

Exhibit No. ___ (TES-1T)
Docket UE-100749
Witness: Thomas E. Schooley

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

DOCKET UE-100749

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP D/B/A PACIFIC POWER
& LIGHT COMPANY,**

Respondent.

TESTIMONY OF

Thomas E. Schooley

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Working Capital, Cost-of-Service, Revenue Allocation and Rate Design, and Low Income
Bill Assistance Program*

October 5, 2010

1 **Q. Please list the adjustments you made to PacifiCorp's test year results to**
2 **implement the results of your investor-supplied working capital analysis.**

3 A. I made the following four adjustments to PacifiCorp's test-year results of operations:

- 4 • **Adjustment 8.1, Cash Working Capital:** This adjustment removes
5 PacifiCorp's one-eighth method working capital calculation of ~~\$11,145,151~~
6 \$11,105,103 (Washington) from rate base, ~~plus the residual cash working~~
7 ~~capital from the Company's data,~~ leaving a zero balance for working capital.
- 8 • **Adjustment 8.2, Jim Bridger Mine Rate Base:** This adjustment removes
9 from rate base \$4,039,570 (Washington) of materials & supplies, and pit
10 inventory (fuel stock) related to the Jim Bridger Mine. *See Exhibit No. RBD-*
11 *3, Tab 8, page ~~8-2-1~~ 8.2 revised 11/23/10.*
- 12 • **Adjustment 8.12, Remove Current Assets:** This adjustment removes from
13 rate base \$3,524,551 (Washington) from FERC Account 151 (Fuel Stock),
14 and \$7,775,703 (Washington) from FERC Account 154 (plant materials and
15 operating supplies), leaving a zero balance for both accounts.
- 16 • **Adjustment 9.1.1, Production Factor Adjustment:** The reduction to rate
17 base in Adjustment 8.2 (my second adjustment above) is carried forward to
18 Adjustment 9.1.1. The effect is a small increase to rate base of ~~\$7,143~~ \$7,141
19 (Washington).

20 The net effect of these adjustments is to remove each PacifiCorp working
21 capital adjustment in this case, because Staff's analysis shows investors have not
22 supplied working capital to PacifiCorp, and therefore the Commission should not
23 include any working capital amounts in rate base to earn a return for investors.

1 **5. Response to PacifiCorp on Working Capital**

2
3 **Q. What does PacifiCorp propose for a working capital in this case?**

4 A. The Company proposes to include in rate base a total of \$22,405,357 related to
5 working capital. This amount comes from three different sources:

- 6 • PacifiCorp uses the “one-eighth” method to derive ~~\$11,145,151~~ \$11,105,103
7 in cash working capital. The Company’s calculation is in Exhibit No. ____
8 (RBD-3), Tab ~~1~~ 8, page ~~1.0~~, line ~~41~~ 8.1, revised 11/23/10.
- 9 • PacifiCorp directly includes in rate base ~~\$3,524,551~~ \$5,554,908 worth of fuel
10 stock (Exhibit No. ____ (RBD-3), Tab 1, page 1.0, line 39, col. 3.).
- 11 • PacifiCorp directly includes in rate base ~~\$7,775,703~~ \$9,777,775 worth of
12 plant materials and operating supplies (materials & supplies) (Exhibit No.
13 ____ (RBD-3), Tab 1, page 1.0, line 40, col. 3.).

14 The figures for each of these three items are shown in Company witness Mr.
15 Dalley’s Exhibit No. ____ (RBD-3), Tab 2, revised 11/23/10, page 2.2, lines 42-44.²

16
17 **Q. Should the Commission include any of these amounts in rate base?**

18 A. No.

19
20 **Q. Please explain why the Commission should reject the Company’s proposal to**
21 **include \$11,105,103 in rate base, based on the Company’s use of the one-eighth**
22 **method.**

² There is an unexplained \$40,048 discrepancy between Exhibit No. ____ (RBD-3), Tab 1, page 1.0, line 41 and Exhibit No. ____ (RBD-3), Tab 2, page 2.2, line 44. This same discrepancy exists in Miscellaneous Rate Base.

1 A. The Company's one-eighth method is a simple calculation, but it suffers by its
2 simplicity because it fails to demonstrate that the working capital it derives is
3 provided by investors. Because investors are only allowed a return on the capital
4 they have provided the company, the Company needs to demonstrate that investors
5 supplied this capital. The Company's one-eighth method fails to demonstrate that.

6 The one-eighth method simply takes total operations and maintenance
7 expenses and divides it by eight. As a result, the one-eighth method will always
8 result in a positive working capital allowance, regardless whether investors supply
9 working capital to the firm. In other words, the one-eighth method assumes
10 investors supply working capital, without proving that assumption. That is not
11 appropriate.

12
13 **Q. Please explain why the Commission should reject the Company's proposal to**
14 **include in rate base ~~\$3,524,551~~ \$5,554,908 worth of fuel stock and ~~\$7,775,703~~**
15 **\$9,777,775 worth of materials and supplies.**

16 A. These accounts are current assets, as shown in the Company's ~~FERC Form 1~~
17 adjusted results in RBD-3, tab 2, page 2.2, lines 42-43. As such, these items should
18 only be included in working capital to the extent investor's supply that capital.
19 These items should not be automatically included as line item rate base accounts, as
20 PacifiCorp presents them.

1 Commission should reject the one-eighth method offered by PacifiCorp, and also
2 remove the current asset accounts fuel stock, and materials & supplies from the
3 results of operations, including the current asset accounts from Adjustment 8.2, Jim
4 Bridger Mine. This results in a reduction to rate base of ~~\$26,484,975~~ \$26,444,927
5 (Washington). The production factor adjustment is also revised to reflect the change
6 in Adjustment 8.2, for an increase to rate base of ~~\$7,143~~ \$7,141 (Washington).
7

8 IV. REVENUE ALLOCATION

9

10 **Q. What is revenue allocation?**

11 A. Revenue allocation, also known as rate spread, is the process of determining the
12 portion of total revenues to be collected from each rate schedule.
13

14 **Q. Please contrast revenue allocation with rate design.**

15 A. Rate design takes the total revenue allocated to each rate schedule (the revenue
16 allocation) and determines the specific charges within the schedule, such as the basic
17 charge per month, the demand charge per kilowatt, and the exact cents per kilowatt-
18 hour.
19

20 **Q. What is the basic principle behind allocating revenues to the rate schedules?**

21 A. The basic principle is cost causation: customers should be charged for service based
22 on the costs they impose on the total system. The premise of cost causation is
23 present in many aspects of determining rates in a price-regulated industry.