Douglas K. Stuver regarding
22 derivatives and post-retirement benefits.

1 more recent data on power costs, load and other cost changes. As such, the ERF
2 proposed by Staff is consistent with recommendations of the Governor for the
3 Commission to consider approaches that will accelerate existing rate-setting
4 practices and timelines, particularly through updates to test period information on
5 investment, revenue and expenses with rate of return held constant.¹⁰

6
7 **Q. The Governor’s letter urged a rulemaking on expedited rate-setting procedures,**
8 **while you are recommending a PacifiCorp-specific approach outside a**
9 **rulemaking. Is your ERF proposal premature?**

10 A. No. The Commission has routinely experimented with new approaches before
11 incorporating them into administrative rules. It may be quite difficult to get all the
12 details just right in a rule without some practical application. For decoupling, which
13 is one example mentioned by the Governor’s letter, the Commission implemented
14 pilot projects, adjusted the pilots, allowed mechanisms to become permanent on a
15 case-by-case basis, held workshops, and then developed a Decoupling Policy
16 Statement.¹¹ The Energy Independence Act required the Commission to develop
17 administrative rules before the implementation of the Renewable Portfolio Standard
18 (“RPS”) four years later.¹² Once the RPS went into effect, Staff discovered that the
19 annual reporting requirement for a single report was not actually consistent with the
20 RPS design, which allows companies to bank renewable energy credits across

¹⁰ Exhibit No. ____ (DJR-2) at 3 (“Governor’s letter”).

¹¹ Pilot decoupling mechanisms were authorized in Docket UG-060256 for Cascade Natural Gas Corporation and in Docket UG-060518 for Avista in 2006. Avista’s decoupling mechanism was allowed to become permanent in Docket UG-090135. Workshops were held in Docket U-100522 as part of the development of the Commission’s Decoupling Policy Statement in 2010.

¹² RCW 19.285 was passed in 2006, and required development of rules within 6 months. The Renewable Portfolio Standard contained in the statute did not become effective until 2010.

1 multiple years. Given these experiences, Staff strongly believes it is advisable for
2 the Commission to utilize expedited rate filings before establishing a rule or even in
3 absence of a rule.

4
5 **Q. Please describe Staff's proposed ERF for PacifiCorp.**

6 A. Staff proposes that the Company be allowed to submit an ERF in 2014 within two
7 months of the filing of its standard Commission-basis report ("CBR"). The ERF will
8 be based on an enhanced CBR ("ECBR") using the same fiscal period as the CBR
9 and using the authorized rate of return, revenue allocations, and rate design from this
10 general rate case.

11 Staff recognizes the CBR is not designed as a ratemaking tool and, therefore,
12 the enhancements we propose are designed to make the CBR useable for developing
13 rates. My Exhibit No. ____ (DJR-3) provides a detailed description of these
14 enhancements. If a properly filed ERF from the Company exceeds a 3 percent
15 increase in revenues, Staff's proposal would not require the Company to comply
16 with the entire set of document filing requirements in WAC 480-07-510 that would
17 otherwise apply to a general rate case.

18 Once the ERF, its accompanying work papers and the supporting testimony is
19 filed, Staff will review it on an expedited basis with the goal of rates becoming
20 effective within 4 to 6 months. The goal of a 2014 ERF is to bring 2013 capital
21 additions and other cost changes into rates. By holding certain controversial
22 elements constant, such as rate of return, revenue allocations and rate design, Staff
23 should be able to conduct its review on an expedited basis.

1

2 **Q. Do you have any final comments on this general rate case?**

3 A. Yes. As urged by the Governor's January 4, 2013, letter to the Commission, Staff is
4 supportive of progressive ideas in ratemaking. Indeed, the ERF we propose for
5 PacifiCorp is offered in that light. We look forward to participating in the
6 conversation about these kinds of issues.

7

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

9 A. Yes.

10