Exhibit No. JRS-1T
Docket UE-15____
Witness: Joelle R. Steward

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PACIFIC POWER & LIGHT COMPANY, Petition For a Rate Increase Based on a Modified Commission Basis Report, Two-Year Rate Plan, and Decoupling Mechanism.	Docket UE-15____

PACIFIC POWER & LIGHT COMPANY

DIRECT TESTIMONY OF JOELLE R. STEWARD

November 2015

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ATTACHED EXHIBITS

Q. Please state your name, business address, and present position with PacifiCorp.

A. My name is Joelle R. Steward. My business address is 1407 West North Temple, Salt Lake City, Utah 84116. My present position is Director, Rates & Regulatory Affairs. I am testifying for Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp.

QUALIFICATIONS

Q. Please describe your education and professional experience.

A. I have a Bachelor of Arts degree in Political Science from the University of Oregon and a Masters of Public Affairs from the Hubert Humphrey Institute of Public Policy at the University of Minnesota. Between 1999 and March 2007, I was employed as a Regulatory Analyst with the Washington Utilities and Transportation Commission. I joined the Company in March 2007 as Regulatory Manager, responsible for all regulatory filings and proceedings in Oregon. In February 2011, I assumed my current responsibilities overseeing cost of service and pricing for PacifiCorp. In May 2015, I assumed my current position, with broader oversight over the Company's state regulatory affairs.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present (1) the Company's proposed allocation to rate schedules for the requested revenue increases in the two-year rate plan supported in this petition, (2) the proposed rates for each of the rate changes in the two-year rate plan, and (3) the Company's proposed decoupling mechanism.

Q. How is your testimony organized?

A. My testimony is organized as follows:

- First, I present the Company's proposed rate spread for the requested increases effective May 1, 2016, and May 1, 2017.
- Second, I describe and present the Company's proposed base rates to be effective May 1, 2016, and May 1, 2017, for the customer rate schedules.
- Third, I explain the Company's proposal to increase the credits for the Low Income Bill Assistance program (LIBA), consistent with stipulated five-year plan approved by the Commission in Order 07 in Docket UE-111190.[1]
- Fourth, I introduce the Company's proposed decoupling mechanism, and sponsor the tariffs to implement that mechanism and the rate changes proposed in this filing.

Q. Please summarize the Company's rate spread and pricing proposals in this filing.

A. The Company is requesting an expedited rate filing (ERF) and rate plan with annual increases of less than three percent, which does not constitute a general rate case under WAC 480-07-505(1)(a). Because of the limited issues raised in this filing, and to adhere to the three percent rate cap for individual customer classes under WAC 480-07-505(1)(b), the Company is generally not proposing changes in cost of service, rate spread, or rate design. The Company proposes to apply the requested increases on an equal percentage basis of 2.99 percent to each rate schedule on both May 1, 2016, and May 1, 2017. For residential rates, the Company proposes no change to the residential basic charge of $7.75 and applies the allocated increases to the current energy rates. For the non-residential rate schedules, the Company is proposing an equal percentage increase to the basic charges, load size charges, reactive power charges, demand charges and energy charges to most rate schedules. For Schedule 48

[1] *Wash. Utils. & Transp. Comm'n v. PacifiCorp,* Docket UE-111190, Order 07 at 8, ¶ 17 (Mar. 30, 2012).

Dedicated Facilities rates, however, the Company is proposing to apply a higher increase to demand charges to better reflect cost of service and provide better fixed cost recovery. The Company is also proposing to increase credits to LIBA participants by two times the average residential increase, or 5.98 percent, on May 1, 2016, and May 1, 2017, the same level required under the five-year LIBA plan for general rate case increases.

Q. Please summarize the Company's proposed decoupling mechanism.

A. The Company is proposing a decoupling mechanism in Schedule 93, Decoupling Revenue Adjustment. The decoupling mechanism is consistent with previous direction given by the Commission and is similar in design to the mechanisms approved for Puget Sound Energy (PSE) and Avista Corporation (Avista). The mechanism will track and defer the difference between allowed revenue, calculated on a per customer basis, and actual revenue during the 12-month deferral period ending June 30 each year. Specifically, the mechanism tracks all revenue excluding basic charges and net power costs for the residential (Schedules 16, 17, and 18), small general service (Schedule 24), large general service (Schedule 36), and irrigation (Schedule 40) classes. Similar to the PSE and Avista mechanisms, it includes an earnings test and a three percent annual cap on surcharges, which benefits customers by creating predictable and limited rate increases.

RATE SPREAD

Q. How is the Company proposing to allocate the revenue increase to customer classes?

A. For the 2.99 percent rate increases with requested effective dates of May 1, 2016, and May 1, 2017, the Company proposes a rate spread that allocates the revenue requirement change to rate schedule classes based on an equal percent.

Q. Why is the Company proposing an equal percentage rate spread?

A. In the last general rate case, Docket UE-140762 (2014 Rate Case), the Commission approved a rate spread to move classes to greater parity with cost of service, while balancing ratemaking principles of fairness, perceptions of equity, economic conditions, gradualism, and rate stability.[2] The result of the rate spread approved in the 2014 Rate Case and the subsequent parity to cost of service is shown in Table 1. The 2014 Rate Case brought all classes to within a reasonable range of parity (10 percent) of cost of service. Accordingly, for the increases requested in this filing, the Company believes an equal percentage increase is equitable in light of all classes being within this reasonable range based on the outcome of the 2014 Rate Case.

[2] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762 et al., Order 08, ¶ 202 (March 25, 2015).

Table 1

Schedule No.	Description	Ordered %	Ordered ($000)	Parity with Ordered Increase %
16	Residential	3.3%	4,682	94%
24	Small General Service	1.5%	723	110%
36	Large General Service <1,000 kW	3.3%	2,233	105%
48T/47T	Large General Service =>1,000 kW	3.3%	879	102%
48T	Large General Service Dedicated Facilities	3.3%	834	96%
40	Agricultural Pumping Service	1.5%	189	108%
15,52,54,57	Street Lighting	1.5%	25	110%
	Total Washington Jurisdiction	3.0%	9,564	

Q. Is the Company proposing a new cost of service study for this proceeding?

A. No. Given the expedited and limited nature of the filing, the Company is not proposing a new cost of service study for this proceeding. The cost of service study was litigated in the 2014 Rate Case. While the Commission retained the previously accepted methodologies for that case, it ordered the Company to return to the peak credit approach or provide more justification for an alternative approach in its next case.[3] The Company intends to present this information in its next general rate case. For this filing, the outcome of the 2014 Rate Case, as shown in Table 1, along with the limited issues in this case, supports an equal percentage rate spread. The presentation of a new cost of service study here would undermine the purpose of an ERF, which is designed to avoid annual litigation of all issues in a full general rate case.

Q. Please explain Exhibit No. JRS-1.

A. Exhibit No. JRS-1, Table A, shows the effect of the proposed base rate increases. In Table A, current rate schedule numbers, the number of customers during the test year,

[3] Id. at ¶ 191.

and the megawatt-hour (MWh) of energy consumption during the test year are displayed in columns two through four. Normalized base revenues for the test period are displayed in column five. The proposed revenue increase of $10.0 million for rates effective May 1, 2016, is displayed in columns six through eight. The proposed revenue change of $10.3 million for rates effective May 1, 2017, is displayed in columns nine through 11.

RATE DESIGN

Q. How does the Company propose to design rates to implement the requested revenue increases?

A. The Company generally proposes no change to rate design for this filing, with the exception of Schedule 48 Dedicated Facilities. Instead, as discussed later, the Company proposes to implement a decoupling mechanism to be applicable to most rate schedules. Exhibit No. JRS-2 contains the proposed prices and the billing determinants used in calculating rates effective May 1, 2016. Exhibit No. JRS-3 contains the proposed prices and the billing determinants used in calculating rates effective May 1, 2017. Exhibit No. JRS-4 contains monthly billing comparisons for customers with different consumption levels for each rate schedule for rates effective May 1, 2016. Exhibit No. JRS-5 contains monthly billing comparisons for customers with different consumption levels for each rate schedule for rates effective May 1, 2017.

Q. Please describe the Company's proposed rate design for residential customers.

A. For the monthly residential basic charge, the Company proposes to retain the current $7.75 per month basic charge in this filing. The Company also proposes to retain the existing inverted energy charge rate structure with the second block for usage over 600 kilowatt-hours (kWh) per month. The allocated increases will be recovered on an equal percentage basis to energy charges.

Q. How is the Company proposing to apply the allocated increase to the non-residential rate schedules?

A. The Company proposes to apply the increases on an equal percentage basis to all billing elements, with the exception of Schedule 48 Dedicated Facilities.

- For General Service Schedule 24, for each year the Company proposes to increase on an equal percentage basis the basic charge, the demand charge, the energy charge and the reactive power charge.

- For General Service Schedules 36, for each year the Company has applied the class average increase to all billing charges including the basic charge, load size charge, demand charge, energy charge and reactive power charge.

- For General Service Schedule 48T, for each year the Company has applied the class average increase to all billing charges including the basic charge, load size charge, demand charge, energy charge, and reactive power charge.

- For General Service Schedule 48T Dedicated Facilities, for each year the Company has applied a higher increase to the demand charges and a smaller increase to all other billing charges including the basic charge, and load size, and energy charges. As shown later in my testimony, applying a larger increase to demand charges will better align rates with the cost of service. As a result of this rate design change, the Company is proposing to exclude Schedule 48 from its decoupling mechanism.

- For Agricultural Pumping Schedule 40, the Company proposes to apply a uniform percentage increase to all billing elements.

- For lighting schedules, for each year the Company proposes to apply the increase to all billing elements on a uniform basis.

LOW-INCOME CUSTOMERS

Q. Does the Company have a proposal to address low-income customers in this filing?

A. Yes. The Company has reflected increases to its LIBA rate credits consistent with the five-year LIBA plan approved in Docket UE-111190.[4] The provisions of the five-year LIBA plan are summarized as follows:

- Beginning in 2012, 10 percent of LIBA participants will be certified as eligible for a two-year period with the percent certified rising to 25 percent of clients in 2015. For the 2015-2016 and 2016-2017 program years (November–April), there will be 4,720 participants certified; 1,181 of which will be certified for two years.[5]

- Agency funding will increase each May 1 by $2.50 through 2016 to $75.00 per certification. For the 2016-2017 program year, funding will be $75.00 per certification with a maximum of 4,720 certifications per year.[6]

- Benefits to each participating customer will be increased two times the percentage increase of any future residential general rate increase between 2013 and 2016.

- The Company will file for an increase annually, around May 1, for the Schedule 91 surcharge, which funds the LIBA program, to reflect increased funding requirements. The Schedule 91 surcharge increases will be applied on an equal percentage basis to all rate schedules.

Q. What is the proposed increase in energy rate credits for LIBA participants in this filing?

A. For May 1, 2016, the Company has applied an increase to Schedule 17 credits that is two times the average residential customer increase, which results in a 5.98 percent increase to the average LIBA participant benefit. The proposed Energy Rate Credits are shown in Exhibit No. JRS-2. The Company also proposes to apply a 5.98 percent

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[4] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-111190, Order 07, ¶ 17 (Mar. 30, 2012).
[5] *See* Docket UE-111190, Testimony of Deborah J. Reynolds, Exhibit No. DJR-3 at 1, (Jan. 6, 2012).
[6] *Id.*

increase to the average LIBA participant benefit for the May 1, 2017 increase, which is shown in Exhibit No. JRS-3. The Company will convene a stakeholder group to discuss any additional program changes to be effective beginning with the 2017-2018 winter heating season, in conjunction with the end of the five-year plan.

Q. Has the Company included an increase in this filing to Schedule 91, Low Income Bill Assistance Program surcharge, which funds LIBA?

A. No. Under the five-year LIBA plan, the Company is to file changes to the Schedule 91 monthly surcharge around May 1 each year to reflect the increased funding requirements associated with the five-year LIBA plan, or as part of a compliance filing following a general rate case order. Schedule 91 was included in the compliance filing for the 2014 Rate Case to reflect the increased customer benefits approved in that case. Following a final order in this filing, the Company proposes to again file changes to Schedule 91 as part of the compliance filing to recover the increase in the participant benefits and any other necessary changes.

DECOUPLING MECHANISM

Q. Why is the Company proposing a decoupling mechanism in this rate case?

A. In the 2014 Rate Case, the Commission invited a proposal from Pacific Power to implement a decoupling mechanism similar to that adopted for PSE and Avista.[7] The decoupling mechanism will provide the Company better fixed cost recovery in light of changes in usage due to weather or energy efficiency.

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[7] *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-140762 et al., Order 08 at 94, ¶ 222 (March 25, 2015).

Q. What is the Commission's policy concerning a decoupling mechanism?

A. In 2010, the Commission established policy guidance on regulatory mechanisms designed either to remove barriers to utilities acquiring all cost-effective conservation or to encourage utilities to acquire all cost-effective conservation.[8] Specifically, the Commission articulated policy regarding three types of regulatory mechanisms, including full decoupling. The Commission expressed support for full decoupling and provided utilities and other parties with guidance on the elements that full decoupling should include. Essential to the Decoupling Policy Statement was recognition that the mechanism should aid the company when revenue per customer decreases and the customer when revenue per customer increases. The Commission stated that it believed that "a properly constructed full decoupling mechanism that is intended, between general rate cases, to balance out both lost and found margin from any source can be a tool that benefits both the company and its ratepayers."[9]

Q. Please describe the Company's proposed decoupling mechanism.

A. The decoupling proposal follows the Commission's Decoupling Policy Statement and is modeled on decoupling mechanisms the Commission has approved for Avista and PSE. It operates independently of the other proposals in this case, except the allowed revenues will be updated to reflect the second-year increase. The proposed mechanism is a revenue-per-customer decoupling mechanism that compares the actual non-weather adjusted revenues to the allowed revenues, with the difference

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[8] *See In the Matter of the Washington Utilities and Transportation Commission's Investigation into Energy Conservation Incentives*, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed their Conservation Targets (Nov. 4, 2010) (Decoupling Policy Statement). The Decoupling Policy Statement largely overlaps with the requirements for decoupling the Commission articulated in the Company's 2005 GRC. *See Wash Utils. & Transp. Comm'n v. PacifiCorp*, Dockets UE-050684 and UE-050412, Order 04 at ¶¶101-110 (Apr. 17, 2006).

[9] In the Matter of the Washington Utilities and Transportation Commission Investigation into Energy Conservation Incentives, Docket U-100522, ¶ 27 (Nov. 4, 2010).

deferred later for a surcredit or a surcharge. The mechanism will be applicable for residential (Schedules 16, 17 and 18), small general service (Schedule 24), large general service (Schedule 36) and irrigation (Schedule 40) customers.

The historical test period (12-months ended June 30, 2015) revenues have been adjusted by the requested rate increase effective May 1, 2016, to establish the allowed decoupled revenue rate per customer and the decoupled revenue per kWh for each of the applicable schedules listed above. The difference between total allowed revenues and total actual revenues represents the annual deferral amount. Beginning with rates effective May 1, 2017, the historical test period was updated to include the effects of the rate increase effective May 1, 2016, and the rate increase effective May 1, 2017. This updated test period was used to establish the allowed decoupled revenue rate per customer and the allowed decoupled revenue per kWh for each applicable rate schedule.

Q. What costs will the Company track and recover through the decoupling mechanism?

A. Because differences between forecast and actual net power costs (NPC) are separately tracked and recovered through the Power Cost Adjustment Mechanism (PCAM), the Company is proposing to track and recover only non-NPC related costs through the decoupling mechanism. The Company will exclude revenues recovered from the basic charge and NPC in rates from the calculations. Thus, the mechanism focuses on the fixed costs that the Company recovers through its non-NPC volumetric charges.

Q. What rate schedules are excluded from the decoupling mechanism?

A. The Company is proposing to exclude from the decoupling mechanism Schedule 48, Large General Service 1,000 kW and Over; Schedule 47, Large General Service Partial Requirements Service 1,000 kW and Over; and the lighting, Schedule 15, 51, 52, 53, 54, and 57. All other rate schedules will be included in the mechanism with differences between allowed and actual recovery tracked separately through the deferral.

Q. Why is the Company proposing to exclude the lighting schedules and Schedules 47 and 48?

A. The rate structures for these schedules already provide better fixed cost recovery because their revenues are less dependent upon changes in energy volume due to weather or other changes in usage. For the lighting schedules, their revenues are largely recovered from fixed charges per luminaire. Revenues from lighting schedules that are not recovered through fixed charges are not temperature sensitive, and therefore their fixed cost recovery is less volatile than other rate schedules.

For Schedule 48, a significant portion of non-NPC revenue is recovered through demand charges and revenues are much less subject to weather-related volatility. For the most part, the demand charges are set at a level to adequately recover the demand-related costs from the cost of service study. Table 2 below shows the percent of revenue recovered from demand and customer charges as a percent of demand- and customer-related costs from the cost of service study from the 2014 Rate Case, excluding net power costs, for the non-residential rate schedules.

Table 2

Revenues from Billing Components as a % of Costs (excl. NPC)	Schedule 48	Schedule 48 -Ded.	Schedule 36	Schedule 24
Demand/Customer	109.8%	92.5%	91.7%	36.3%
Energy and Reactive	90.2%	105.4%	109.5%	194.6%

This table shows that Schedule 48 rates, other than rates for Dedicated Facilities, are already adequately tied to cost of service compared to the other non-residential rate schedules. For Schedule 48 Dedicated Facilities, as previously discussed, the Company is proposing to apply a higher percentage increase to the demand charges in this filing, which will move the recovery of demand/customer charge revenue to 102 percent of demand/customer-related costs compared to the current 92 percent. Similarly, Schedule 47 rates are tied to the rates on Schedule 48.

Additionally, Schedule 48 is largely comprised of industrial customers whose usage is primarily driven by industrial processes not affected by weather. Schedule 48 revenue and fixed cost recovery is therefore significantly less subject to weather-related volatility when compared to other rate schedules. Table 3 shows minimal temperature adjustment for Schedule 48 over the last few years compared to the other schedules.

TABLE 3

Class	Sch. No.	CY 2014	CY 2013	CY 2012
Residential	16,17,18	1.9%	-2.8%	1.0%
Small General Service	24	-1.6%	-1.4%	-0.5%
Large General Service < 1,000 kW	36	-1.5%	-1.2%	-0.1%
Irrigation	40	-7.2%	-7.8%	-3.6%
Large General Service => 1,000 kW	48	-0.4%	-0.3%	0.0%

Q. The decoupling mechanisms for both PSE and Avista combine non-residential rate schedules into one or more groups instead of separately tracking and deferring by rate schedule. Why is the Company proposing to separately track revenues by rate schedule for the non-residential rate Schedules 24, 36, and 40 in its decoupling mechanism?

A. The Company is proposing to separately track and defer revenue differences on these schedules to minimize cost or benefit shifting between these classes. For instance, combining into one decoupling class shifts irrigation Schedule 40 volatility due to weather to Schedules 24 and 36. Likewise, Schedule 36 may not see any potential benefits from growth if combined with the other schedules. Additionally, as shown in Table 2 above, the current rate structure for Schedule 24 collects a significant amount of revenue from energy charges, which could shift fixed cost recovery to Schedules 36 and 40. Separately tracking and recovering deferrals by rate schedule will minimize any cost or benefit shifting between rate schedules and provide for a more equitable outcome.

Q. Please describe the calculation of the Monthly Allowed Decoupled Revenue per Customer.

A. The monthly allowed revenue per customer is determined as follows:

Step 1 – Determine the Total Revenue - The total revenue is equal to the present revenues for the test period used to set rates, which in this case is the 12-months ending June 30, 2015, for each applicable rate schedule.

Step 2 – Determine Net Power Cost Revenue in rates – Table 4 below shows the calculation of the total NPC revenue in rates, as approved in the 2014 Rate Case. The amount set in rates in the 2014 Rate Case, which is tracked through the PCAM, is divided by the kWh sales from that case to derive a $/MWh. The $/MWh is then multiplied by the total Washington loads in the June 30, 2015 test period to calculate the NPC in present revenues.

TABLE 4

Calculation of Net Power Cost Revenues in Rates			
1	Net Power Costs		$126,387,618
2	Production Factor Adjustment		$976,976
3	Total Net Power Costs in Rates as approved	L1+L2	$127,364,594
4	UE-140762 at Sales - MWh		4,010,161
5	Total Washington Loads at Sales - MWh (June 2015)		4,085,100
6	Rate per MWh	L3/L4	$31.76
7	**NPC in Rates per June 2015**	L5*L6	$129,744,692

The resulting NPC of $129,744,692 is allocated to the individual rate schedules based on the F10 cost allocation factor filed with the cost of service study in the 2014 Rate Case.

Step 3 – Determine Non-NPC Revenue – To determine the Non-NPC Revenue, the mechanism subtracts the NPC from the Total Revenue.

Step 4 – Year One Allocated Rate Schedule Revenues - The Year One Allocated Rate Schedule reflects increases requested to be effective May 1, 2016, as shown in Exhibit No. JRS-1 for each individual rate schedule.

Step 5 – Remove Fixed Basic Charge Revenue – Included in the Non-NPC Revenue is revenue recovered from customers in basic charges. Because these revenues are already recovered on a fixed cost per customer, the revenue from basic charges and minimum bills is removed.

Step 6 – Determine Allowed Decoupled Revenue – Allowed Decoupled Revenue is equal to the Non-NPC Revenue (Step 3) plus Year One Allocated Rate Schedule Revenues (Step 4) minus the Basic Charge Revenue (Step 5).

Step 7 – Determine the Allowed Decoupled Revenue per Customer – To determine the annual Allowed Decoupled Revenue per Customer, divide the Allowed Decoupled Revenue (by rate schedule) by the test year number of customers (by rate schedule).

Step 8 – Determine the Allowed Monthly Decoupled Revenue per Customer – to determine the Monthly Decoupled Revenue per Customer, the annual Allowed Decoupled Revenue is shaped based on the monthly kWh usage in the test period. The resulting monthly percentage of usage by month is multiplied by the annual Allowed Decoupled Revenue per Customer to determine the twelve monthly values.

Q. Please describe the calculation of the Monthly Decoupling Deferral.

A. An example of the calculation is shown in Exhibit No. JRS-6. Page one of the exhibit is based on the rates that go into effect May 1, 2016, and page two is based on the rates that go into effect May 1, 2017. Rows two and five for each rate schedule show the calculated Allowed Decoupled Revenue per Customer and Allowed Decoupled Revenue per kWh that will be used to establish the allowed and actual revenue each month. Other values in the example are for illustrative purposes. The decoupling calculation will be done on a monthly basis to capture the differences between the allowed and actual revenue. The difference will go into a deferral account, as explained in the direct testimony of Ms. Shelley E. McCoy. The monthly decoupling deferral is determined as follow:

Step 1 – Determine the actual number of customers each month.

Step 2 – Multiply the actual number of customers by the applicable Allowed Monthly Decoupled Revenue per Customer. The result of this calculation is the total Allowed Decoupled Revenue by Month for the applicable month.

Step 3 - Determine the Decoupled Revenue per kWh Rate - To determine the Decoupled Revenue per kWh Rate, the Allowed Decoupled Revenue (by rate schedule) is divided by the test period kWh (by rate schedule).

Step 4 – Determine Actual Decoupled Revenue – To determine the Actual Decoupled Revenue, multiply the Decoupled Revenue per kWh Rate (by rate schedule) by the actual kWh monthly usage (by rate schedule).

Step 5 – The difference between the Actual Decoupled Revenues (Step 4) and the Allowed Decoupled Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the quarterly rate published by the Federal Energy Regulatory Commission.

Q. Does the decoupling mechanism have a true-up mechanism?

A. Yes. The monthly differences (deferrals) (by rate schedule) will be booked in an interest-accruing balancing account. In the Company's annual decoupling filing, any deferred revenue in the balancing account for the deferral period will be used to determine the amount of the proposed surcharge/surcredit.

Q. What is the Company's proposed deferral period, timeline, and process for filing rate adjustments?

A. The Company proposes to use a 12-month deferral period of July 1 through June 30. This period will coincide with the Commission Basis Report for the 12 months ending June 30 each year. For the initial deferral to commence May 1, 2016, the effective date of this filing, the Company proposes to use a 14-month deferral period of May 1, 2016, through June 30, 2017.

Following the filing of the Commission Basis Report by the end of October each year, on December 1 the Company will file a proposed rate adjustment (surcharge or surcredit) on Schedule 93, based on the amount of deferred revenue recorded for the prior deferral period, with a proposed effective date of February 1 the following year. The rate adjustment will be subject to a three percent annual cap, by rate schedule, for any surcharges. Any amounts exceeding the annual cap will remain in the balancing account and be subject to future recovery. Surcredits will not be subject to an annual cap. The rate adjustments will be calculated on a dollar per kWh basis.

Q. Will the decoupling mechanism include an earnings test?

A. Yes. Before any decoupling rate adjustment, the Company will apply an earnings test, as described in Ms. McCoy's direct testimony.

Q. What is the duration of the decoupling mechanism the Company is proposing?

A. The Company proposes that the mechanism be approved for a minimum of five years, beginning on May 1, 2016. After three years, the Company proposes to evaluate the effectiveness of the mechanism. The evaluation will examine the same issues that will be examined as part of the similar review of Avista's mechanism.

Q. Is the Company's proposal consistent with the Commission's Decoupling Policy Statement?

A. Yes. The Company's proposed decoupling adjustment mechanism, like the Avista and PSE mechanisms on which it is modeled, is consistent with the Commission's guidance on decoupling proposals. The following is a summary of how the proposed mechanism is consistent with the provisions required in the Decoupling Policy Statement.[10]

- **True-up Mechanism**. As previously explained, the mechanism includes an annual true-up for the deferral period of the 12 months ending June 30 each year (14-months for the initial period). The Company will file the rate adjustment December 1 with an effective date February 1 the following year.

- **Impact on Rate of Return.** This issue is addressed in the testimony of Mr. Kurt G. Strunk.

- **Earnings Test.** This issue is addressed in the testimony of Ms. McCoy.

- **Accounting for Off-System Sales and Avoided Costs.** Off-system sales and avoided costs are tracked and recovered through the PCAM, so they are excluded from the decoupling mechanism.

- **Application to Customer Classes**. As discussed above, the Company proposes to include all rate schedules except Schedule 48 and lighting schedules in the decoupling mechanism. The rate designs for Schedule 48 and lighting schedules already reflect cost-based structures and have minimal volatility due to weather.

- **Weather Adjustment Mechanism**. The decoupling mechanism will capture changes in revenue due to weather, as supported by the Decoupling Policy Statement.

- **Incremental Conservation.** See discussion below.

- **Low-Income**. The Company has an income-based conservation program that provides significant benefits at no cost to low-income households on Schedule 114, Low Income Weatherization. Expenditures for this program totaled approximately $0.7 million, or 21 percent, of total residential energy efficiency program costs in 2014. There were two additional conservation programs in 2014—Refrigerator Recycling and Home Energy Reporting—available to residential customers at no cost, regardless of income. Costs associated with these three programs totaled approximately $1.1 million, or 34 percent, of expenditures.

  The Home Energy Savings Program (HES), which provides rebates on measures installed by our customers, is also available to all residential

[10] Id. at ¶ 28.

customers, including low-income households. HES expenditures totaled approximately $2.2 million, or 66 percent, of total costs in 2014.

- **Duration of Program.** The Company proposes a minimum five-year program, with an evaluation to be completed after the third year.

- **Reports.** The Company will file a quarterly report with the Commission showing pertinent information regarding the status of the current deferral. At the end of three years, the Company also proposes to evaluate the mechanism, the scope of which will be consistent with the Commission's requirement for Avista's three-year evaluation.[11]

- **Other Factors Impacting the Public Interest.** The adoption of decoupling would not result in a reduction of efforts by the Company to operate efficiently. The proposed decoupling mechanism would provide recovery of fixed costs, on a revenue per customer basis. To the extent those fixed costs increase or escalate over time, the mechanism would not provide for recovery of the change in costs above the approved level already embedded in the allowed revenue per customer. The Company would continue to bear the risk of changes in costs between general rate cases, and therefore must manage its business in a prudent manner. Further, the Commission in a general rate case can always make the determination that any of the Company's expenditures were not prudent. This potential for disallowance together with management's desire to provide attractive earnings for shareholders provides enough incentive for management to control costs, and the proposed decoupling mechanism does not change that. The decoupling mechanism is designed to create revenue stability and allow the Company a reasonable opportunity to recover its fixed costs to serve even in the face of declining loads, which are expected to persist for the foreseeable future in Washington.[12] The proposed decoupling mechanism is also designed to make the Company indifferent to the effects of conservation on its revenue, thus removing all disincentives for the Company to aggressively promote conservation programs.

Q. Is the Company pursuing cost-effective conservation?

A. Yes. The Company aggressively pursues cost-effective conservation and will continue to do so once the decoupling adjustment mechanism is implemented. Historically, the Company's annual conservation efforts have exceeded the

[11] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-140188 & UG-140189, Order 05 at 13-14, ¶ 28 (Nov. 25, 2014).
[12] PacifiCorp's 2015 Integrated Resource Plan, Appendix A at 15 (Mar. 31, 2015) (total Washington retail energy sales expected to decrease 0.29 percent by 2024 after accounting for energy efficiency).

conservation targets established by the Commission required by the Energy Independence Act.[13] The Company's recently filed 2015 Integrated Resource Plan (IRP) includes energy efficiency savings that exceed the level in the 2013 IRP by 59 percent by 2024.[14] The acquisition of these incremental energy efficiency resources are anticipated to meet 86 percent of forecast load growth.[15]

The Company's latest conservation targets are in the Company's 2015 Biennial Conservation Plan, filed with the Commission on October 30, 2015. The 2015 Biennial Conservation Plan was guided by the 2015 IRP and includes the Company's Ten-Year Conservation Potential and 2016-2017 Biennial Conservation Target, and its Demand Side Management Business Plan. The Company developed this plan with the input of an advisory group, in accordance with WAC 480-109-110.

Proposed Tariffs

Q. Have you included the Company's proposed revised Washington electric tariff schedules in this filing?

A. Yes. Exhibit No. JRS-7 contains revised tariff sheets incorporating the changes proposed for approval in this proceeding with rates effective May 1, 2016. It also contains a new Schedule 93, Decoupling Revenue Adjustments, to implement the proposed decoupling mechanism. For the rates to be effective May 1, 2017, the Company proposes to make a compliance filing with the revised tariffs (reflecting the rates shown on Exhibit No. JRS-3 no later than 30 days before the effective date.

Q. Does this conclude your direct testimony?

A. Yes.

13 RCW 19.285.040(1)(b) (requiring biennial conservation targets).
14 PacifiCorp's 2015 Integrated Resource Plan at 3 (Mar. 31, 2015).
15 PacifiCorp's 2015 Integrated Resource Plan at 3 (Mar. 31, 2015).