

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFIC POWER & LIGHT
COMPANY,**

Respondent.

**DOCKETS UE-140762 and UE-140617
(consolidated)**

In the Matter of the Petition of

**PACIFIC POWER & LIGHT
COMPANY,**

**For an Order Approving Deferral of
Costs Related to Colstrip Outage.**

DOCKET UE-131384 (consolidated)

In the Matter of the Petition of

**PACIFIC POWER & LIGHT
COMPANY,**

**For an Order Approving Deferral of
Costs Related to Declining Hydro
Generation.**

DOCKET UE-140094 (consolidated)

**PACIFIC POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF R. BRYCE DALLEY**

November 2014

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ATTACHED EXHIBITS

Exhibit No. RBD-4—Pacific Coast Action Plan on Climate and Energy (Oct. 28, 2013)
Confidential Exhibit No. RBD-5C—IHS Global Insight—“The Power Planner”

1 **Q. Are you the same R. Bryce Dalley who previously submitted direct testimony in**
2 **this case on behalf of Pacific Power & Light Company (Pacific Power or**
3 **Company), a division of PacifiCorp?**

4 A. Yes.

5 **PURPOSE OF TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony in this case?**

7 A. My rebuttal testimony responds to the regulatory policy issues raised in the
8 testimonies of Staff of the Washington Utilities and Transportation Commission
9 (Commission), the Public Counsel Division of the Attorney General's Office (Public
10 Counsel), and Boise White Paper, LLC (Boise). I also discuss current trends in the
11 electric industry as a whole that require a supportive regulatory environment for
12 investor-owned utilities like Pacific Power.

13 **Q. Has the Company's recommended revenue requirement increase changed in its**
14 **rebuttal filing?**

15 A. Yes. As discussed in the rebuttal testimony of Ms. Natasha C. Siores, an overall base
16 price increase of \$31.9 million is required to produce the 10.0 percent return on
17 equity (ROE) requested in this case. This is an increase from the \$27.2 million
18 requested in the initial filing and is driven primarily by the Company's net power cost
19 update, which is addressed in the rebuttal testimonies of Mr. Gregory N. Duvall and
20 Ms. Cindy A. Crane. As noted by Mr. Duvall, because this update is occurring in
21 rebuttal testimony, the Company does not object to parties addressing the Company's
22 net power cost update in supplemental pre-filed testimony or in testimony at the

1 hearing, provided the Company is given the opportunity to respond through written or
2 oral testimony.

3 **POLICY OVERVIEW**

4 **Q. Please address the current critical policy issues facing the Company.**

5 A. Along with the electric industry as a whole, the Company is in the midst of a period
6 of significant transformation. In response to environmental concerns, Washington,
7 like many states, has adopted new laws fast-tracking the development of renewable
8 resources and distributed generation to produce carbon-free electricity, reduce the
9 carbon intensity of the electric grid, and replace coal-fired generation.

10 These policy changes have created—and will continue to create—challenges
11 for the Company. Similar energy policy initiatives are being promoted by federal
12 agencies, notably the U.S. Environmental Protection Agency (EPA) through its
13 proposed rules under Sections 111(b) and 111(d) of the Clean Air Act. To allow the
14 Company to adapt to the changing electric industry landscape, the Company needs
15 supportive regulatory treatment from the Commission.

16 **Q. What specific Washington laws and policies have contributed to the challenges
17 faced by the Company?**

18 A. Over the last decade, the state of Washington has steadily moved toward requiring
19 more renewable and less carbon-intense energy supplies. In this process, Washington
20 has often taken a regional approach, working in collaboration with Oregon,
21 California, and other states in the west.

22 In 2006, Washington's Energy Independence Act (EIA) was enacted by voter
23 initiative. The EIA includes a renewable portfolio standard, requiring Washington

1 electrical utilities to supply retail customers with increasing percentages of electricity
2 from renewable resources, such as wind or solar generating facilities. The EIA is
3 intended to encourage the development of renewable energy facilities in both
4 Washington and the Pacific Northwest region.¹ To that end, the legislature amended
5 the EIA in 2012 to specifically allow utilities to use resources outside of Washington
6 to satisfy the EIA’s requirements.²

7 In 2007, the legislature enacted Washington’s Greenhouse Gas Emissions
8 Performance Standard (EPS).³ The EPS caps greenhouse gas (GHG) emissions for
9 new electrical generation resources and encourages utilities to increase the use of
10 “renewable energy sources.”⁴ The legislature specifically found that “Washington
11 has been a leader in actions to slow the increase of greenhouse gases emissions, such
12 as . . . increasing renewable energy sources by electric utilities,” and the EPS is
13 intended to further reduce greenhouse gas emissions used to generate electricity used
14 to serve Washington customers.⁵

15 In 2008, Washington enacted the Climate Action and Green Jobs bill, which
16 requires the state to reduce its GHG emissions by 70 percent of expected levels
17 (50 percent below 1990 levels) by 2050, and promotes “renewable energy
18 development and generation.”⁶

¹ RCW 19.285.020 (EIA provides that Washington should increase the use of “renewable energy facilities”).

² Laws of 2013, ch. 61 (amending the definition of “eligible renewable resource” in RCW 19.285.030, effective July 28, 2013). Now, RCW 19.285.030(12)(a) and (e) define “eligible renewable resource” to include facilities located in the Pacific Northwest as well as facilities in other states where the qualifying utility has a renewable resource and serves retail customers.

³ See RCW 80.80.

⁴ RCW 80.80.005(1)(d).

⁵ *Id.*

⁶ RCW 70.235.005(1).

1 In 2010, the legislature directed Washington’s State Energy Office to prepare
2 a state energy strategy, finding that “the nation and the world have started the
3 transition to a clean energy economy, with significant improvements in energy
4 efficiency and investments in new clean and renewable energy resources and
5 technologies.”⁷ The legislature also declared “that it is the continuing purpose of
6 state government . . . to promote energy self-sufficiency through the use of
7 indigenous and renewable energy sources, consistent with the promotion of reliable
8 energy sources[.]”⁸ One of the key principles underlying the Washington State
9 Energy Strategy adopted under this directive in 2012 is for Washington to “[b]uild on
10 the advantage provided by the state’s clean regional electrical grid by expanding and
11 integrating additional carbon-free and carbon-neutral generation.”⁹

12 In 2013, Washington passed a second Climate Action bill, designed to provide
13 additional resources to assist Washington in meeting the GHG targets set in
14 Washington’s original Climate Action bill.¹⁰

15 In April 2014, Governor Jay Inslee issued an Executive Order specifically
16 recognizing that Washington joined California and Oregon in “calling for additional
17 West Coast actions on climate leadership, clean transportation, and clean energy and
18 infrastructure.”¹¹

19 This Executive Order followed the issuance of the Pacific Coast Action Plan
20 on Climate and Energy, which was signed by representatives of Washington, British
21 Columbia, California, and Oregon. The Pacific Coast Action Plan acknowledges that

⁷ RCW 43.21F.010(2).

⁸ RCW 43.21F.010(3).

⁹ RCW 43.21F.088(1)(g).

¹⁰ Laws of 2013, ch. 6.

¹¹ Executive Order 14-04 at 2 (Apr. 29, 2014).

1 the signatories have “reduced greenhouse gas emissions by adopting regulatory,
2 policy, and market-based measures that shift energy generation to clean and
3 renewable sources.”¹² Further, the signatories agreed that “meaningful coordination
4 and linkage between states and provinces . . . to reduce greenhouse gas emissions can
5 improve the effectiveness of these actions, [and] increase their overall positive
6 impact[.]”¹³ Thus, “where possible, California, British Columbia, Oregon and
7 Washington will link programs for consistency and predictability and to expand
8 opportunities to grow the region’s low-carbon economy.”¹⁴

9 **Q. Are there policy developments at the national level that are also driving major**
10 **changes in the electric industry?**

11 A. Yes. During the pendency of this case, the EPA released its Clean Power Plan
12 Proposal to regulate GHG emissions from existing generation plants under Section
13 111(d) of the Clean Air Act. The EPA is currently scheduled to issue its final rule in
14 June 2015. In his testimony, Mr. Kurt G. Strunk addresses utility investor risk
15 associated with the draft rules under Section 111(d).

16 **Q. Please explain how these policy issues are relevant to the Company’s proposals**
17 **in this case.**

18 A. The Company made several proposals in its initial filing intended to address the
19 market transformation that is occurring while protecting the Company from the
20 adverse impacts that are a result of changing state laws and policies.

¹² Pacific Coast Action Plan on Climate and Energy at 1 (Oct. 28, 2013). A copy of this plan is attached as Exhibit No. RBD-4.

¹³ *Id.*

¹⁴ *Id.*

1 First, the Company renewed its request for a change to the West Control Area
2 inter-jurisdictional allocation methodology (WCA) to allow recovery of the costs
3 associated with power purchase agreements (PPAs) with all qualifying facilities
4 (QFs) in the west control area, all of which are renewable resources. This proposal is
5 discussed in more detail in the direct and rebuttal testimonies of Mr. Duvall. The
6 Company also presented two alternatives for reflecting the costs of west control area
7 QF PPAs in retail rates as discussed further in Mr. Duvall’s testimonies.

8 Second, the Company proposed use of its actual capital structure for
9 ratemaking purposes to ensure financial strength and ready access to low-cost
10 financing, which in turn supports further investments in utility infrastructure to
11 maintain safe, reliable, and cost-effective service and to facilitate compliance with
12 existing and emerging environmental policies. The Company also presented an
13 alternative weighted average cost of capital that more accurately reflects the impact of
14 a hypothetical equity component on cost of equity and cost of debt. The Company’s
15 capital structure and costs of debt and equity are more thoroughly addressed in the
16 direct and rebuttal testimonies of Mr. Strunk and Mr. Bruce N. Williams.

17 Third, the Company proposed a renewable resource tracking mechanism
18 (RRTM) to mitigate the risks inherent in the Company’s growing portfolio of
19 renewable resources and ensure that both the Company and customers are protected
20 from the volatility inherent in renewable generation. This proposal is discussed in the
21 direct and rebuttal testimonies of Mr. Duvall.

22 Fourth, the Company proposed an increase in its residential basic charge to
23 better reflect the fixed costs incurred to provide service, consistent with principles of

1 cost causation. The cost-based basic charge better positions the Company to respond
2 to the challenges resulting from declining residential use and increasing distributed
3 generation by mitigating cost-shifting and supporting the Company's ability to
4 reasonably recover more of its fixed costs. Similarly, the Company also supports the
5 continued use of its current two-tier energy rate structure, as opposed to Staff's three-
6 tier energy rates, as an additional way to mitigate unwarranted cost shifting. In
7 addition, moving revenue recovery into a third tier would put the Company's
8 recovery of fixed costs at risk and dependent upon weather conditions. The
9 Company's proposed rate design is discussed in the direct and rebuttal testimonies of
10 Ms. Joelle R. Steward.

11 Finally, to better position the Company to respond to changing circumstances
12 in a timely and efficient manner, the Company also proposed several modifications to
13 the historical test period convention to address chronic under-recovery and regulatory
14 lag. These modifications build upon the foundation laid by the Commission in the
15 Company's 2013 general rate case, Docket UE-130043 (2013 Rate Case), and
16 include:

- 17 • Reflecting in retail rates significant capital additions that will be in service
18 and used and useful for Washington customers before the beginning of the
19 rate-effective period;
- 20 • Reflecting rate base balances at end-of-period levels rather than using the
21 average-of-monthly-averages approach; and
- 22 • Using IHS Global Insight indices to escalate non-labor operations and
23 maintenance (O&M) and administrative and general (A&G) expenses.

24 I address these proposed modifications, as well as the Company's proposed
25 amortization of certain deferred accounting requests, in more detail below.

1 **Q. Have you updated the table provided in your direct testimony demonstrating the**
 2 **Company’s chronic under-earning in Washington from 2006 through 2012 to**
 3 **include the Company’s 2013 earnings?**

4 A. Yes. The results for 2013 have been added to the Table 1 below:¹⁵

TABLE 1

Washington Commission Basis Reports - Return on Equity									
	2006	2007	2008	2009	2010	2011	2012	2013	Average
Per Books	2.08%	2.72%	0.02%	6.13%	4.59%	5.64%	7.14%	4.95%	4.16%
Restated	3.49%	3.90%	3.53%	5.28%	6.69%	7.57%	6.99%	8.22%	5.71%
Pro Forma	2.48%	3.15%	5.65%	7.81%	6.23%	7.43%	7.26%	7.73%	5.97%
Authorized	10.20%	10.20%	10.20%	10.20%	10.20%	9.80%	9.80%	9.50%	10.01%
Variance (Per Books v. Authorized)	-8.12%	-7.48%	-10.18%	-4.07%	-5.61%	-4.16%	-2.66%	-4.55%	-5.85%

5 This table shows the Company’s earnings continue to be at levels well below the
 6 Company’s authorized ROE. In 2012, the Commission adopted supportive
 7 ratemaking treatment for Puget Sound Energy (PSE) expressly to address its under-
 8 earning.¹⁶ The Company’s historical earnings in Washington fall well below PSE’s,
 9 demonstrating Pacific Power’s need for similar support from the Commission.¹⁷ As
 10 the business environment for electric utilities becomes more challenging in
 11 Washington, the Company’s recommendations in this case are necessary to prevent
 12 further earnings deterioration.

¹⁵ The Company’s Commission basis report for the period ending December 31, 2013, was filed April 29, 2014, and is available at the following link:

<http://www.utc.wa.gov/layouts/CasesPublicWebsite/GetDocument.aspx?docID=4&year=2014&docketNumber=140739>. The Company’s 2013 restated ROE and pro forma ROE reflect net power cost levels that are approximately \$15 million less (on a Washington-allocated basis) than the amount requested in the Company’s rebuttal filing in this case. This variance in net power costs represents over 200 basis points on equity.

¹⁶ *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-111048 et al., Order 08 ¶ 491 (May 7, 2012).

¹⁷ According to testimony filed by PSE on November 5, 2014, in Docket UE-121697, from 2007 through 2013 PSE’s authorized ROE has exceeded its normalized ROE by an average of 2.76 percent. *See Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Docket UE-121697, Testimony of Daniel A. Doyle, Exhibit No. DAD-4T at 17-18 (Nov. 5, 2014). As shown in Table 1, in Washington, Pacific Power’s average authorized ROE has exceeded its average per books ROE by 5.85 percent, exceeded its average restated ROE by 4.30 percent, and exceeded its average pro forma ROE by 4.04 percent.

1 **PRO FORMA CAPITAL ADDITIONS**

2 **Q. What did the Company propose regarding pro forma capital additions in its**
3 **initial filing?**

4 A. The Company proposed including capital additions above \$250,000 on a Washington-
5 allocated basis that would be in service and used and useful before the beginning of
6 the rate-effective period. These capital additions were discussed in the direct
7 testimonies of Ms. Siores, Mr. Richard A. Vail, Mr. Mark R. Tallman, and Mr. Dana
8 M. Ralston.

9 **Q. Did Staff, Public Counsel, and Boise support the Company’s pro forma capital**
10 **additions?**

11 A. Staff supports the Company’s proposed pro forma additions, but proposes limiting the
12 adjustment to reflect only actual plant in service through November 14, 2014, which
13 is the date of the Company’s rebuttal testimony.¹⁸ Public Counsel supports including
14 pro forma capital additions to address regulatory lag, but proposes the adjustment
15 “should be limited only to the known and measurable amounts for projects that have
16 actually been placed into service and are used and useful in providing service to
17 customers.”¹⁹ Public Counsel proposes an adjustment to the Company’s pro forma
18 capital additions that is based upon plant in service balances as of August 31, 2014,
19 consistent with actual plant addition data provided in discovery.²⁰ Boise does not
20 support the Company’s proposal and rejects all of the proposed pro forma capital
21 additions except the Merwin fish collector.²¹

¹⁸ Testimony of Betty A. Erdahl, Exhibit No. BAE-1T at 4.
¹⁹ Revised Testimony of Donna R. Ramas, Exhibit No. DMR-1T at 15-16.
²⁰ *Id.* at 13-14, 16-17.
²¹ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1T at 7.

1 **Q. What is the Company’s position regarding pro forma capital additions in its**
2 **rebuttal filing?**

3 A. The Company appreciates Staff’s and Public Counsel’s recognition that pro forma
4 capital additions are a reasonable means of addressing under-recovery and mitigating
5 regulatory lag. To respond to Staff’s and Public Counsel’s recommendations that
6 only the known and measurable amounts for projects that have actually been placed
7 in service be included in rates, the Company proposes in this case to limit its
8 adjustment for pro forma capital additions to the amounts actually placed in service
9 by the date of the Company’s compliance filing. Consistent with this standard, the
10 Company proposes to remove projects that are not placed in service by that date.
11 This proposed update is similar to the net power cost update that the Company has
12 made in its compliance filings in prior general rate cases.

13 Unlike Boise’s recommended (and arguably punitive) approach to pro forma
14 capital additions, the Company’s proposal recognizes that including the costs of
15 capital projects that are in service and used and useful for customers before the
16 beginning of the rate-effective period: (1) appropriately reflects the cost to serve
17 customers; (2) mitigates regulatory lag; and (3) encourages prudent investment in
18 necessary infrastructure.

19 **END-OF-PERIOD RATE BASE BALANCES**

20 **Q. Did the Company propose using end-of-period rate base balances in its initial**
21 **filing as a means of mitigating regulatory lag?**

22 A. Yes. Consistent with the Company’s 2013 Rate Case, the Company reflected rate
23 base balances at end-of-period levels.

1 **Q. How did the parties respond to the Company’s proposals?**

2 A. Staff and Public Counsel do not contest the use of end-of-period rate base balances in
3 this case. Boise rejects the Company’s proposal, arguing that the approval of end-of-
4 period rate base balances in the Company’s 2013 Rate Case “has done little to
5 assuage the frequency of the Company’s rate filings.”²² Boise recommends using
6 average-of-monthly-averages rate base balances, which would reduce revenue
7 requirement by approximately \$1.8 million.

8 **Q. What is your response to Boise’s recommendation?**

9 A. Boise’s recommendation does not recognize the fact that the Company is currently
10 investing in its system to provide safe, reliable, and cost-effective service. Because
11 the Company’s rate base continues to grow, reflecting rate base using end-of-period
12 balances more accurately reflects the cost to serve customers in the rate-effective
13 period. In addition, the Commission’s willingness to use end-of-period rate base
14 balances is an encouraging step that supports future investments, including those that
15 may be required to achieve state and federal energy and environmental goals.

16 **IHS GLOBAL INSIGHT INDICES**

17 **Q. Please describe the Company’s proposed pro forma adjustment using IHS**

18 **Global Insight indices.**

19 A. As discussed in my direct testimony and the testimony of Ms. Siores, the Company
20 proposes to escalate non-labor O&M and A&G accounts using independent third-
21 party escalation indices developed specifically for electric utilities.

²² Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1T at 17.

1 **Q. How did the parties' respond to the Company's proposal?**

2 A. Staff, Public Counsel, and Boise recommend rejecting the Company's proposal. Staff
3 argues that use of the IHS Global Insight indices effectively create "a budgeted,
4 future test year for ratemaking purposes" and are "overstated and unreliable."²³
5 Public Counsel argues that the use of the IHS Global Insight indices to escalate non-
6 labor O&M and A&G expenses is inconsistent with use of a historical test period.²⁴
7 Boise states that the Company's proposed adjustment is not known and measurable.²⁵

8 **Q. Are the parties' criticisms of the Company's proposal well founded?**

9 A. No, but the parties' positions are not surprising based on Commission precedent. The
10 Company is asking the Commission to take incremental steps to provide the
11 Company a more reasonable opportunity to recover its costs. It is undisputed that the
12 Company has not recovered the full cost of serving its Washington customers since at
13 least 2006. To address this chronic under-recovery and better position the Company
14 to face the changing environmental landscape, the Company proposes easily
15 auditable, discrete adjustments to the historical test period convention to more
16 accurately reflect the costs anticipated during the rate-effective period. The IHS
17 Global Insight adjustment is one of these discrete adjustments.

18 **Q. Staff asserts that the IHS Global Insight indices are not reliable and overstated.**
19 **Is there any merit to Staff's criticism?**

20 A. No. IHS Global Insight is a national economic forecasting consulting company that is
21 widely used to develop economic forecasts. The State of Washington's Economic
22 and Revenue Forecast Council relies on IHS Global Insight data to develop economic

²³ Testimony of Jason L. Ball, Exhibit No. JLB-1T at 15-16.

²⁴ Revised Testimony of Donna R. Ramas, Exhibit No. DMR-1T at 30-31.

²⁵ Responsive Testimony of Bradley G. Mullins, Exhibit No. BGM-1T at 18.

1 forecasts for the state.²⁶ For the utility industry, IHS Global Insight provides
2 industry-specific escalation indices, developed at the Federal Energy Regulatory
3 Commission account functional level. A description of the model used by IHS
4 Global Insight to develop its O&M and A&G indices is attached as Confidential
5 Exhibit No. RBD-5C. IHS Global Insight is widely used and reliable, winning
6 accolades for its accuracy.²⁷

7 Staff relies on the Company's response to a data request to assert that the
8 indices are unreliable.²⁸ Staff, however, misinterprets the Company's response. IHS
9 Global Insight calculates the indices each quarter and provides an update for each
10 year. Consistent with other economic indices, the key comparison is the year-to-year
11 change. Staff mistakenly focuses on which year is used as the base year and not the
12 year-to-year change, which is the basis of the adjustment.

13 DEFERRED ACCOUNTING REQUESTS

14 **Q. Please describe the Company's deferred accounting requests.**

15 A. As discussed in the Company's initial filing, as part of this case the Company is
16 requesting amortization of several deferred accounting requests through a separate
17 tariff rider, Schedule 92—Deferral Adjustments. These deferred accounting requests
18 related to: (1) an extended outage at Unit 4 of the Colstrip generating plant;
19 (2) depreciation expense; (3) low hydro conditions; and (4) the Merwin fish collector.

²⁶ See http://www.erfc.wa.gov/forecast/documents/rev20140219_color.pdf.

²⁷ See <http://www.ihs.com/products/global-insight/accuracy-accolades.aspx>.

²⁸ Testimony of Jason L. Ball, Exhibit JLB-1T at 18.

1 **Q. Why is the Company seeking amortization of these deferred accounting**
2 **requests?**

3 A. Except the depreciation deferral, which results in a rate reduction for customers, each
4 of these deferrals reflect actual costs prudently incurred by the Company in the course
5 of providing safe, reliable, and cost-effective service to its Washington customers.
6 These costs are not currently reflected in customer rates and will not be reflected in
7 customer rates without amortization of the deferred amounts. As demonstrated in
8 Table 1 above, the Company's earnings have been well below authorized levels.
9 Allowing the Company to recover the full costs of unexpected events (like an
10 extended outage or low hydro conditions) or the revenue requirement associated with
11 a new environmental improvement investment required by federal agencies is fair and
12 equitable for the Company and its customers. The Company's specific deferred
13 accounting requests, and its response to the parties' positions on these requests, are
14 discussed in more detail in the rebuttal testimonies of Mr. Duvall, Ms. Siores, and
15 Mr. Ralston.

16 **CONCLUSION**

17 **Q. What is your recommendation to the Commission?**

18 A. The Company respectfully requests that the Commission approve the Company's
19 requested revenue requirement increase, as well as the amortization of its deferred
20 accounting requests, in order to create the supportive regulatory environment that is
21 necessary to face the challenges presented by a period of significant industry
22 transformation. This supportive regulatory environment will better position the

1 Company to effectively and efficiently respond to the rapidly evolving energy and
2 environmental laws and policies.

3 **Q. Does this conclude your rebuttal testimony?**

4 A. Yes.