

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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1
2
3 **I. INTRODUCTION**

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

5 A. My name is Joanna Huang. My business address is the Richard Hemstad Building,
6 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia,
7 Washington, 98504. My email address is jhuang@utc.wa.gov.

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

9 A. I am employed by the Washington Utilities and Transportation Commission
10 (“Commission”) as a Regulatory Analyst in the Energy Section of the Regulatory
11 Services Division.

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

14 A. I have been employed by the Commission since June 1996.

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

17 A. I received a Bachelor of Business Administration degree majoring in Accounting
18 from National Chung-Hsing University, Taiwan, in 1987, and a Masters of
19 Accounting Degree from Washington State University in 1991. Prior to my
20 employment at the Commission, I was employed by the Washington State
21 Department of Revenue as an Excise Tax Examiner. I performed desk audits on
22 Business and Occupation tax returns.

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

8
9 **Q. Have you testified previously before the Commission?**

10 A. Yes. I testified in Puget Sound Energy ("PSE") general rate cases in Dockets UE-
11 090704 and UG-090705, and Dockets UE-072300 and UG-07230; a PSE Power Cost
12 Only Rate Case ("PCORC") in Docket UE-130617; a Pacific Power general rate case
13 in Dockets UE-130043 and UE-032065; Avista general rate cases in Dockets UE-
14 140188 and UG-140189, Dockets UE-120436 and UG-120437, Dockets UE-090134
15 and UG-090135, and Dockets UE-991606 and UG-991607; and a Northwest Natural
16 filing in Docket UG-111233.

17 I have also participated in Staff's investigation in the following general rate
18 cases and other matters: Docket UE-011595, Dockets UE-050482 and UG-050483,
19 Dockets UE-070804 and UG-070805, Dockets UE-100467 and UG-100468, and
20 Dockets UE-110876 and UG-110877 (all Avista); Docket UG-152286, and UG-
21 060256 (Cascade); Docket UG-080546 (Northwest Natural), and Docket UG-031885
22 (Northwest Natural); and Dockets UE-070725 and UG-130137 (PSE).

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

3 A. Yes. In my opinion, Company witnesses Mr. Dalley¹ and Ms. McCoy² sufficiently
4 support the Company's proposal to use EOP plant in service balances.
5

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

7 A. Yes. EOP brings AMA rate base balances forward six months, thereby more
8 appropriately aligning rate base balances with the rate effective period in both year
9 one and year two of the rate plan.
10

11 **Q. Does Staff support the Company's adjustment?**

12 A. Yes. Staff believes using EOP plant in service balances will reduce the impacts of
13 regulatory lag, thereby enhancing the Company's ability to earn its authorized return.
14 EOP rate base adjustments were used by the Commission to set rates in the
15 Company's 2013 general rate case, in Docket UE-130043,³ and in PSE's 2013 rate
16 case, in Dockets UE-130137 and UG-130138.⁴ Staff believes using EOP is also
17 appropriate in this case, particularly in light of the Company's proposed two-year
18 rate plan.
19

¹ Dalley, Exh. No. RBD-1T 7:11-8:18.

² McCoy, Exh. No. SEM-1T 4:16-5:16, 20:6-8.

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).

⁴ *Wash. Utils. & Transp. Comm'n v. Fuget Sound Energy*, Dockets UE-130137 and UG-130138, Order 07, 20-21, ¶¶ 46-48 (June 25, 2013).

1 **IV. ACCELERATED DEPRECIATION OF JIM BRIDGER AND COLSTRIP**
2 **UNIT 4 (ADJUSTMENT 6.4)**
3

4 **Q. What is depreciation?**

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

9 In accounting, an asset's useful life and its annual depreciation expense are
10 intrinsically linked. The service life is the expected period from which "services are
11 obtained from the use of the facility."⁷ If the useful life is reduced, then the annual
12 depreciation expense will increase since the total cost of the asset is spread across a
13 shorter period.
14

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

17 A. Pacific Power proposes to shorten the depreciable lives of Jim Bridger to 2025 and
18 Colstrip Unit 4 to 2032. According to the Company's depreciation study currently on
19 file with the Commission, Jim Bridger's retirement date is 2037, and Colstrip

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).

⁶ Financial Accounting Standard Board ASC 360-35-4.

⁷ *Id.*

1 Unit 4's retirement date is 2046. The Company thus seeks to shorten Jim Bridger's
2 depreciable life by 12 years and Colstrip Unit 4's depreciable life by 14 years.

3
4 **Q. When did the Commission approve the current retirement dates of Jim Bridger
5 and Colstrip Unit 4?**

6 A. The Commission approved the current retirement dates in 2008, in Docket UE-
7 071795,⁸ based on the Company's 2007 depreciation study that extended Jim
8 Bridger's depreciable life from 2025 to 2037 and extended Colstrip Unit 4's
9 depreciable life from 2032 to 2046.

10 The retirement dates that were approved in Washington for Jim Bridger
11 (2037) and Colstrip Unit 4 (2046) were also approved in California, Utah, Wyoming,
12 and Idaho. Oregon was the lone state in the Company's service territory that rejected
13 the Company's proposal.⁹ In Docket UM 1329, the Oregon Public Utility
14 Commission retained the then-current Oregon retirement dates for Jim Bridger
15 (2025) and Colstrip Unit 4 (2032). Oregon continues to use those dates as of this
16 testimony.

17 As I will discuss later in my testimony, the Company wants the Commission
18 to "align" the Washington-approved retirement dates for Jim Bridger and Colstrip
19 Unit 4 (2037 and 2046) with those currently approved in Oregon (2025 and 2032).
20

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).

⁹ See Huang, Exh. No. JH-2.

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

3 A. Please refer to the following table:¹⁰

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

4

5

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

7 A. Yes. The Company most recently updated its depreciation study in 2013.¹¹ The
8 Company updates its depreciation study approximately every five years. Staff
9 expects that the Company's next update will occur in 2018.

10

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

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

15

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

¹⁰ Huang, Exh. No. JH-3.

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).

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

9
10 **Q. As you understand the Company’s testimony, what is the Company’s**
11 **justification for accelerated depreciation of Jim Bridger and Colstrip Unit 4?**

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

19 The Company also observes that its proposal will cause reversion to the
20 “shorter depreciation lives Washington used before the Company’s 2007
21 depreciation study.”¹⁴ Finally, it suggests there is some recent precedent for

¹² Dalley, Exh. No. RBD-1T 4:20-22.

¹³ *Id.* at 11:3-6.

¹⁴ *Id.* at 4:22–5:1.

1 accelerated depreciation of coal plants. Pacific Power states, “[Accelerated
2 depreciation of Jim Bridger and Colstrip Unit 4] is also consistent with Pacific
3 Power’s actions in its most recent depreciation study where it accelerated the
4 retirement of the Carbon coal plant by five years to comply with EPA regulations.”¹⁵
5

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

7 A. No. The Company’s accelerated depreciation proposal represents a \$9.9 million
8 increase in annual revenue requirement, yet the Company supports the proposal with
9 only cursory, qualitative testimony, by Mr. Dalley and Ms. McCoy.¹⁶

10 Public Counsel asked the Company in discovery to “provide any analysis,
11 evaluations and studies conducted by or for the Company in its evaluation of whether
12 or not to seek to shorten the depreciable lives of the Jim Bridger and Colstrip units in
13 the expedited rate filing.”¹⁷ The Company gave the following candid response:

14 **Response to PC Data Request 11**

15 The Company has not done any analysis or studies in its evaluation of
16 whether to shorten depreciable lives of Jim Bridger and Colstrip units in its
17 current filing, as the decision to shorten depreciable lives was a policy
18 decision, based on qualitative analysis as discussed in detail in the direct
19 testimony of Mr. R. Bryce Dalley.¹⁸
20

21 Staff also asked the Company to provide “all documents and information relied upon
22 by management to arrive at its decision.”¹⁹ The Company responded, “There are no
23 documents responsive to this request other than those presented as part of the

¹⁵ *Id.* at 11:7-9.

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.

¹⁷ Huang, Exh. No. JH-4.

¹⁸ *Id.*

¹⁹ Huang, Exh. No. JH-5.

1 Company's filing in testimony and exhibits, which provide the analysis of impacts
2 and the rationale for the proposal."²⁰

3
4 **Q. What is your analysis of the Company's "alignment" justification?**

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

11
12 **Q. According to the Company, what impact will "alignment" have on the actual
13 operating lives of Jim Bridger and Colstrip Unit 4?**

14 A. The Company's testimony says nothing about the actual operating lives of Jim
15 Bridger and Colstrip Unit 4. The Company does not promise, for example, that Jim
16 Bridger will close in 2025 if the Commission adopts the Company's proposal. In
17 discovery, the Company acknowledged that "[c]hanging depreciable lives . . . would
18 not restrict the Company from using generation from these resources to serve
19 Washington customers after the end of the facilities' depreciable lives."²²

20

²⁰ *Id.*

²¹ Dalley, Exh. No. RBD-1T 4:21-22.

²² Huang, Exh. No. JH-6.

1 **Q. What is your analysis of the Company's claim that accelerated depreciation of**
2 **Jim Bridger and Colstrip Unit 4 will provide "additional flexibility for**
3 **compliance with major state and federal environmental initiatives?"²³**

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

7

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

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

15

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

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

²³ Dalley, Exh. No. RBD-1T 3:1-2.

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

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

8
9 **Q. If the Commission rejects the Company's proposed adjustment, will the**
10 **Company still be able to recover its original investments from ratepayers**
11 **through its current depreciation expense?**

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

17
18 **Q. How is Staff's recommendation reflected in the present case?**

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

1 Q. Does this conclude your testimony?

2 A. Yes.