

Exhibit No. RBD-1T  
Docket UE-15\_\_\_\_  
Witness: R. Bryce Dalley

**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 R. BRYCE DALLEY**

**November 2015**

**TABLE OF CONTENTS**

QUALIFICATIONS ..... 1  
PURPOSE OF TESTIMONY..... 1  
OVERVIEW OF COMPANY’S FILING ..... 2  
EXPEDITED RATE FILING ..... 6  
TWO-YEAR RATE PLAN ..... 15  
DECOUPLING MECHANISM ..... 21  
CONCLUSION..... 24

**ATTACHED EXHIBIT**

Exhibit No. RBD-2—Summary Sheets from Commission Basis Reports from 2006 through 2014

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

2 A. My name is R. Bryce Dalley and my business address is 825 NE Multnomah Street,  
3 Suite 2000, Portland, Oregon 97232. I am currently employed as Vice President,  
4 Regulation. I am testifying for Pacific Power & Light Company (Pacific Power or  
5 Company), a division of PacifiCorp.

6 **QUALIFICATIONS**

7 **Q. Please describe your education and professional experience.**

8 A. I received a Bachelor of Science degree in Business Management with an emphasis  
9 in finance from Brigham Young University in 2003. I completed the Utility  
10 Management Certificate Program at Willamette University in 2009, and I have also  
11 attended various educational, professional, and electric-industry-related seminars.  
12 I have been employed by PacifiCorp since 2002 in various positions within the  
13 regulation and finance organizations. I was appointed Manager of Revenue  
14 Requirement in 2008 and was promoted to Director, Regulatory Affairs and Revenue  
15 Requirement in 2012. I assumed my current position in January 2014. I am  
16 responsible for all regulatory activities in Washington, California, and Oregon.

17 **PURPOSE OF TESTIMONY**

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

19 A. My testimony provides an overview of Pacific Power's expedited rate filing (ERF),  
20 two-year rate plan, and decoupling proposal; explains the cost drivers for this filing;  
21 and describes the benefits of this filing for customers. I also address the regulatory  
22 policy issues raised by this filing, including the Company's proposal to reinstitute

1 shorter depreciation schedules for the Company's coal resources in the west control  
2 area.

### 3 OVERVIEW OF COMPANY'S FILING

4 **Q. Please describe the Company's filing.**

5 A. The Company's filing is comprised of three primary components. First, Pacific  
6 Power is filing an ERF proposing to increase electric rates by \$10.0 million, or 2.99  
7 percent, effective May 1, 2016. Pacific Power's ERF is based on a modified  
8 Commission Basis Report with a test period ending June 30, 2015, and end-of-period  
9 rate base balances.

10 Second, Pacific Power proposes a two-year rate plan that increases rates by  
11 \$10.3 million, or 2.99 percent, on May 1, 2017. This second-step rate increase is  
12 supported by Pacific Power's 10-year trend of earnings attrition and by the major  
13 costs the Company will incur in 2016. As part of the rate plan, the Company will not  
14 file a general rate case with a rate effective date earlier than April 1, 2018. The  
15 Company will increase Low Income Bill Assistance (LIBA) funding in both 2016 and  
16 2017 under the Company's five-year LIBA program, and file semi-annual  
17 Commission Basis Reports in 2016 and 2017.

18 Third, Pacific Power seeks approval of a decoupling mechanism effective  
19 May 1, 2016, and permission to record accounting entries associated with the  
20 mechanism.

21 **Q. Why is the Company filing an ERF, rate plan, and decoupling proposal?**

22 A. In 2015, the Company's cost to serve its Washington customers will increase as a  
23 major plant upgrade at Unit 3 of the Jim Bridger generating plant (Jim Bridger

1 Unit 3) goes into service. To provide additional flexibility for compliance with major  
2 state and federal environmental initiatives, the Company also proposes to reinstate  
3 Washington’s previous, shorter depreciation lives for coal plants, similar to Oregon’s,  
4 the other major state within the west control area. Early implementation of this  
5 proposal smooths the associated rate impacts and provides maximum planning  
6 benefits.

7 In 2016, the Company will bring three major capital projects in service. Also  
8 in 2016, the Company’s production tax credits (PTCs) for several west control area  
9 wind resources begin to expire.

10 The Company cannot absorb these cost increases at current rate levels and  
11 have an opportunity to earn its allowed rate of return. Rather than file two additional  
12 general rate cases to cover cost increases over the next two years, the Company  
13 decided to pursue this petition as an alternative. The Commission has encouraged  
14 Pacific Power and other Washington utilities to use new regulatory tools such as an  
15 ERF, multi-year rate plans, and decoupling to avoid annual rate cases, especially  
16 when the utility has a current baseline for major cost items from a recently concluded  
17 general rate case. For example, in approving an ERF, rate plan, and decoupling  
18 proposal for Puget Sound Energy, Inc. (PSE), the Commission stated:

19 The Commission in this Order implements several innovative  
20 ratemaking mechanisms that, together, fulfill the Commission’s policy  
21 goal of breaking the recent pattern of almost continuous rate cases....  
22 As the Commission observed ...: “This pattern of one general rate case  
23 filing following quickly after the resolution of another is overtaxing  
24 the resources of all participants and is wearying to the ratepayers who  
25 are confronted with increase after increase. This situation does not

1 well serve the public interest and we encourage the development of  
2 thoughtful solutions.”<sup>1</sup>

3 The Company’s filing responds to discrete and identifiable cost increases in the next  
4 two years, the Company’s protracted trend of earnings attrition, and the  
5 Commission’s interest in using new ratemaking tools to break the cycle of annual rate  
6 cases.

7 **Q. Please provide more detail on the Company’s cost increases over the next two**  
8 **years.**

9 A. The ERF and the two-year rate plan address the following major costs. First, the Jim  
10 Bridger Unit 3 plant is being overhauled and new selective catalytic reduction (SCR)  
11 systems for emissions control will be in service by the end of November 2015. No  
12 later than December 2016, the overhaul at Unit 4 of the Jim Bridger generating plant  
13 (Jim Bridger Unit 4) and its new SCR system will go into operation. The Company is  
14 required to install the SCR system on Jim Bridger Unit 3 by the end of 2015 and on  
15 Unit 4 by the end of 2016 as a result of the Environmental Protection Agency’s  
16 (EPA) Regional Haze Rules, the Jim Bridger facility Best Available Retrofit  
17 Technology (BART) permit issued by the state of Wyoming, a BART appeal  
18 settlement agreement with the state of Wyoming, and the Wyoming Regional Haze  
19 State Implementation Plan.

20 Second, the Company’s proposal aligns current depreciation periods between  
21 Washington and Oregon, the two states that account for most of the load in the west  
22 control area, for the coal-fired resources that serve Washington. The proposed  
23 depreciation schedules reflect the shorter depreciation lives Washington used before

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<sup>1</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07 at i (June 25, 2013).

1 the Company's 2007 depreciation study. These schedules end in 2025 for all four  
2 units at the Jim Bridger generating plant and in 2032 for Unit 4 of the Colstrip  
3 generating plant (Colstrip Unit 4). This change will provide greater resource  
4 planning flexibility for the Company and its customers as Washington implements  
5 state and federal environmental policies described below.

6 Third, the Company requests a decoupling mechanism based on the  
7 Commission's 2010 report and policy statement on decoupling, "Report and Policy  
8 Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities  
9 to Meet or Exceed their Conservation Targets" (Decoupling Policy Statement),<sup>2</sup> and  
10 the subsequent proceedings that addressed decoupling mechanisms.<sup>3</sup> The decoupling  
11 mechanism addresses changes in usage due to weather and energy efficiency.

12 Fourth, as described in the testimony of Ms. Shelley E. McCoy, in the period  
13 covered by this filing (through April 2018), the Company's PTCs on several major  
14 renewable resources, including Leaning Juniper, Marengo, Marengo II, and Goodnoe  
15 Hills, will terminate.

16 **Q. What are the environmental initiatives behind the costs you just described?**

17 A. In response to air quality and climate change concerns, the state of Washington and  
18 the federal government have enacted a series of laws and regulations over the last ten  
19 years to regulate the generation, transmission and distribution of electricity. These  
20 include the following:

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<sup>2</sup> 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).

<sup>3</sup>Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07; *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-140188 & UG-140189, Order 05 (Nov. 25, 2014).



1 limited pro forma adjustments based on information that is known and verifiable at  
2 the time of the filing. These include end-of-period plant balances and annualized  
3 depreciation expense, costs associated with a major overhaul and installation of SCR  
4 system at Jim Bridger Unit 3, and the use of shorter depreciation schedules for the  
5 Jim Bridger and Colstrip 4 generation resources. As discussed further in the direct  
6 testimony of Ms. McCoy, the Company modified the Commission Basis Report to  
7 address the unique circumstances faced by Pacific Power in this ERF.<sup>9</sup> Pacific  
8 Power's pro forma adjustments (1) appropriately reflect the costs to serve customers,  
9 (2) mitigate regulatory lag, and (3) encourage prudent investment in necessary  
10 infrastructure.

11 **Q. Has the Commission or Commission Staff previously encouraged Pacific Power**  
12 **to file an ERF?**

13 A. Yes. In the Company's 2013 general rate case (2013 Rate Case), Staff filed  
14 testimony in support of an ERF based upon an enhanced Commission Basis Report.<sup>10</sup>  
15 Staff made this proposal as a way to address regulatory lag and contemplated a  
16 proceeding that could result in a final order within four-to-six months of the initial  
17 filing.<sup>11</sup> Public Counsel supported Staff's ERF proposal, but recommended some  
18 modifications.<sup>12</sup> The Commission did not approve an ERF, but endorsed it for future  
19 consideration.<sup>13</sup> Since that time, the Commission fully adjudicated an ERF for PSE

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<sup>9</sup> Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07 at 17-21, ¶¶ 39-48.

<sup>10</sup> *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-130043, Testimony of Deborah J. Reynolds Exh. No. DJR-1T at 10-13 (June 21, 2013).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* Cross Answering Testimony of James R. Dittmer Regarding Expedited Rate Filing Conditions, Exhibit No. JRD-5T at 2-3 (Aug. 2, 2013).

<sup>13</sup> *Id.* Docket UE-130043, Order 05 at 84, ¶ 217 (Dec. 4, 2013).

1 and provided details on how to proceed in its final order and order on remand in that  
2 case.<sup>14</sup>

3 **Q. Please describe the Company's proposal to use end-of-period rate base balances.**

4 A. Consistent with the PSE ERF, Pacific Power proposes to use electric-plant-in-service  
5 balances at end-of-period levels rather than on an average-of-monthly-averages  
6 (AMA) basis.<sup>15</sup> The Commission recognized in the PSE ERF that end-of-period rate  
7 base responds to attrition by mitigating regulatory lag. The Commission permitted  
8 PSE to modify its Commission Basis Report to reflect end-of-period rate base instead  
9 of AMA rate base even though this was a change from PSE's most recent general rate  
10 case and accounted for a significant part of PSE's rate increase.<sup>16</sup>

11 Pacific Power requests that the Commission make the same decision regarding  
12 the use of end-of-period rate base balances in this case. Although the Commission  
13 approved AMA rate base in Pacific Power's 2014 Rate Case, use end-of-period rate  
14 base balances in this case is necessary to mitigate regulatory lag and address attrition.  
15 It is also consistent with the Commission's treatment of end-of-period rate base in  
16 Pacific Power's 2013 Rate Case, where the Commission decided it was needed to  
17 address regulatory lag and determined "that an appropriate response to address these  
18 impacts in this case is approval of PacifiCorp's use of end-of-period rate base."<sup>17</sup>

19 **Q. What is the Company's attrition trend in Washington?**

20 A. Since 2006, the Company has under earned its authorized return on equity in

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<sup>14</sup> See Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07 and Order 15/14 (June 29, 2015).

<sup>15</sup> *Id.* Order 07 at 21, ¶ 48.

<sup>16</sup> *Id.* Order 07 at 19-21, ¶¶ 45-48.

<sup>17</sup> Docket UE-130043, Order 05 at 72, ¶ 184.

1 Washington by an average of more than 500 basis points.<sup>18</sup> For the ninth consecutive  
 2 year, the Company did not earn its authorized rate of return in Washington in 2014,  
 3 even taking into account the rate increase that went into effect this year. The  
 4 Company has experienced earnings attrition in Washington despite aggressively  
 5 managing its costs and filing eight general rate cases since 2005.<sup>19</sup>

**TABLE 1**

<b>Washington Commission Basis Reports - Return on Equity</b>										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
Per Books	2.08%	2.72%	0.02%	6.13%	4.59%	5.64%	7.14%	4.95%	6.95%	4.47%
Restated	3.49%	2.40%	3.53%	5.28%	6.69%	7.57%	6.99%	8.22%	7.50%	5.74%
Pro Forma	2.48%	3.15%	5.65%	7.81%	6.23%	7.43%	7.26%	7.73%	8.08%	6.20%
Authorized	10.20%	10.20%	10.20%	10.20%	10.20%	9.80%	9.80%	9.50%	9.50%	9.96%
Difference (Per Books v. Authorized)	<b>-8.12%</b>	<b>-7.48%</b>	<b>-10.18%</b>	<b>-4.07%</b>	<b>-5.61%</b>	<b>-4.16%</b>	<b>-2.66%</b>	<b>-4.55%</b>	<b>-2.55%</b>	<b>-5.49%</b>

6 **Q. Why is the Company including the overhaul at Jim Bridger Unit 3, including the**  
 7 **SCR system, in the ERF?**

8 A. One of the primary drivers of the ERF is the overhaul at Jim Bridger Unit 3 that will  
 9 be placed in service this month. As detailed in the direct testimony of Mr. Chad A.  
 10 Teply, the investments at Jim Bridger Unit 3 are used and useful and providing  
 11 benefits to Washington. Furthermore, the costs associated with the overhaul are  
 12 known and measureable. The direct testimony of Mr. Rick T. Link details the  
 13 Company's economic analysis supporting the decision to invest in the SCR system  
 14 and the prudence of that decision. This proceeding provides parties, Staff, and the

<sup>18</sup> The cover letters and summary sheets from each of the Company's Commission Basis Reports for the years 2006 through 2014 are attached as Exhibit No. RBD-2.

<sup>19</sup> The Company filed GRCs in 2005, 2006, 2008, 2009, 2010, 2011, 2013, and 2014. See Docket UE-050684, UE-061546; Docket UE-0802201; Docket UE-090205; Docket UE-100749; Docket UE-111190; Docket UE-130043; Docket UE-140762.

1 Commission an opportunity to review the prudence of the Jim Bridger Unit 3  
2 overhaul.

3 It is reasonable to address the Jim Bridger Unit 3 overhaul in this proceeding,  
4 not only because the investments are used and useful and the costs known and  
5 measureable, but also because absent the approval of these investments in the ERF,  
6 Pacific Power will need to file another general rate case on the heels of the  
7 Company's 2014 Rate Case. The primary goal of the ERF is avoid constant general  
8 rate cases and as part of that effort, the Commission has encouraged creative  
9 ratemaking solutions. The Commission has made this type of pro forma adjustment  
10 for investments even further beyond the end of the test year. For example, in Pacific  
11 Power's 2013 Rate Case, the Commission placed into rates the Jim Bridger Unit 2  
12 upgrade that went into service nearly a year after the test year.<sup>20</sup>

13 **Q. Why does the Company propose to reinstate shorter depreciation schedules on**  
14 **the Jim Bridger and Colstrip 4 generation resources?**

15 A. As detailed above, the electric industry is undergoing a significant transformation,  
16 including the treatment of coal-based generation and carbon emissions. Pacific  
17 Power is impacted by this transformation at both the federal and state level.  
18 Currently in Oregon, the Jim Bridger and Colstrip 4 depreciation schedules reflect  
19 depreciable lives ending in 2025 and 2032, respectively.<sup>21</sup> In the 2007 Depreciation  
20 Study in Washington, the depreciable life of the Jim Bridger units was extended to

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<sup>20</sup> Docket UE-130043, Order 05 at 81-82, ¶ 207-209.

<sup>21</sup> *In the Matter of PacifiCorp d/b/a Pacific Power Petition to File Preliminary Depreciation Study*, Docket UM 1329, Order No. 08-427 (Aug. 20, 2008).

1 2037, while the Colstrip 4 depreciable life was extended through 2046.<sup>22</sup>

2 It is reasonable to align depreciation schedules and return to the shorter  
3 depreciable lives previously used by the Commission. The shorter depreciable life  
4 for these resources provides the Commission, the Company, and customers additional  
5 flexibility in resource planning to address state and federal environmental policies,  
6 mandates, and the EPA's Clean Power Plan.

7 This is also consistent with Pacific Power's actions in its most recent  
8 depreciation study where it accelerated the retirement of the Carbon coal plant by five  
9 years to comply with EPA regulations.<sup>23</sup> The Company concluded that retiring the  
10 Carbon plant in 2015 was currently the least-cost alternative, accounting for risk and  
11 uncertainty. Admittedly, because the Carbon plant was not allocated to the west  
12 control area, accelerating the Carbon plant depreciation did not impact Washington  
13 rates, but the concept and justification remain unchanged and consistent with how the  
14 Company has recently addressed other coal-based generation.

15 **Q. Has the Company made any effort to limit the issues in the ERF?**

16 A. Yes. Pacific Power is aware that an ERF is a limited issue proceeding. Accordingly,  
17 the Company has not proposed changes to its net power costs, capital structure or its  
18 cost of capital. It is not necessary to re-litigate these issues here because earlier this  
19 year the Commission established a baseline for these elements.<sup>24</sup> The purpose of the

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<sup>22</sup> *In the Matter of the Petition of PacifiCorp, d/b/a Pacific Power for An Order Authorizing a Revision to Depreciation Rates*, Docket UE-071795, Order 01. (April 10, 2008).

<sup>23</sup> *In the Matter of the Petition of PacifiCorp, d/b/a, For an Accounting Order Authorizing a Change in Depreciation Rates Applicable to Electric Property*, Docket UE-130052, Petition of PacifiCorp (Jan. 11, 2013); Direct Testimony K. Ian Andrews Exh. No. KIA-1T at 7 (Jan. 11, 2013).

<sup>24</sup> Dockets UE-140762 *et al.*, Order 08. The Company sought judicial review of this order and then sought a stay of the appeal pending resolution of the Company's request for judicial review of the 2013 Rate Case final order. If either of the 2013 or 2014 orders are remanded, the impact on the rate plan will be determined during the remand proceeding.

1 ERF is to avoid some of the issues addressed in a general rate case that have been  
2 recently litigated and tend to be the most complicated and controversial, supporting  
3 the Commission's goal of avoiding annual general rate cases.<sup>25</sup>

4 **Q. Is the Company proposing to change its authorized return on equity or cost of**  
5 **capital as part of this proceeding?**

6 A. No. The testimony and exhibits of Mr. Kurt Strunk support a higher return on equity  
7 than the Commission authorized in the 2014 Rate Case. To facilitate expeditious  
8 review of this ERF and rate plan, however, the Company is not requesting a change in  
9 its authorized return on equity or rate of return.<sup>26</sup>

10 **Q. Does the Commission need to undertake a full cost of capital analysis in Pacific**  
11 **Power's ERF because it is connected to a rate plan and decoupling mechanism?**

12 A. No. When the Commission set the Company's cost of capital earlier this year, the  
13 Commission invoked RCW 80.04.200 and declined to rehear return on equity or  
14 capital structure.<sup>27</sup> The Commission reasoned that there had been no material change  
15 in the markets or the Company's access to them. If the Commission has discretion to  
16 truncate or eliminate a cost of capital review in a general rate case, it should also have  
17 the discretion to do so in a non-general rate case filing.

18 **Q. Did the Commission decide in the PSE ERF Order on Remand that a full cost of**  
19 **capital review is necessary in all ERFs?**

20 A. No. I understand that while the Commission acknowledged the Thurston County  
21 Superior Court's ruling that the Commission's cost of capital ruling lacked substantial

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<sup>25</sup> Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07 at 80, ¶ 187.

<sup>26</sup> If the Commission rejects the Company's request for an ERF and treats the petition as a general rate case filing with a full cost of capital review, then the Company reserves its right to seek the higher ROE supported by Mr. Strunk's testimony.

<sup>27</sup> See Dockets UE-140762 *et al.*, Order 08, 76-77, ¶ 181.

1 evidence in that particular case, it clarified that:

2 that there is no statutory or other prohibition against the Commission  
3 setting rates without considering this issue. Indeed, this Commission,  
4 like many other regulatory authorities throughout the United States,  
5 routinely sets rates without explicitly analyzing and determining cost  
6 of capital issues.<sup>28</sup>

7 Furthermore, the Commission stated that there is no, “reason for the Commission to  
8 undertake this detailed and costly analysis when the issues have been recently  
9 decided.”<sup>29</sup>

10 **Q. How does Pacific Power’s current cost of capital compare to other Washington**  
11 **utilities?**

12 A. As Table 2 demonstrates, Pacific Power currently has the lowest cost of capital of any  
13 Washington utility. A stipulation pending in Avista’s general rate case would reduce  
14 its rate of return to within one basis point of Pacific Power’s. Importantly, PSE and  
15 Avista had decoupling and power cost adjustment mechanisms in place when the  
16 Commission set their current cost of capital. This shows that Pacific Power’s current  
17 cost of capital is well within a reasonable range for the rate plan period, taking into  
18 account Pacific Power’s new power cost adjustment mechanism and proposed  
19 decoupling mechanism.

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<sup>28</sup> Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 15/14 at 12, ¶ 21, fn. 18.

<sup>29</sup> *Id.*

**TABLE 2**

	Pacific Power UE-140762	Puget Sound Energy UE-130137	Avista Corporation UE-140188 <sup>30</sup>	Avista Corporation (settled/pending approval) UE-150204
Return on Equity	9.5%	9.8%	Unspecified	9.5%
Total Rate of Return	7.30%	7.77%	7.32%	7.29%

1 **Q. Did Pacific Power do anything else to narrow the scope of the ERF?**

2 A. Yes. Beyond not changing the cost of capital, the Company also avoided the other  
3 triggers for a general rate case under WAC 480-07-505(1). Pacific Power’s request  
4 increases rates by less than three percent (WAC 480-07-505(1)(a)) on an overall and  
5 individual customer class basis (WAC 480-07-505(1)(b)). Pacific Power’s filing is  
6 not a general rate case. Importantly, this filing is designed with the express goal of  
7 avoiding yet another general rate case and follows, “the Commission’s invitation to  
8 parties to present innovative approaches to ratemaking that would avoid the complex  
9 process of a general rate case and the need to invoke the special rules in WAC  
10 480-07, Subpart B.”<sup>31</sup> As detailed in the Company’s Petition, if the Commission  
11 determines that an exemption from the general rate case rules is necessary, Pacific  
12 Power requests an exemption consistent with the public interest and underlying  
13 regulation.<sup>32</sup>

14 **Q. What procedural process does the Company envision for this filing?**

15 A. Because the scope of this proceeding is limited, Pacific Power anticipates that a final

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<sup>30</sup> The specific components of cost of capital in Docket UE-140188 were unspecified. A 7.32 percent rate of return, however, was reflected in the stipulation to be used for allowance for funds used during construction and other purposes.

<sup>31</sup> Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07 at 80, ¶ 187.

<sup>32</sup> WAC 480-07-110(1). If necessary, the Company will respond in briefing and/or testimony to arguments that Pacific Power’s filing is a general rate case.

1 order can be issued by May 1, 2016. The Company requests an early prehearing  
2 conference, prompt entry of a protective order, and immediate commencement of  
3 discovery. Although the Company requests an abbreviated procedural schedule,  
4 Pacific Power still believes that all the aspects of a fully-adjudicated case should be  
5 built into the procedural schedule and it has waived the suspension period under  
6 WAC 480-100-194. To assist in the review of the filing, the Company has provided  
7 documentation normally required in a general rate case. Pacific Power will work with  
8 stakeholders and the Commission to arrive at a fair and expeditious procedural  
9 schedule and hearing process.

10 **Q. Before this filing, did you meet with stakeholders to get their feedback?**

11 A. Yes. The Company met with all major parties in its 2014 Rate Case and reviewed the  
12 key elements of this filing. The Company has reflected feedback from the parties in  
13 this filing.

#### 14 **TWO-YEAR RATE PLAN**

15 **Q. Is Pacific Power also requesting a second rate increase?**

16 A. Yes. The Company's rate plan calls for a second rate increase of \$10.3 million, or  
17 2.99 percent, effective May 1, 2017.

18 **Q. What is driving the need for the May 1, 2017 rate increase?**

19 A. As detailed above, Pacific Power is experiencing a ten-year trend of earnings attrition.  
20 This has been a persistent problem for the Company, even though Pacific Power has  
21 proactively and aggressively controlled its costs over this period. Pacific Power's  
22 efforts have allowed the Company to minimize the frequency of general rate cases in

1 its other five jurisdictions, but have not helped reduce the number of general rate  
2 cases in Washington.

3 **Q. Has the Company been able to provide periods of rate stability and certainty in**  
4 **its other five states?**

5 A. Yes. The Company entered into multi-year rate plans in all of the other states in  
6 which it operates. Although cost control measures were not the only factor in  
7 reaching a settlement, the settlements do provide examples of the beneficial effect of  
8 the Company's cost control measures. For example, in December 2013, the Public  
9 Utility Commission of Oregon approved a stipulation in which the Company agreed  
10 not to file its next general rate case until 2015.<sup>33</sup>

11 **Q. Beyond the general issues highlighted, are there any particular cost drivers for**  
12 **the May 1, 2017 rate increase?**

13 A. Yes. There are four significant cost drivers in 2016. First, the Company will  
14 overhaul Jim Bridger Unit 4 and install SCR system by December 2016, as required  
15 by state and federal air quality regulations. The direct testimony of Mr. Teply details  
16 the overhaul of Jim Bridger Unit 4 and the direct testimony of Mr. Link supports the  
17 prudence of the Company's decision to install the SCR system at Jim Bridger Unit 4,  
18 instead of pursuing other options. This is the same obligation that Pacific Power must  
19 meet for the Jim Bridger Unit 3 SCR system this year. The scope of the 2016 project  
20 is similar to the 2015 project and is scheduled to be in service by November 2016.  
21 The 2015 and 2016 projects were completed concurrently, with their installation  
22 timed to occur in the most cost-effective manner during the previously scheduled

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<sup>33</sup> The stipulation provides that "the earliest proposed rate effective date for the Company's next general rate case filing will be January 1, 2016." *In the Matter of PacifiCorp d/b/a Pacific Power Request for a General Rate Revision*, Docket UE 263, Order 13-474, Appendix A at 6 (Dec.18, 2013).

1 major overhauls at Jim Bridger Units 3 and 4.

2 Second, as noted above, PTCs for the Company's renewable resources will  
3 expire starting in May 2016. The expiration of PTCs is readily quantifiable and  
4 unavoidable cost drivers for the coming year. Pacific Power cannot ameliorate the  
5 impact of tax law changes and the increased costs must be accounted for on an  
6 ongoing basis.

7 Third, as detailed in the direct testimony of Mr. Stuart J. Kelly, the  
8 Company's Supervisory Control and Data Acquisition Energy Management System  
9 project will be replaced and upgraded by March 2016. This project is scheduled to be  
10 completed during the pendency of this proceeding.

11 Fourth, the Union Gap Substation Upgrade is scheduled to be in service by  
12 May 2016. As detailed in the direct testimony of Mr. Richard A. Vail, this  
13 transmission project is currently underway and should be completed approximately  
14 one year before the proposed effective date for the second-step rate increase.

15 **Q. If the final costs and in-service status of some of these projects are not known**  
16 **before the conclusion of this proceeding, how does Pacific Power propose to**  
17 **address this issue?**

18 A. The Company will provide an attestation in late 2016 or early 2017, well before the  
19 May 1, 2017 rate increase, verifying the final costs of the investments and that the  
20 investments are in service. Pacific Power's general trend of earnings attrition  
21 supports a two-year rate plan, but these four particular items demonstrate the  
22 Company's need for the second rate increase. The attestation will provide verifiable  
23 evidence that the projects are used and useful, providing benefits to Washington

1 customers, and known and measureable. This means the May 1, 2017 rate increase is  
2 based on the same criteria the Commissions use for any capital investments, whether  
3 it is part of a two-year rate plan or a general rate case.<sup>34</sup>

4 **Q. Are there any other reasons an attestation is appropriate for the Jim Bridger**  
5 **Unit 4 investment?**

6 A. Yes. The Jim Bridger Units 3 and 4 overhauls are similar in scope, purpose, and  
7 expense, and the work on both has occurred concurrently. The timing of the  
8 investments was designed to coincide with major plant overhauls, one in 2015 and  
9 one in 2016, to minimize costs and maximize reliability. If the Jim Bridger Unit 3  
10 project is being evaluated for prudence in this proceeding, it is reasonable that the  
11 parallel project for Jim Bridger Unit 4 should be treated similarly. It is efficient to  
12 review both of the projects at the same time in this proceeding. Also, Pacific Power's  
13 goal in making this filing and consistent with the Commission's direction in the PSE  
14 ERF proceeding, is to avoid a continuous string of general rate cases.<sup>35</sup> The  
15 Commission's approval of the May 1, 2017 rate increase, based on earnings attrition  
16 and the four projects highlighted above, would result in the avoidance of a general  
17 rate case in 2016 to address the Jim Bridger Unit 4 investment.

18 **Q. Is the Company making any commitments linked to the two-year rate plan?**

19 A. Yes. The Company is offering several commitments that protect customers. First,  
20 Pacific Power will not file a general rate case (or another ERF) with a rate effective

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<sup>34</sup> Docket UE-130043, Order 05 at 81-82, ¶ 207-209.

<sup>35</sup> Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07 at 13, ¶ 32. *See also*, Decoupling Policy Statement at 16-17, ¶ 27.

1 date earlier than April 1, 2018.<sup>36</sup> The Company’s commitment to a “stay-out  
2 provision” provides the Commission and customers a break from general rate cases  
3 for a defined period of time. Pacific Power will have even more incentive to control  
4 costs because the Company will not be able to file a general rate case and the second-  
5 year rate increase is capped at under three percent.

6 Second, the Company agrees that its five-year LIBA plan will cover both the  
7 2016 and 2017 rate increases. In 2012, the Commission approved a LIBA plan for  
8 Pacific Power that established funding and the certification process for five years.<sup>37</sup>  
9 Pacific Power will treat each of the rate increases in this filing like general rate cases  
10 under the five-year LIBA plan, increasing LIBA benefits by two times the residential  
11 rate increases in both 2016 and 2017, which is approximately six percent annually.<sup>38</sup>  
12 The Company will also increase the Schedule 91 residential surcharge to reflect the  
13 increased LIBA funding.<sup>39</sup> Pacific Power also intends to engage with the parties on  
14 the best way to address potential modifications to the LIBA program upon completion  
15 of the five-year LIBA plan.

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<sup>36</sup> As noted above, Pacific Power’s ERF/rate plan is subject to any adjustments that may be necessary to implement a final order in the Company’s 2013 and 2014 general rate cases that are currently on appeal. In addition, the Company will retain the right to file for deferrals during the general rate case stay-out period, subject to the Commission’s review. This stay-out will not alter the operation or application of existing or new rate adjustment mechanisms authorized by the Commission, including the Company’s PCAM and deferrals under the EPS.

<sup>37</sup> See *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-111190, Order 07 at 8-9, ¶¶ 17-18 (Mar. 30, 2012); Direct Testimony of Deborah Reynolds, Exh. No. DJR-1T at 13-19 and Exh. No. DJR-3 (Jan. 6, 2012); Direct Testimony of Charles Eberdt, Exh. CME-1T and Exh. No. CME-3 (Jan. 6, 2012).

<sup>38</sup> See *id.* Docket UE-111190, Order 07 at 8, ¶ 17. (“Benefits to each participating customer will grow by an average of 10 percent, with additional increases of two times the percentage increase of any future residential general rate increases between 2013 and 2016.”)

<sup>39</sup> See *id.* (“The Schedule 91 residential surcharge, which funds the LIBA program, will increase from \$0.55 to \$0.63 per month, and the Company will file for an increase (absent a general rate case filing) annually, around May 1, to reflect the increased funding requirements described above. The Schedule 91 surcharge increases will be applied on an equal percentage basis to all rate schedules. The parties agree to support the Company’s annual May 1 Schedule 91 filings and that such filings will be limited in scope to implementing the Five-Year LIBA Plan.”)

1 Third, Pacific Power will file mid-year Commission Basis Reports to provide  
2 as much transparency and accountability as possible. These reports will allow the  
3 Commission and other stakeholders to closely monitor the rate plan to ensure that it is  
4 meeting the Commission's objectives.

5 **Q. Does the rate plan align with ongoing discussions on the Company's inter-**  
6 **jurisdictional allocation method?**

7 A. Yes. The Company recently reached an interim agreement with stakeholders to  
8 extend the current method (with some modifications) for two years. This 2017  
9 Protocol is designed to allow parties time to study a range of allocation alternatives,  
10 including consideration of corporate structure alternatives, divisional allocation  
11 methodologies, and potential implications of the EPA Clean Power Plan. The rate  
12 plan covers the same general period as the 2017 Protocol, and provides a bridge until  
13 a more comprehensive solution on multi-state allocation is available for Commission  
14 review.

15 **Q. Has the Commission approved proposals similar to Pacific Power's in the past?**

16 A. Yes. The Commission approved the PSE ERF, which included a multi-year rate  
17 plan.<sup>40</sup> Pacific Power's proposal, like the PSE ERF rate plan, addresses the  
18 Company's earnings attrition while striking a reasonable balance between customers  
19 and the Company. The resulting rates are fair, providing Pacific Power with an  
20 improved opportunity to earn its authorized return while protecting customers by  
21 creating an incentive to control costs, increasing low-income funding, making rate  
22 increases predictable and stable, and providing an extended general rate case stay-out  
23 period.

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<sup>40</sup> Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07 at 74-75, ¶¶ 171-173.



1 Statement, as well as the Commission’s decisions in the PSE ERF case<sup>44</sup> and the 2014  
2 Avista general rate case.<sup>45</sup> The Company also reviewed its decoupling proposal with  
3 key stakeholders in advance of this filing.

4 The Commission should approve Pacific Power’s proposal because it is  
5 appropriate to address “declines in revenues due to utility-sponsored conservation”<sup>46</sup>  
6 that impact a utility’s earnings.<sup>47</sup> Also, under Pacific Power’s current rate structure,  
7 the Company relies on volumetric rates to recover a substantial portion of its fixed  
8 delivery costs. Customers use less energy as a result of Pacific Power successfully  
9 promoting conservation, and this hampers the Company’s ability to fully recover  
10 embedded fixed costs through volumetric rates. This means the growth in load is  
11 reduced to cover new fixed costs and creates a throughput incentive, which  
12 undermines the goal of conservation. Pacific Power’s decoupling mechanism  
13 addresses these concerns.

14 **Q. Does the decoupling mechanism operate independently of the ERF and the rate**  
15 **plan?**

16 A. Yes. The decoupling mechanism operates independently from the other rate  
17 increases. The only link is that the base revenues for the decoupling mechanism will  
18 be updated to reflect the second-year rate increase in 2017.

19 **Q. Please provide additional detail regarding the Company’s decoupling**  
20 **mechanism proposal.**

21 A. I will highlight a few aspects of the proposal that reflect on the overall filing. The

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<sup>44</sup> See Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 07.

<sup>45</sup> See Dockets UE-140188 & UG-140189, Order 05.

<sup>46</sup> See Decoupling Policy Statement 1, ¶ 1.

<sup>47</sup> RCW 80.28.260(3).

1 testimony of Ms. Joelle R. Steward will provide additional detail on how the  
2 decoupling mechanism will work.

3 The Company's decoupling proposal has an earnings test that will be based on  
4 Pacific Power's Commission Basis Report as explained in the direct testimony of Ms.  
5 McCoy.

6 If the return on equity exceeds the most recently authorized return on equity:

- 7 • any proposed decoupling surcharge will be reduced or eliminated by up to  
8 50 percent of the excess earnings;
- 9 • any proposed decoupling surcredit will be returned to customers as well as  
10 50 percent of the excess earnings.

11 If the return on equity is less than the most recently authorized return on  
12 equity, no adjustment is made to any decoupling surcharge or surcredit

13 Additionally, any annual rate increase from decoupling will not exceed three  
14 percent in any year, with any excessive amounts carrying over to a future year. The  
15 three percent cap is important because the Company's filing is designed to avoid the  
16 threshold for a general rate case and provide protection for customers.

17 Furthermore, the decoupling mechanism will be evaluated after three years to  
18 review the effectiveness of the mechanism. This review will provide the Commission  
19 and stakeholders another opportunity to evaluate the mechanism after it has gone into  
20 operation.

21 **Q. Is it necessary for the Commission to adjust the Company's cost of capital in this  
22 case if it adopts decoupling?**

23 A. No. As noted above, the Company's cost of capital is already lower than the other  
24 Washington utilities that have decoupling. In addition, similar to the PSE ERF

1 proceeding, Pacific Power's decoupling proposal is being presented as part of an  
2 ERF, rate plan and decoupling proposal that in combination supports maintaining the  
3 same cost of capital.<sup>48</sup> Mr. Strunk addresses this issue in more detail in his testimony.

#### 4 CONCLUSION

5 **Q. Please summarize your testimony.**

6 A. The Company's filing carefully balances the impact on customers, the Commission's  
7 instruction to file creative ratemaking solutions that avoid general rate cases, and the  
8 needs of the Company. Collectively, the ERF, rate plan, and decoupling proposal  
9 provide relief and protection to customers, while allowing the Company to continue  
10 to provide safe, reliable, and efficient electric service to Washington customers and to  
11 earn a reasonable return. Pacific Power's proposal supports the Company's efforts to  
12 effectively and efficiently respond to a challenging and transforming electric energy  
13 regulatory environment.

14 **Q. Does this conclude your direct testimony?**

15 A. Yes.

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<sup>48</sup> Dockets UE-130137 and UG-130138 (consolidated) *et al.*, Order 15/14 at 69-70, ¶ 156. The Commission decided that decoupling did not warrant a change to PSE's cost of capital because PSE had agreed to a stay-out provision that capped increases at 3.00 percent, proposed an earnings sharing mechanism, and agreed to conservation goals. Pacific Power's filing includes similar mitigating factors as PSE's ERF filing, and this provides additional support for the Commission not adjusting Pacific Power's authorized return on equity or rate of return.