

Exhibit No. ___ CT (KAW-1CT)
Docket UE-130043
Witness: Kendra A. White
Redacted Version

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT
COMPANY, d/b/a PACIFICORP,

Respondent.

DOCKET UE-130043

TESTIMONY OF

KENDRA A. WHITE

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

*West Control Area Inter-Jurisdictional Cost Allocation
Adjustment 3.1, Temperature Normalization*

June 21, 2013

CONFIDENTIAL PER PROTECTIVE ORDER
Redacted Version

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- Exhibit No. ____ (KAW-2), Total Company Allocation –Washington per Books
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- Exhibit No. ____ (KAW-4), Plant Additions

1 **I. INTRODUCTION**

2

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

4 A. My name is Kendra Alyse White. My business address is the Richard Hemstad
5 Building, 1300 S. Evergreen Park Drive S.W., 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 a Regulatory Analyst in the Energy Section of the Regulatory
10 Services Division. Among other duties, I am responsible for analyzing financial,
11 accounting, revenue allocation, and rate design issues in general rate cases and other
12 tariff filings as they pertain to the electric and natural gas companies under the
13 jurisdiction of this Commission.

14

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

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

17

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

19 A. I graduated from Colgate University, summa cum laude, in May 2011 with a
20 Bachelor of Arts degree in Economics. Since joining the Commission, I have
21 attended “The Basics: Regulatory Principles Training” seminar presented by Center
22 for Public Utilities and the National Association of Regulatory Utilities

1 Commissioners, and completed two quarters of Accounting at South Puget Sound
2 Community College.

3 I reviewed the load forecast study, rate spread, and rate design in Avista
4 Corporation’s general rate case, Docket UE-120436. In addition, I have presented
5 Staff recommendations to the Commission at public open meetings in Puget Sound
6 Energy, Inc. (“PSE”) Dockets UE-120805, UG-120806, UE-121439, UE-121725,
7 and UG -121726. I was the lead analyst for PSE’s new Light Emitting Diode tariff
8 in Docket UE-121744. I have participated in the Commission’s rulemaking on
9 natural gas conservation in Docket UG-121207.

10

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

12 A. No.

13

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

15

16 **Q. What is the purpose of your testimony?**

17 A. I present Staff’s recommendation regarding the proposals of PacifiCorp, d/b/a Pacific
18 Power & Light Co. (“PacifiCorp” or “Company”) that affect the West Control Area
19 inter-jurisdiction cost allocation methodology (“WCA allocation methodology” or
20 “WCA”). The Company’s proposals are presented by R. Bryce Dalley and Steven R.
21 McDougal.

1 I also reviewed Adjustment 3.1, Temperature Normalization and the load
2 forecast presented by Company witness Kelcey A. Brown. Staff accepts the
3 Company's adjustment and the forecasted load through December 2014.

4

5 **Q. Please summarize your recommendations with respect to the WCA.**

6 A. Staff recommends that the Commission establish the Company's revenue
7 requirement in this case using the WCA allocation methodology that the
8 Commission approved in the Company's 2006 general rate case, Docket UE-061546,
9 ("Approved WCA"). The Company has proposed revisions to the Approved WCA
10 that Staff asks the Commission to reject at this time.^{1,2}

11 Staff also recommends that the Commission order the Company to file an
12 allocation factor report ("Report") at least 90 days before its next full general rate
13 case ("GRC"). The Report should include additional information regarding the
14 specific allocation factors that have been identified by parties to this case. This will
15 ensure a comprehensive review of the allocation methodology. Sufficient time in
16 this case was not available for a comprehensive review after all other preliminary
17 discovery was first completed and given all other issues raised by the Company's
18 filing.

¹ Staff accepts one of two changes the Company is proposing to the Jim Bridger Generation ("JBG") allocation factor. Staff witness David Gomez accepts expenses related to the new Idaho Power point-to-point wheeling contract. This change impacts the JBG allocation factor as one of the base components is Jim Bridger's WCA transmission capacity. As discussed in my testimony, however, Staff does not accept the other change to JBG that results from the Company's proposed revision to the calculation of the Control Area Generation West ("CAGW") allocation factor.

² Mr. Gomez' power cost adjustments are based on the CAGW allocation factor methodology approved in Docket UE-061546. If the Commission accepts his treatment, the Company will need to update all other allocation factors impacted by the CAGW allocation factor in its compliance filing. More generally, the Company will need to rerun the "RAM" and "JAM" revenue requirement models to reflect the Commission's decision in this case.

1 The Report should include, at a minimum:

- 2 • Additional information and analysis of the data used to calculate the System
3 Capacity (“SC”) allocation factor and weight the System Generation (“SG”) and
4 Control Area Generation West (“CAGW”) allocation factors.
- 5 • Identification and updates to any allocation factors impacted by changes to SC,
6 SG, and CAGW.
- 7 • An explanation and analysis of the current allocation factor, System Overhead
8 (“SO”), and consideration of alternative methods to allocate general and
9 intangible plant and general administrative and general (“A&G”) expenses
10 among the six states in PacifiCorp’s service territory.

11

12 **Q. Does Staff have an alternative recommendation should the Commission decide**
13 **to adopt the Company’ proposed WCA revisions in this case?**

14 A. Yes. If the Commission decides to adopt the Company’s proposed revisions to the
15 WCA in this case, Staff recommends that the Commission not do so without also
16 accepting the following additional Staff modifications:

- 17 • Use of the peak credit ratio to weight the SG allocation factor, because this factor
18 is conceptually related to the CAGW allocation factor the Company proposes
19 changing.
- 20 • Use of 200 hours (the top 100 winter hours plus the top 100 summer hours) in the
21 calculation of all generation- and transmission-related (“G&T”) allocation factor

1 components, because the Commission prefers the use of a greater number of data
2 points when determining the cost causation of G&T resources.³

- 3 • Use of total system (WCA) hours when calculating the weighting for total system
4 (WCA) allocation factors, because there should be matching between the
5 weightings and the balances of the accounts being allocated between
6 jurisdictions.
- 7 • Replacement of the System Overhead (“SO”) allocation factor with System Net
8 Plant (“SNP”) to allocate general and intangible plant and general A&G expenses
9 between jurisdictions, because the current allocation factor unreasonably shifts
10 costs to Washington and other slower growing jurisdictions.

11

12 **Q. Please describe how the remainder of your testimony is organized.**

13 A. The remainder of my testimony is organized as follows:

- 14 • Section III contains a general description of the current WCA allocation
15 methodology and the modifications the Company proposes in this case;
- 16 • Section IV provides support for Staff’s recommendation for the continued use of
17 the Approved WCA allocation methodology;
- 18 • Section V describes the allocation factor Report Staff recommends be filed
19 before the Company’s next full GRC; and
- 20 • Section VI describes the WCA allocation factor revisions Staff recommends in
21 the event the Commission adopts PacifiCorp’s proposed revisions in the case.

22

³ *WUTC v. Washington Natural Gas Company*, Dockets UG-940034 and UG-940814, Supplemental Order 05 at 9 (April 11, 1995).

1 **Q. Do you sponsor any exhibits in support of Staff’s recommendations?**

2 A. Yes, I sponsor the following exhibits in support of my testimony:

- 3 • Exhibit No. ____ (KAW-2), Total Company Allocation –Washington per Books
- 4 • Exhibit No. ____ (KAW-3), Excerpt of Integrated Resource Plan – Base Case
- 5 • Exhibit No. ____ (KAW-4), Plant Additions

6

7 **III. WEST CONTROL AREA INTER-JURISDICTIONAL ALLOCATION**
8 **METHODOLOGY**
9

10 **Q. What is the WCA allocation methodology?**

11 A. The WCA allocation methodology consists of numerous allocation factors that are
12 systematically used to apportion the costs of PacifiCorp’s six-state operations to its
13 customers within the State of Washington. The application of the WCA allocation
14 methodology results in the Washington per books amounts for revenues, expenses,
15 and rate base, which form the baseline of a general rate case.⁴ Application of these
16 factors can materially distort reporting of the Company’s financial performance in
17 Washington, if they do not reasonably represent the cost to serve customers.

18 The WCA allocation methodology was first adopted by the Commission in
19 Docket No. UE-061546 when it approved a settlement agreement of the Parties in
20 that case.⁵ The Commission also ordered a five-year trial period before revisiting the
21 WCA methodology in future Company filings. The trial period was later extended to
22 allow a collaborative among the interested parties on interstate cost allocation.⁶

23

⁴ White, Exhibit No. ____ (KAW-2).

⁵ *WUTC v. PacifiCorp*, Dockets UE-061546, Order 08 at ¶¶43-58 (June 21, 2007).

⁶ *WUTC v. PacifiCorp*, Docket UE-111190, Order 07, Settlement Stipulation at ¶¶28-29 (February 21, 2012).

1 **Q. Did the parties engage in these collaborative discussions regarding the inter-**
2 **jurisdictional allocation methodology?**

3 A. Yes. In accordance with Order 07 in the most recent GRC,⁷ the Company, Staff,
4 Public Counsel, and the Industrial Customers of Northwest Utilities (individually,
5 “Party”; collectively, “Parties”) engaged in a collaborative process (“Collaborative”)
6 over the past year to review a number of topics, including the WCA allocation
7 methodology.

8

9 **Q. What was the outcome of the Collaborative?**

10 A. By the end of the Collaborative, the Parties did not agree on either of the two
11 overhaul alternatives discussed: a “true Situs methodology” or a “six-state system
12 allocation methodology.”⁸

13

14 **Q. How did the outcome of the Collaborative impact the Company’s direct case in**
15 **this docket?**

16 A. The Company filed its case using the existing WCA allocation methodology with a
17 few modifications. The Company’s decision was partly based on the timing of
18 upcoming discussions with its other state jurisdictions that use the “2010 Protocol”
19 for cost allocation. The 2010 Protocol expires in 2016. At the final meeting of the
20 Collaborative, Staff agreed verbally to participate in the multi-state discussions.⁹

21

⁷ *WUTC v. PacifiCorp*, Dockets UE-111190, Order 07 at ¶¶20-21 (March 30, 2012).

⁸ Dalley, Exhibit No. ____ (RBD-2) at 6-7.

⁹ Washington Collaborative Process, October 25, 2012, Olympia, Meeting Minutes.

1 **Q. What are the modifications to the WCA being proposed by the Company in this**
2 **case?**

3 A. Company witness Duvall proposes three modifications to the WCA that impact the
4 calculation of net power costs, as discussed by Staff witness Gomez:

- 5 • Inclusion of all power purchase agreements with Qualified Facilities located in
6 PacifiCorp West Balancing Authority Area (“PACW”), including those located
7 in California and Oregon.
- 8 • Removal of the imputed sale from PACW to PacifiCorp East Balancing
9 Authority Area (“PACE”).
- 10 • Inclusion of the full capacity of PacifiCorp’s point-to-point transmission contract
11 with Idaho Power Company.¹⁰

12 Mr. Duvall proposes additional modifications to the development of certain
13 WCA allocation factors, as discussed in my testimony below:¹¹

- 14 • Changing the weighting used to calculate the CAGW and Jim Bridger Generation
15 (“JBG”)¹² allocation factors from 75 percent demand over 25 percent energy to
16 38 percent demand over 62 percent energy, which is based on the absolute peak
17 hour for the WCA. (The proper term for this ratio is “load factor.”)
- 18 • Using the highest 100 winter hours and highest 100 summer hours (“200 CP”) to
19 calculate one of the base components within the CAGW allocation factor.¹³

20

¹⁰ Dalley, Exhibit No. ___ (RBD-1) at 5-6.

¹¹ McDougal, Exhibit No. ___ (SRM-1T) at 27:1-18.

¹² The Company’s presentation of this change is confusing. The calculation of JBG does not directly include either the 75/25 weighting or the 38/62 weighting. Rather, the calculation of JBG includes CAGW, which is weighted by either 75/25 or 38/62. Therefore, changes to JBG are a flow-through effect of any changes made to CAGW.

¹³ Dalley, Exhibit No. ___ (RBD-1) at 6:7-19.

1 **Q. Please discuss Staff’s review of the WCA allocation methodology in this case.**

2 A. Staff issued numerous data requests to the Company on this subject, in addition to
3 conducting field visits at the Company’s offices in Portland.

4 Staff also spent significant time reviewing the West Control Area Inter-
5 jurisdictional Allocation Methodology Manual (“Manual”).¹⁴ In reviewing the
6 Manual, Staff went factor by factor deciding whether each allocation factor was still
7 reasonable, without concern for the impact on Washington’s revenue requirement.

8

9 **IV. STAFF’S RECOMMENDATION TO APPLY THE APPROVED WCA**
10 **ALLOCATION METHODOLOGY**
11

12 **Q. Does Staff believe that modifying the WCA may be appropriate?**

13 A. Yes, but only if the modifications are the result of a comprehensive review of the
14 allocation methodology. As mentioned above, the Collaborative considered two
15 potential ways to entirely overhaul the allocation methodology, but neither overhaul
16 proposal gained traction with all of the Parties. Specific modifications – that result
17 from a comprehensive review – may be an appropriate way to correct inconsistencies
18 or otherwise improve the accuracy and equity of the methodology.

19

20 **Q. Are the modifications to the WCA allocation methodology proposed by**
21 **PacifiCorp the product of a comprehensive review?**

22 A. No, the Company has been selective in the WCA modifications it proposes. The
23 lack of a comprehensive review is evidenced by the Company’s inconsistent
24 treatment of the CAGW and SG allocation factors and its complete lack of

¹⁴ McDougal, Exhibit No. ____ (SRM-5).

1 discussion regarding an important and controversial allocation factor, namely the SO
2 allocation factor. I address these two issues in detail below.

3

4 **Q. What is the impact of the modifications to the WCA as proposed by PacifiCorp?**

5 A. According to the Company's response to Staff Data Request 264, the impact of the
6 Company's modifications to the WCA increase the Company's requested
7 Washington revenue requirement by approximately \$800,000. According to the
8 Company's response to Staff Data Request 266, the continued use of the SO
9 allocation factor, rather than the System Net Plant allocation factor, accounts for \$1.1
10 million of the Company's direct case.

11

12 **A. Company Inconsistencies between the CAGW and SG Allocation Factors**

13

14 **Q. How are the CAGW and SG allocation factors calculated?**

15 A. The CAGW and SG allocation factors are derived by weighting two "base
16 components." The weightings can be any two numbers that add up to 100 percent
17 and gives more or less significance to one of the two "base components." For both
18 the CAGW allocation factor and the SG allocation factor, the two base components
19 are Washington's share of demand-related and energy-related costs, respectively.¹⁵

20

21 **Q. How is the Company's treatment of the Control Area Generation West**
22 **allocation factor inconsistent with its treatment of the System Generation**
23 **allocation factor?**

¹⁵ McDougal, Exhibit No. ____ (SRM-5) at 7 and 11.

1 A. The Company changes the weighting within the calculation of the CAGW allocation
2 factor to a “peak credit ratio”¹⁶ without also changing the weighting within the
3 calculation of the SG allocation factor, a conceptually similar allocation factor. SG
4 is used to “allocate generation- and transmission-related costs that cannot be
5 assigned to a specific control area.”¹⁷ CAGW is used to “allocate generation- and
6 transmission-related costs that are assigned to the west control area.”¹⁸ Therefore,
7 both of the allocation factors apportion generation- and transmission-related
8 resources between demand costs and energy costs. The only conceptual difference is
9 the level of accounts the two allocation factors allocate: total system (“TS”) or
10 WCA.

11

12 **Q. Specifically, how are the CAGW and SG allocation factors being treated**
13 **differently by PacifiCorp?**

14 A. In the WCA allocation methodology approved in Docket UE-061546, the weighting
15 for both CAGW and SG allocation factors is 75 percent for the demand component
16 and 25 percent for the energy component (“75/25”). The Company proposes using a
17 “peak credit ratio” (38 percent demand, 62 percent energy “38/62”) for the
18 weightings within the CAGW allocation factor.¹⁹ However, the Company maintains
19 the use of 75/25 for the weighting of the SG allocation factor.²⁰

20

¹⁶ McDougal, Exhibit No. ____ (SRM-1T) at 27:10-11.

¹⁷ McDougal, Exhibit No. ____ (SRM-5) at 7.

¹⁸ McDougal, Exhibit No. ____ (SRM-5) at 11.

¹⁹ CAGW = (38 percent x demand component, WCA) + (62 percent x energy component, WCA). See McDougal, Exhibit No. ____ (SRM-5) at 11.

²⁰ SG = (75 percent x demand component, TS) + (25 percent x energy component, TS).

1 **Q. What is the impact of these disparate weightings in the calculation of the**
2 **CAGW and SG allocation factors?**

3 A. By changing the weighting of the CAGW allocation factor from 75/25 to 38/62, the
4 allocation factor increases by two basis points, meaning that 0.02 percent more of the
5 costs allocated through the CAGW allocation factor are apportioned to Washington.
6 Moreover, this change to CAGW impacts the calculation of several other allocation
7 factors that are partially based on CAGW, namely Jim Bridger Generation (“JBG”),
8 System Net Plant Transmission (“SNPT”), Wheeling Revenue – Generation
9 (“WRG”), and Wheeling Revenue – Energy (“WRE”).²¹

10 By not similarly changing the SG allocation factor from 75/25 to 38/62, the
11 allocation factor remains 23 basis points higher, meaning that .23 percent more of the
12 costs allocated on the SG allocation factor are apportioned to Washington than they
13 would be based on 38/62.²² This change will also have additional impacts, including
14 the calculation of the SO allocation factor.

15
16 **Q. Why does the change from 75/25 to 38/62 increase the CAGW allocation factor,**
17 **while the same change would decrease the SG allocation factor?**

18 A. The difference in the directional change between the CAGW allocation factor and
19 the SG allocation factor is due to Washington’s relative demand and energy
20 components in the WCA versus the Company’s total system. On a WCA basis,
21 Washington’s energy component is higher at 22.6481 percent compared to its

²¹ The total dollar impact of this change is approximately \$800,000 according to Boise Data Request No. 3.3, first revision.

²² $SG = (38 \text{ percent} \times 8.20) + (62 \text{ percent} \times 7.57) = 7.8094$. The Company’s SG allocation factor is 8.0434. The difference is $(8.0434 - 7.8094) = 0.234$. See McDougal, Exhibit No. ____ (SRM-5) at 7.

1 demand component of 22.5913 percent.²³ On a total system basis, Washington’s
2 energy component is lower at 7.57 percent compared to its demand component of
3 8.20 percent.²⁴

4

5 **Q. Does Staff have any other concerns regarding the SG and CAGW allocation**
6 **factors?**

7 A. Yes. The Company states that the peak credit calculation results in 38/62 demand
8 energy weightings.²⁵ However, a review of Company Exhibit No. ____ (CCP-4)
9 reveals that the Company arrives at 38/62 not through the calculation of a peak credit
10 ratio, but through the calculation of a load factor. In a true peak credit ratio:

- 11 • The average energy for the year is calculated by dividing the total usage for
12 the test year by the total number of hours in the year (8,784).²⁶
- 13 • The peak demand is calculated by averaging the peak usage within a
14 specified period, for example 1 hour from each calendar month (“12CP”) or
15 from the top 100 hours in the winter and the 100 hours in the summer (“200
16 CP”).

17 Instead of following the above steps, the Company calculated the average
18 energy and peak demand in the following way:

- 19 • The average energy for the year was calculated by dividing the total usage for
20 the test year by the total number of hours in the year (8,784).

²³ McDougal, Exhibit No. ____ (SRM-5) at 11.

²⁴ McDougal, Exhibit No. ____ (SRM-5) at 7.

²⁵ McDougal, Exhibit No. ____ (SRM-1T) at 27: 10-11.

²⁶ July 1, 2011, to June 30, 2012, included February 29, a leap day.

1 • The peak demand is determined by identifying the absolute peak hour in the
2 test period.

3 Therefore, while the presentation of Exhibit No. ____ (CCP-4) separates the data into
4 twelve months, only one point of demand data is actually used in the Company's
5 calculation. The Company's methodology is consistent with a load factor, rather
6 than a peak credit ratio.²⁷

7

8 **Q. What methodology does Staff recommend to determine allocation factor**
9 **subparts?**

10 A. Staff recommends using 200 CP in the calculation of all subparts in all G&T
11 allocation factors. Specifically, this means that the Company should use 200 CP data
12 to:

- 13 • Calculate the energy components of the SG and CAGW allocation factors.
- 14 • Calculate the peak credit ratio that is used to weight the base components of
15 the SG and CAGW allocations factors.

16 The top 200 hours should use the top 100 hours that occur in a period defined as
17 summer (April through October) and the top 100 hours that occur in a period defined
18 as winter (November through March). It is also important to align the selected
19 universe with the selection of which 200 hours are used in the calculation. For
20 example, when determining the peak credit ratio for the WCA on a 200 CP basis, the
21 top 100 winter hours and top 100 summer hours should only consider the peak use
22 hours of customers within Washington, Oregon, and California.

²⁷ Parrish, Denise, *Electricity Class Cost of Service Studies: Which Cost Allocators Should be Used?*, ERRA
Tariff / Pricing Committee Meeting, Sofia, Bulgaria, January, 2012, slide 5.

1

2 **Q. Why does Staff disagree with the Company’s use of the load factor?**

3 A. Staff disagrees with the Company’s use of the load factor for one important reason:
4 past Commission precedent. The Commission has previously ruled that it is
5 “preferable to use data from a longer period of time, to remove variations due to
6 unusual weather and to achieve greater stability”²⁸ when calculating the peak credit
7 ratio. The 200 CP method that Staff supports is superior to the Company’s load
8 factor approach in implementing this principle as it uses 200 data points rather than
9 just one data point.

10

11 **B. Company Failure to Address the Controversial SO Allocation Factor**

12

13 **Q. Please generally describe the SO allocation factor as applied by the Company.**

14 A. The SO allocation factor is used to allocate general and intangible plant and general
15 A&G expenses that cannot be directly assigned. The current SO factor is based on
16 each state’s percentage of total Company gross plant.²⁹

17

18 **Q. Why should the SO allocation factor be part of a comprehensive review of the**
19 **WCA allocation methodology?**

20 A. The allocation of A&G costs has been contested on numerous occasions before the
21 Commission,³⁰ and remains contentious. In fact, Company witness Dalley states that

²⁸ *WUTC v. Washington Natural Gas Company*, Dockets UG-940034 and UG-940814, Supplemental Order 05 at 9 (April 11, 1995).

²⁹ McDougal, Exhibit No. ____ (SRM-5) at 7.

1 previous modifications to the WCA have resulted in the “inconsistent application of
2 allocation factors among cost categories.”³¹ While Staff does not necessarily share
3 the Company’s view entirely, we are interested in a reexamination of the
4 apportionment of general A&G accounts, particularly the current SO allocation
5 factor.

6
7 **Q. Please describe the broad theory that underpins the allocation of general and**
8 **intangible plant and general A&G expenses.**

9 A. General and intangible plant and general A&G expenses are common costs not
10 directly involved in production, transmission, distribution, or the provision of
11 customer services. However, the amounts charged to the general and intangible
12 plant and the general A&G accounts are nonetheless necessary to provide electric
13 service as they support the above functions. Therefore, the allocation of general and
14 intangible plant and general A&G expenses should be apportioned based on an
15 understanding of how the resources are used to support other services during the test
16 period.³²

³⁰ Lazar, Jim, *Cost of Service for the Electric and Natural Gas Industries: An Historical Review of Decisions by the Washington Utilities and Transportation Commission, 1978-1994* at 9 (November, 1994).

³¹ Dally, Exhibit No. ____ (RBD-2) at 6.

³² National Association of Regulatory Utility Commissioners, “Electric Utility Cost Allocation Manual” at 105-106 (January, 1992).

1 **Q. What is Staff’s position on the Company’s SO factor?**

2 A. Staff disputes the appropriateness of using the SO factor because it is based on gross
3 plant, which reflects the account balances at the time an item of plant was placed in
4 service. Therefore, an allocation factor based on *gross* plant includes expenditures
5 that may have occurred decades ago.

6 On the other hand, an allocation factor based on *net* plant is superior because
7 it removes any depreciation that has accumulated during the years the plant has been
8 in service. The removal of accumulated depreciation makes the balances for older
9 plants considerably smaller. Similarly, newer plant, which has had fewer years to
10 accumulate depreciation, will have a larger impact within the calculation of a net
11 plant allocation factor. This is appropriate since more recent plant additions have a
12 higher correlation with the current operations and strategic focus of the Company.
13 Reasonable allocation factors should recognize this principle.

14
15 **Q. Do PacifiCorp’s operations demonstrate your point regarding the superiority of
16 using an allocation factor based on net plant?**

17 A. PacifiCorp provides an excellent example for basing the allocation factor on net
18 plant, rather than gross plant, in order to account for newer plant additions. [REDACTED]

19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

22 [REDACTED]. This finding is consistent
23 with the Company’s 2013 Integrated Resource Plan, where the base case shows no

1 capacity additions in Washington over the 20-year planning horizon; the modest
2 increase in demand, which is at most eight MWs in a year, is expected to be met with
3 Demand Side Management.³³ This trend of disparate plant additions is shown in my
4 Exhibit No. ____ (KAW-4).³⁴

5 The Company summarizes the costs it considers significant in its Form 10-K
6 (year-ended 2012) filed with the United States Securities and Exchange Commission.
7 The Form 10-K states on page 16 that “PacifiCorp’s Energy Gateway Transmission
8 Expansion Program represents . . . new high-voltage transmission lines, with an
9 estimated cost exceeding \$6 billion, primarily in Wyoming, Utah, Idaho and
10 Oregon. . . The transmission line segments are intended to: (a) address customer load
11 growth . . .”³⁵

12 In summary, Staff believes that an allocation factor based on net plant,
13 namely System Net Plant (“SNP”),³⁶ would produce more accurate and equitable
14 results than the currently used SO factor based on gross plant that over-allocates
15 costs to slower growing jurisdictions. With that said, there are other possible ways
16 to allocate general and intangible plant and general A&G expenses. Staff is
17 interested in considering other options with the input of the Parties and additional
18 information provided in the allocation factor Report.

19

³³ White, Exhibit No. ____ (KAW-3).

³⁴ White, Exhibit No. ____ (KAW-4), at 1-3 – based on the Company’s response to Staff Data Request No. 82.

³⁵ For fiscal year ended December 31, 2012 -

<http://www.sec.gov/Archives/edgar/data/75594/000007559413000005/pacificorp123112form10-k.htm>

³⁶ The SNP factor is based on the allocation of total net plant, which is calculated by taking gross plant less accumulated depreciation for each state and dividing it by total Company gross plant less total accumulated depreciation. McDougal, Exhibit No. ____ (SRM-5) at 12.

1 **Q. What other allocation factor for general and intangible plant and general A&G**
2 **expenses are worthy of consideration?**

3 A. PacifiCorp could also consider an allocation factor used by Avista Corporation
4 (“Avista”),³⁷ as it is the other multi-state utility that operates in Washington. Avista
5 currently uses a blended 4-part factor (“4-factor”) that weights equally the following:

- 6 • Customer count.
- 7 • Direct labor to Operations and Maintenance (“O&M”).
- 8 • O&M expense directly charged to transmission and distribution (less labor).
- 9 • Directly assigned net plant.

10 Admittedly, the 4-factor was proposed by Avista and was uncontested by other
11 parties in that case, nevertheless, it is a concept for the Company to consider.

12
13 **Q. Please summarize your recommendation that the Commission set rates in this**
14 **case based on the approved WCA allocation methodology rather than the**
15 **revised WCA that PacifiCorp proposes.**

16 A. The Company has proposed revisions to the WCA allocation methodology absent a
17 comprehensive review. In particular, the Company has not addressed inconsistencies
18 in its proposal between the CAGW and SG allocation factors. It has also failed
19 completely to address the SO allocation factor. Therefore, the Commission has no
20 basis upon which to conclude that the Company’s proposed revisions will result in a
21 fair allocation of total system costs to Washington. The Commission should reject

³⁷ *WUTC v. Avista Corporation*, Dockets UE-991606 and UG-991607, Order 03 at 10 (September 29, 2000).

1 the Company's proposed revisions and set rates in this case based upon the approved
2 WCA allocation methodology.

3 Nevertheless, Staff is interested in evaluating potential revisions to the WCA
4 allocation methodology. The Report I describe next will facilitate the
5 comprehensive review that must first be conducted.

6

7 **C. Allocation Factor Report**

8

9 **Q. Please summarize the benefits of ordering the Company to submit a Report.**

10 A. My prior testimony addresses issues regarding several of the allocation factors used
11 currently in the WCA. The Report I recommend will allow continued analysis of
12 those matters, and others that may be raised by other parties, for resolution in the
13 Company's next GRC.

14

15 **Q. Please describe the Report you are recommending.**

16 A. The Report should provide an analysis of the following, consistent with the
17 descriptions provided within my testimony:

- 18 1. A thorough analysis and breakdown of the following FERC Accounts:
- 19 • General Plant: Accounts 389-399.
 - 20 • Intangible Plant: Account 303.
 - 21 • Administrative and General: Accounts 920-935.
- 22 2. Support for the continued use of SO, if the Company believes this is still the best
23 allocation factor.

1 3. Consideration of alternatives to SO for allocating the above FERC Accounts,
2 including:

- 3 • The System Net Plant factor.
- 4 • A multi-factor allocator such as the “4-Factor” described earlier.

5
6 **Q. When should the Company submit the Report?**

7 A. The Company should submit the Report at least 90 days before it files its next GRC.
8 Changing any allocation factors after the start of the rate case requires updating the
9 Washington per books amounts, thus changing the starting point of every adjustment
10 in the case. The submission of the Report before the start of the next GRC will allow
11 Staff time to have the Company rerun its case using any allocation factors Staff plans
12 to recommend.

13 In that regard, it is also worth noting that there are significant modeling
14 difficulties associated with altering allocation factors that warrant further
15 examination after this case. For example, Staff considered the development of a new
16 blended allocation factor for the apportionment of general A&G expense. In
17 response to a data request, the Company stated that creating a new allocation factor
18 would “require updates to almost every tab in both the Regulatory Allocation Model
19 (“RAM”) and Jurisdictional Allocation Model (“JAM”),³⁸ in addition to updating the
20 defined ranges in the macros.”³⁹ Therefore, all relevant information needed to
21 analyze alternative allocation factors should also be provided in advance so that the
22 Company will also have time to provide any allocation factor adjustments.

³⁸ The RAM and JAM, collectively, are the model used by the Company to derive any particular state’s revenue requirement.

³⁹ PacifiCorp Response to Staff’s Data Request No. 240.

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Q. Is there any other specific information regarding allocation factors that the Company should provide in its next GRC?

A. Yes. When the Company files its next GRC, it should provide the Washington per books amounts based on the WCA allocation methodology approved in Docket UE-061546 and the following specific calculations that correspond to any modifications to the WCA allocation methodologies under consideration. These calculations include:

1. The calculation of SC based on 200 CP total system data.
2. The calculation of SG based on the revised SC percentage and weightings based on a 200 CP total system peak credit ratio.
3. The calculation of CAGW based on 200 CP – WCA peak credit ratio.
4. Identification of and updates to any factors derived from the SG or CAGW allocation factors such as:

- Jim Bridger Generation (“JBG”).
- System Net Plant Transmission (“SNPT”).
- Wheeling Revenue – Generation (“WRG”).
- Wheeling Revenue – Energy (“WRE”).
- System Overhead (“SO”).
- System Net Plant (“SNP”).

Table 1: Summary of Data used within Allocation Factors⁴⁰

Allocation Factor	WCA: Original	WCA: Company	WCA: Staff
<i>System Generation:</i>			
Base Component	12 CP – TS	12 CP – TS	200 CP – TS
Weighting	Stipulated	Stipulated	200 CP – TS
<i>Control Area Generation West:</i>			
Base Component	12 CP – WCA	200 CP – WCA	200 CP – WCA
Weighting	Stipulated	Load Factor – WCA	200 CP – WCA

A. CAGW Allocation Factor

Q. What changes to the CAGW allocation factor should the Commission order if it decides to accept any proposed modifications in this general rate case?

A. As I described in Part IV of my testimony, Staff recommends that the Company use 200 CP for the calculation of the peak credit ratio.

Q. Will the Company need to update any other allocation factors if the Commission accepts Staff's initial modification to the CAGW allocation factor?

A. Yes, the Company will need to update other allocation factors that rely, in part, on the value of the CAGW allocation factor. The Company will also need to rerun the

⁴⁰ 12 CP = peak credit ratio based on the average of the peak hour in each calendar month.
 200 CP = peak credit ratio based on the top 100 summer hours and top 100 winter hours.
 WCA = WCA peak credit ratio (determined using top WCA hours).
 TS = Total system peak credit ratio (determined using top total system hours).
 Stipulated = 75 percent demand; 25 percent energy.
 Load Factor – WCA = 38 percent demand; 62 percent energy. See Paice, Exhibit No. ____ (CCP-4).

1 RAM and JAM models to reflect these changes and any other changes ordered by the
2 Commission.

3

4 **B. SG Allocation Factor**

5

6 **Q. What changes to the SG allocation factor should the Commission order if it
7 decides to accept any proposed modifications in this general rate case?**

8 A. Within the SG allocation factor, Staff recommends that the Company change the
9 derivation of the SC factor and the weightings applied to the SE and SC factors.
10 Both the SC factor and the weightings should be calculated using 200 CP data, given
11 the Commission's preference for more data points.⁴¹ The top hours should be
12 determined based on the total system hours, rather than the WCA hours, as the SG
13 allocation factor is used to allocate resources that cannot be assigned to either east or
14 west Control Area and are thus total system numbers.

15

16 **Q. What is the basis for Staff's recommendation?**

17 A. According to the Company's response to Staff's Data Request No. 237, the method
18 of weighting the SG allocation factor by 75/25 was decided in 2003 when Pacific
19 Power merged with Rocky Mountain Power.⁴² States agreed to this weighting as
20 part of their stipulated positions. Therefore, the 75/25 weighting was not intended to
21 reflect the actual operations of the Company.

⁴¹ *WUTC v. Washington Natural Gas Company*, Dockets UG-940034 and UG-940814, Supplemental Order 05 at 9 (April 11, 1995).

⁴² However, the 75/25 ratio has been used in the SG factor since the merger of Utah Power & Light with Pacific Power & Light in 1989.

1 In contrast, the use of the peak credit ratio in the calculation of the SG
2 allocation factor will better reflect the Company’s operations, assuming that the
3 correct information is used to calculate the peak credit. Using the peak credit ratio
4 based on 200 CP – TS for the SG allocation factor corrects the inconsistency in the
5 Company’s case regarding CAGW and SG that I identified earlier in my testimony.

6

7 **C. SO Allocation Factor**

8

9 **Q. What changes to the CAGW allocation factor should the Commission order if it
10 decides to accept any proposed modifications in this general rate case?**

11 A. Staff recommends the replacement of the SO allocation factor with SNP to allocate
12 general and intangible plant and general A&G expenses between jurisdictions,
13 because the current allocation factor unreasonably shifts costs to Washington and
14 other slower growing jurisdictions. The basis of this recommendation is presented in
15 Part IV of my earlier testimony.

16

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

18 A. Yes.