

Exhibit No. RBD-3T  
Docket UE-152253  
Witness: R. Bryce Dalley

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT  
COMPANY,

Respondent.

DOCKET UE-152253

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

**April 2016**

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**ATTACHED EXHIBITS**

Exhibit No. RBD-4—Governor’s Accord for a New Energy Future

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

4 A. Yes.

5 **PURPOSE AND SUMMARY 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), Boise White Paper, L.L.C. (Boise), Sierra Club, and the Northwest Energy  
11 Coalition (NWECC).

12 **Q. Please summarize your rebuttal testimony.**

13 A. I provide policy testimony on four issues central to the Company's filing. First, the  
14 Company proposes restoring the shorter, pre-2008 depreciation lives for its coal-  
15 fueled resources included in Washington rates. Boise, Sierra Club, and NWECC  
16 support the Company's recommendation, agreeing that shorter depreciable lives  
17 mitigate customer risk related to stranded asset cost recovery and provide the  
18 Company a greater range of options for future compliance decisions.

19 Staff and Public Counsel argue that the new depreciation schedules are  
20 technically unsupported and might not match the actual retirement dates for the  
21 resources. To be clear, the Company's proposal is a policy-based response to new  
22 laws and regulations that may shorten the useful lives of its coal-fueled plants. The  
23 resulting uncertainty around actual retirement dates for coal resources makes it

1 prudent to accelerate their depreciation now, when this can be accomplished with  
2 relatively modest rate impacts. Aligning depreciation schedules in Washington and  
3 Oregon also facilitates multi-state environmental planning, providing additional  
4 flexibility to the state of Washington and to the Company in developing future  
5 compliance strategies.

6 Second, the Company proposes to include in rates the Selective Catalytic  
7 Reduction systems (SCRs) and other capital additions at Units 3 and 4 of the Jim  
8 Bridger generating plant (Jim Bridger Units 3 and 4). The SCR for Jim Bridger  
9 Unit 3 went into service in November 2015, on schedule and under-budget.<sup>1</sup> The  
10 SCR installation on Jim Bridger Unit 4 will be complete by the end of 2016, well  
11 ahead of the proposed second-year rate adjustment. The SCRs allow the Jim Bridger  
12 plant to continue to provide low-cost generation to serve Washington customers,  
13 while minimizing emissions in compliance with the Company's obligations and  
14 timelines set by state and federal laws and regulations.

15 Staff and Sierra Club unreasonably contend that the Company's decision to  
16 install the SCRs was imprudent. The Company's review of these investments used  
17 rigorous analysis and modeling, as previously recognized by Staff and Sierra Club.  
18 The regulatory process for review of these investments was extensive, involving two  
19 certificate of public convenience and necessity (CPCN) proceedings and analysis  
20 during the integrated resource planning process. The Company's decision was well  
21 supported by the objective facts, which were updated throughout the three-year  
22 review process. Staff's and Sierra Club's recommendations rely on analytical errors

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<sup>1</sup> As part of the Company's rebuttal testimony, the Washington revenue requirement has been reduced to reflect the actual costs of the Jim Bridger Unit 3 capital additions. Ms. Shelley E. McCoy addresses these cost updates in her rebuttal testimony and exhibits.

1 that, when corrected, support the Company's decision to install the SCRs rather than  
2 convert Jim Bridger Units 3 and 4 to natural-gas-fueled units.

3 Third, the Company proposes a rate plan that relies on end-of-period rate base  
4 and provides for a second-year rate increase based on limited, discrete adjustments  
5 related primarily to significant capital additions and the expiration of production tax  
6 credits. In exchange for the second-year rate increase, the Company agrees that it  
7 will not file another rate case with rates effective before June 1, 2018.<sup>2</sup>

8 Staff supports the Company's rate plan, agreeing that it is well designed,  
9 consistent with recent orders in which the Commission encourages the use of  
10 alternative ratemaking tools, and that end-of-period rate base mitigates the mismatch  
11 between test year and rate year plant-in-service. Staff's support for the rate plan,  
12 however, appears inconsistent with its many proposed adjustments, which would  
13 result in a two-year rate case stay-out with virtually no rate increase and a  
14 recommendation to lower the Company's return on equity. For the Company's rate  
15 plan to work, it needs to reflect the relatively modest rate increases the Company has  
16 proposed in its filing, without further reductions in its rate of return.

17 Public Counsel and Boise reject the rate plan and its reliance on end-of-period  
18 rate base, contending that without a formal attrition study the rate plan is  
19 unsupported. Formal attrition studies, however, form the basis of stand-alone attrition  
20 adjustments, unlike what the Company has proposed in this case. The Company's

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<sup>2</sup> The Company originally proposed that it would not file a general rate case with rates effective before April 1, 2018. That timeline, however, was predicated on a schedule that would allow a first-year rate adjustment on May 1, 2016, and a second-year rate adjustment on May 1, 2017. Given the current schedule, with a target rate-effective date for the first-year rate change of July 1, 2016, the Company would agree to extend the stay-out period to June 1, 2018, which is 11 months after the rate-effective date of the proposed second-year rate adjustment.

1 second-year rate increase is supported by discrete cost changes that will be attested to  
2 before the second-year rate adjustment. The Company's trend of historical under-  
3 earning provides additional support for the rate plan.

4 Fourth, the Company proposes a full decoupling mechanism modeled on the  
5 mechanisms approved for Avista Utilities (Avista) and Puget Sound Energy (PSE).  
6 The Company's decoupling mechanism is supported by all parties who addressed it,  
7 with minor revisions that are generally acceptable to Pacific Power.<sup>3</sup> The mechanism  
8 allows the Company to pursue cost-effective conservation resources, mitigates the  
9 revenue impact resulting from limited or declining load growth in Washington, and  
10 contains important customer safeguards, such as an earnings test and higher  
11 conservation targets. The earnings test included in the decoupling mechanism also  
12 supports the proposed rate plan because it prevents the Company from over-earning  
13 during the second year of the plan.

#### 14 OVERVIEW OF FILING

15 **Q. Please provide an overview of the Company's filing.**

16 A. Over the last several years, the Commission has supported the development of new  
17 ratemaking tools, such as limited issue or expedited rate filings (ERF), multi-year rate  
18 plans, end-of-period rate base, and decoupling mechanisms to address issues like  
19 regulatory lag, persistent utility under-earning, and to break the cycle of annual rate  
20 case filings. The Company's filing is based on these creative Commission  
21 approaches and included an initial request for a first-year rate increase of  
22 2.99 percent, or \$10 million, based on a modified Commission Basis Report using  
23 end-of-period rate base. The Company's initial proposal also included a two-year

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<sup>3</sup> Public Counsel's testimony in this case does not address the Company's decoupling proposal.

1 rate plan with a second-year increase of \$10.3 million and a decoupling mechanism.

2 **Q. How does this filing benefit customers?**

3 A. The Company's filing benefits Washington customers by limiting annual rate  
4 increases to less than three percent, extending the time between general rate cases,  
5 and making rates more predictable, prudently responding to current and future  
6 environmental mandates, removing disincentives for energy efficiency, requiring  
7 additional reporting and earnings sharing, and increasing Low Income Bill Assistance  
8 (LIBA) funding in this and future cases. The filing also provides the Company  
9 needed cost recovery, enabling investments necessary to provide safe and reliable  
10 utility service.

11 **Q. Did the Commission recognize the limited scope of the Company's filing in  
12 setting the procedural schedule in this case?**

13 A. Yes. While the Commission elected not to call this filing an ERF, it recognized the  
14 narrow scope of the case and set an expedited procedural schedule for this limited  
15 issue filing.<sup>4</sup>

16 **Q. Has the Company updated its rate request in its rebuttal testimony?**

17 A. As described in Ms. McCoy's rebuttal testimony, the Company's requested first year  
18 rate increase has been reduced to approximately \$9.0 million, resulting in an increase  
19 of 2.69 percent. This updated revenue requirement includes bonus depreciation,  
20 which was extended in federal legislation passed after the Company filed its initial

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<sup>4</sup> *Wash. Utils & Transp. Comm'n v. Pacific Power & Light Company*, Docket UE-152253, Order 03 ¶¶ 11-14 (Dec. 29, 2015). On December 10, 2015, Boise filed a motion arguing that the filing should be dismissed for lack of cost of capital testimony or, in the alternative, that the case should be considered a general rate case. The Commission denied Boise's motion at the December 22, 2015 prehearing conference. In response to the concerns that Staff expressed in response to Boise's motion, the Company filed additional testimony related to its capital structure and debt costs on January 7, 2016.

1 case; reduced costs associated with capital investments at Jim Bridger Unit 3; updated  
2 production tax credit amounts; and various other revenue requirement updates and  
3 adjustments. The Company's requested second-year increase is unchanged.

4 **Q. Does the Company's rebuttal filing include testimony from new Company**  
5 **witnesses?**

6 A. Yes. In response to Staff and intervenor testimony, the Company has added two new  
7 witnesses: (1) Dana Ralston, Vice President of Coal Generation and Mining, who  
8 addresses the reasonableness of the Jim Bridger coal costs included in the Company's  
9 SCR analysis; and (2) Kathryn Hymas, Vice President of Human Resources and  
10 Procurement, who addresses Public Counsel's and Boise's proposed wage and labor  
11 adjustments and demonstrates that these adjustments are unreasonably one-sided and  
12 inconsistent with Staff's previous testimony regarding the proper presentation of  
13 limited-issue cases.

14 **ACCELERATED DEPRECIATION**

15 **Q. Please describe the Company's proposal for adoption of shorter depreciation**  
16 **schedules for the Jim Bridger plant and Colstrip unit 4 previously used in**  
17 **Washington.**

18 A. To provide greater resource planning flexibility as Washington implements state and  
19 federal environmental policies, the Company recommends that the Commission  
20 return Pacific Power's west control area coal plants to their pre-2008 depreciable  
21 lives (from 2037 to 2025 for the Jim Bridger plant, and from 2046 to 2032 for  
22 Colstrip unit 4). These depreciation schedules align with reasonably anticipated  
23 implementation timelines for state and federal environmental policies and mandates.



1 **Q. Do Boise, NWECC, and the Sierra Club all support the Company's proposal?**

2 A. Yes. Boise testifies that Pacific Power's "current circumstances favor a shorter  
3 depreciation schedule for its coal facilities," particularly in light of low natural gas  
4 prices and oversupply in power markets.<sup>5</sup> Boise concludes that the benefits  
5 associated with accelerated depreciation exceed the incremental costs of a higher  
6 depreciation expense.<sup>6</sup> NWECC supports the Company's proposal because the  
7 shortening the current depreciable lives of the plants is more consistent with a "host  
8 of Washington state policies and statutes."<sup>7</sup>

9 Sierra Club supports accelerated depreciation for several reasons. These  
10 include removing barriers to early plant retirement, preventing the need for stranded  
11 cost recovery from customers no longer served by the plant, and mitigating potential  
12 rate shock from early retirement.<sup>8</sup>

13 **Q. Do Staff and Public Counsel oppose the use of shorter depreciation schedules for  
14 the Company's coal-fueled generation?**

15 A. Yes. Staff and Public Counsel contend that the Company has not presented a  
16 comprehensive depreciation study that supports a shorter useful life for these plants or  
17 otherwise provided sufficient justification for reducing the depreciable lives.<sup>9</sup>

18 **Q. Please explain why the Company did not present a traditional depreciation study  
19 in support of its recommendation in this case.**

20 A. The Company's proposal is not based on a change in technical depreciation  
21 assumptions, methodologies, or calculations. Instead, the Company is seeking a

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<sup>5</sup> Mullins, Exh. No. BGM-1CT 3:16-19.

<sup>6</sup> *Id.*, 3:5-8.

<sup>7</sup> Cavanagh, Exh. No. RC-1T 10:13-19.

<sup>8</sup> Fisher, Exh. No. JIF-1CT 34:23-35:18.

<sup>9</sup> Huang, Exh. No. JH-1T 9:6-10:2; Ramas, Exh. No. DMR-1T Revised (3/29/16) 14:1-16:16.

1 policy-based change in the depreciation lives of one set of assets—coal-fueled  
2 generation resources—based on new and proposed laws and regulations that may  
3 impact the useful lives of these assets. Reducing depreciable lives now mitigates  
4 future customer risk associated with coal-fueled generation, provides the Company  
5 additional flexibility to respond to existing and emerging environmental regulations,  
6 and aligns the depreciable lives of coal-fired generation in Oregon and Washington,  
7 which together represent approximately 95 percent of the Company’s customers in  
8 the west control area.

9 **Q. Why didn’t the Company propose this change in its 2013 depreciation study,**  
10 **Docket UE-130052?**

11 A. The Company filed its last depreciation study on January 11, 2013. This was  
12 17 months before the EPA published the draft Clean Power Plan rule on June 2, 2014,  
13 and nearly three years before the final rule was published on October 23, 2015. In  
14 addition to the Clean Power Plan, since January 2013 there have been significant  
15 policy developments at both the state and federal level. In January 2013, the future of  
16 greenhouse gas emission regulation and policies, and the potential need to mitigate  
17 risk through shortened depreciation schedules, were less clear than they are now.

18 **Q. Have Washington state policies recently changed to encourage the removal of**  
19 **potential barriers to the retirement of coal plants?**

20 A. Yes. In a report issued February 2, 2016, in Docket UE-151500, Staff observed that  
21 there is growing executive and legislative support for policies encouraging coal plant  
22 retirements. The report cites Governor Inslee’s April 2014 Executive Order 14-04,  
23 which directs the Commission to “actively assist and support the reduction of coal-

1 fired electricity.”<sup>10</sup> In addition, the report notes that there have been extensive  
2 legislative efforts to address the retirement of coal-fueled generation resources.

3 **Q. Did Washington recently enact legislation allowing PSE to fund a retirement**  
4 **account to cover costs associated with the retirement of Colstrip Units 1 and 2?**

5 A. Yes. On April 1, 2016, Governor Inslee signed Senate Bill 6248, authorizing PSE to  
6 create a fund for decommissioning and remediation costs for Colstrip Units 1 and 2,  
7 but partially vetoed the section of the bill foreclosing use of the fund if plant  
8 retirement occurred before 2022. The Governor described SB 6248 as “an important  
9 step towards ending Washington's reliance on coal-fired electricity and transitioning  
10 to cleaner energy sources.”<sup>11</sup>

11 **Q. Is Senate Bill 6248 designed to protect customers against the risk of early**  
12 **retirement of Colstrip Units 1 and 2?**

13 A. Yes. Senate Bill 6248 was sponsored by Senate energy chair Doug Ericksen. In  
14 February 2016, he issued the following statement clarifying the purpose and scope of  
15 the bill:

16 We need to be very clear about what this bill does and doesn't do.  
17 This bill does not eliminate any coal plant. Nor does it establish a  
18 schedule for a shutdown. All energy facilities have a life  
19 expectancy, but if federal rules force a premature closure of these  
20 two older plants, we need to make sure Washington utility  
21 consumers are protected against economic shocks. This bill  
22 provides for a framework, in case we need one.<sup>12</sup>  
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<sup>10</sup> *Investigation of Coal-Fired Generating Unit Decommissioning and Remediation Costs*, Docket UE-151500, Investigation Report at 4 (Feb. 2, 2016).

<sup>11</sup> See <http://www.seattletimes.com/seattle-news/environment/gov-jay-inslee-signs-colstrip-coal-plant-bill-with-partial-veto/>

<sup>12</sup> See <http://dougerricksen.src.wastateleg.org/senate-bill-provides-financial-framework-for-future-retirement-of-coal-power-facilities/>

1 **Q. Has the Commission also recently taken steps to support the potential early**  
2 **retirement of Colstrip Units 1 and 2?**

3 A. Yes. In March 2016, the Commission approved an extension of PSE’s current rate  
4 plan and required development of a comprehensive plan for the early closure of  
5 Colstrip Units 1 and 2.<sup>13</sup>

6 **Q. Please explain how the Company’s proposal is advantageous to customers.**

7 A. The long-term direction of coal generation is in flux due to emerging state and federal  
8 environmental mandates. If future regulations make it uneconomic to operate coal  
9 plants or future policies disallow service from certain resources before the end of  
10 their current depreciable lives, customer rates could increase significantly to reflect  
11 both large undepreciated plant balances and the cost of replacement generation  
12 resources. The Company’s proposal protects Washington customers against the risk  
13 of these economic shocks, similar to the policy underlying Senate Bill 6248.

14 **Q. What value is provided by aligning the depreciation rates in Oregon and**  
15 **Washington?**

16 A. Aligning depreciation rates in the Company’s two largest west-control-area  
17 jurisdictions makes it easier for the Company to implement environmental or  
18 regulatory policies adopted by Oregon and Washington. Oregon and Washington  
19 have a long history of collaboration to encourage the reduction of greenhouse gas  
20 emissions. Most recently, in February 2016, the governors of Washington and  
21 Oregon, along with governors from 15 other states signed the “Governors’ Accord for

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<sup>13</sup> *Wash. Utils. and Transp. Comm’n v. Puget Sound Energy*, Dockets. UE-121697 *et al*, Order Granting Joint Petition to Modify Order 07 (March 17, 2016).

1 a New Energy Future.”<sup>14</sup> Through this accord, Oregon and Washington have  
2 committed to diversify energy generation and expand clean energy sources by, among  
3 other commitments, working together to facilitate the transition away from coal and  
4 towards a cleaner resource mix. By shortening the depreciation schedules for the  
5 Company’s west-control-area coal resources now, the Company can more effectively  
6 implement state policies that are common to both Washington and Oregon.

7 In addition, as noted in my direct testimony, the Company’s inter-  
8 jurisdictional allocation methodology was recently re-negotiated with the Company’s  
9 other jurisdictions, and the modified methodology specifically provides an  
10 opportunity for the Company to analyze, among other things, alternative allocation  
11 methods that may include divisional allocation methodologies.<sup>15</sup>

12 **Q. Both Staff and Public Counsel argue that the Company has not indicated that**  
13 **the Jim Bridger plant will be retired in 2025 and therefore there is no basis for**  
14 **reducing its depreciable life to 2025.<sup>16</sup> How do you respond?**

15 A. The depreciable life used for ratemaking is not necessarily the same as the operating  
16 life based on the anticipated plant retirement date. Current depreciation rates in  
17 Washington assume a 61-year useful life for thermal plants. A change in the  
18 depreciation schedule will not result in an operational change at the Jim Bridger plant  
19 today, but it will allow flexibility in the future as the Company responds to existing  
20 and emerging environmental regulations. For example, if the plant is fully  
21 depreciated by 2025, as proposed by the Company, then there will be minimal rate

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<sup>14</sup> Exh. No. RBD-4.

<sup>15</sup> *In the matter of PacifiCorp, d/b/a Pacific Power, Petition for Approval of the 2017 PacifiCorp Inter-Jurisdictional Allocation Protocol*, Docket No. UM 1050, Exhibit PAC/101, Dalley/2, lines 17-21.

<sup>16</sup> Huang, Exh. No. JH-1T 10:14-19; Ramas, Exh. No. DMR-1T Revised (3/29/16) 18:16-19:18.

1 impact if the Company is required to retire or convert the plant, while simultaneously  
2 acquiring replacement resources.

3 **Q. What happens if the plants continue to operate beyond the proposed shortened**  
4 **depreciable lives?**

5 A. Changing depreciable lives today would not restrict the Company from using  
6 generation from these resources to serve Washington customers after the end of the  
7 facilities' depreciable lives, nor would it prevent the Commission from revisiting the  
8 depreciable lives in a future proceeding. The Company expects that parameters such  
9 as state and federal policies, regulatory compacts, as well as the then-current  
10 operating costs and benefits will ultimately dictate whether or not individual units  
11 continue to serve Washington customers after their depreciable lives end.

12 **Q. Public Counsel recommends that the Commission wait to adjust the depreciation**  
13 **schedules until there are firm plans to shorten the useful lives of the plants.<sup>17</sup>**  
14 **Please respond to this recommendation.**

15 A. The Company's proposal best protects customers by shortening the depreciable lives  
16 while minimizing rate impacts. Reducing the depreciable lives allows full  
17 depreciation of the Jim Bridger plant over nearly nine years and Colstrip unit 4 over  
18 nearly 16 years. Public Counsel's wait-and-see approach could expose customers to  
19 significantly higher depreciation expense if these plants are forced to retire early. As  
20 Sierra Club correctly points out, accelerating the Jim Bridger plant's depreciation  
21 now "allows nine years to mitigate ratepayer impacts from accelerated depreciation,

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<sup>17</sup> Ramas, Exh. No. DMR-1T Revised (3/29/16) 21:10-24.

1           whereas waiting to accelerate depreciation will only increase rate shock in the  
2           future.”<sup>18</sup>

3   **Q.   Public Counsel argues that the Company’s proposal will result in inter-**  
4   **generational inequity because today’s customers will pay for a plant that may**  
5   **serve customers beyond 2025.<sup>19</sup> How do you respond?**

6   A.   Contrary to Public Counsel’s claim, failure to accelerate depreciation is more likely to  
7   result in inter-generational inequity. The Company agrees with Sierra Club’s  
8   testimony that accelerated depreciation “protects ratepayers by minimizing the risk of  
9   inter-temporal cost shifting between current ratepayers who are continuing to receive  
10   power from the plant, and future ratepayers who may otherwise be required to pay off  
11   undepreciated assets after the plant has stopped providing power.”<sup>20</sup> While there is a  
12   risk of inter-generational inequity associated with accelerated depreciation, the  
13   Company believes that the risk is greater if current depreciation schedules are  
14   maintained.

15   **Q.   Public Counsel also contends that accelerated depreciation may create inter-**  
16   **jurisdictional inequities if the Jim Bridger plant continues to operate beyond**  
17   **2025 but no longer serves Washington customers.<sup>21</sup> Is this concern valid?**

18   A.   No. Adjusting the Jim Bridger plant’s depreciable life for purposes of Washington  
19   rates would not restrict Pacific Power from operating this plant to serve Washington  
20   customers or customers in other states after the end of those depreciable lives. The  
21   costs and benefits associated with this resource would be allocated to Washington

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<sup>18</sup> Fisher, Exh. No. JIF-1CT 35:12-14.

<sup>19</sup> Ramas, Exh. No. DMR-1T Revised (3/29/16) 20:1-19.

<sup>20</sup> Fisher, Exh. No. JIF-1CT 35:7-11.

<sup>21</sup> Ramas, Exh. No. DMR-1T Revised (3/29/16) 22:6-16.

1 customers consistent with the allocation methodology approved by the Commission.  
2 The Company is not proposing any modifications to how resources are allocated  
3 among states as part of this proceeding.

4 **Q. Although Boise supports accelerated depreciation, Boise also recommends that if**  
5 **accelerated depreciation is approved, then the Jim Bridger plant and Colstrip**  
6 **Unit 4 should be removed from Washington rates after they are fully**  
7 **depreciated.<sup>22</sup> Please respond.**

8 A. Under Boise's proposal, Washington customers will have paid entirely for the Jim  
9 Bridger plant and Colstrip Unit 4, but receive no benefits after 2025 and 2032,  
10 respectively, even if the plants are still providing low-cost electricity to customers.  
11 Under the Company's proposal, the Jim Bridger plant and Colstrip Unit 4 would be  
12 fully depreciated by 2025 and 2032, respectively, but Washington customers will  
13 continue to receive the benefits associated with the resources they have paid for so  
14 long as the on-going costs associated with those resources are included in customer  
15 rates.

16 **Q. Public Counsel provides an alternative recommendation if the Commission is**  
17 **inclined to support accelerated depreciation. Under Public Counsel's proposal,**  
18 **depreciation rates would remain unchanged, but the Company would create a**  
19 **regulatory liability and collect from customers an early retirement expense that**  
20 **could then be used to offset stranded costs if the plant is retired early.<sup>23</sup> Please**  
21 **respond.**

22 A. Public Counsel's alternative recommendation is unnecessary and burdensome. The

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<sup>22</sup> Mullins, Exh. No. BGM-1CT 4:6-5:5.

<sup>23</sup> Ramas, Exh. No. DMR-1T Revised (3/29/16) 25:22-26:24.



1 Company's proposal would provide for a separate tracking and reporting of  
2 incremental depreciation expense collected from Washington customers. The  
3 accounting would be conducted in a similar manner to the way in which the Company  
4 has accounted for incremental depreciation recovered from Oregon customers since  
5 2008. Specifically, separate tracking is used to provide transparency for the  
6 Commission and other parties in rate filings and future depreciation studies.

7 **JIM BRIDGER SCR INVESTMENTS**

8 **Q. Both Staff and Sierra Club argue that the Company's decision to install SCRs on**  
9 **Jim Bridger Units 3 and 4 was imprudent.<sup>24</sup> How do you respond to these**  
10 **arguments?**

11 A. The rebuttal testimonies of Mr. Chad A. Teply, Mr. Rick T. Link, and Mr. Ralston  
12 responds in detail to Staff's and Sierra Club's contentions and demonstrates  
13 conclusively that the parties' claims are unsupported by the objective, verifiable  
14 evidence available at the time the Company decided to make these investments. The  
15 parties rely on erroneous analysis that, when corrected, fails to undermine the  
16 Company's evidence establishing that its decision is what a "reasonable board of  
17 directors and company management [would] have decided given what they knew or  
18 reasonably should have known to be true at the time they made a decision."<sup>25</sup>

19 My testimony will not reiterate the Company's analysis; rather, I will address  
20 several high-level policy issues surrounding the Company's decision to invest in the  
21 SCRs and the potential future ratemaking implications of the parties' proposed  
22 adjustments related to the SCRs.

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<sup>24</sup> Twitchell, Exh. No. JBT-1CT 5:14-22; Fisher, Exh. No. JIF-1CT 3:14-21.

<sup>25</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-031725, Order 12 ¶ 19 (Apr. 7, 2004).

1 **Q. How do you reconcile your request in this case to approve the prudence of the**  
2 **SCRs at the Jim Bridger plant with seeking a shorter depreciation schedule to**  
3 **mitigate the risk of early plant retirement?**

4 A. As Staff correctly concluded, these two issues are distinct. The prudence of the SCRs  
5 is based on the Company's decision-making in 2013. During that same time period,  
6 the Company's depreciation filing in Docket UE-130052 was pending, which used  
7 traditional 61-year useful lives for the Company's thermal plants. No party objected  
8 to the use of this assumption and the Commission-approved rates based on these plant  
9 lives, effective in January 2014. As explained above, it is changes in state and federal  
10 law and policies since that time that provided the impetus for the Company seeking  
11 shorter depreciation lives now. In addition, as discussed by Mr. Link, the Company's  
12 analysis demonstrates that even with a 2025 depreciable life, the decision to install  
13 SCRs on Jim Bridger Units 3 and 4 would have still been cost-effective.

14 **Q. Do you have any comments related to the proposed SCR disallowances from**  
15 **Staff and Sierra Club?**

16 A. Yes. Staff and Sierra Club recommend disallowances that are theoretically and  
17 practically problematic. Staff and Sierra Club conclude that the Company should  
18 have converted the Jim Bridger Units 3 and 4 to natural gas. Therefore, Staff and  
19 Sierra Club propose adjustments based on the expected costs of gas conversion.<sup>26</sup>  
20 Under these recommendations, it is unclear how the resources would be treated in  
21 rates prospectively. If the Company did not install the SCRs, Jim Bridger Units 3 and  
22 4 could no longer operate as coal-fueled resources as of January 1, 2016, and  
23 January 1, 2017, respectively. Therefore, if the SCRs were imprudent, these units

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<sup>26</sup> Twitchell, Exh. No. JBT-1CT 54:3-15.

1 should not be included in rates as coal-fueled facilities. On the other hand, it would  
2 be impossible to accurately model Jim Bridger Units 3 and 4 as if they were natural-  
3 gas-fueled resources for purposes of establishing Washington rates. The sheer  
4 number of assumptions necessary for such modeling would never satisfy the known  
5 and measurable standard.

6 **Q. Would it be reasonable to simply disallow the SCRs and then include in future**  
7 **rates the actual costs associated with the units?**

8 A. No. As noted above, Jim Bridger Units 3 and 4 cannot operate without the SCRs.  
9 Therefore, if customers do not pay for the SCRs, they should not receive the future  
10 benefits of Jim Bridger Units 3 and 4.

11 **Q. Boise recommends that if the Commission approves accelerated depreciation,**  
12 **the Company's revenue requirement include only 54.3 percent of the costs of the**  
13 **SCRs.<sup>27</sup> Is this recommendation reasonable?**

14 A. No. Boise's adjustment corresponds to the number of months that the SCRs will be  
15 included in Washington rates based on a 2025 useful life divided by the number of  
16 months assumed in the Company's economic analysis. This recommendation is  
17 based on Boise's incorrect assumption that a 2025 depreciable life means that the Jim  
18 Bridger plant will be removed from Washington rates entirely in 2025.<sup>28</sup> As  
19 discussed above, if the plant continues to operate on behalf of Washington customers  
20 beyond 2025, it will be included in Washington rates consistent with the prevailing  
21 economics and state regulatory policies in effect at the time. The Company is not

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<sup>27</sup> Mullins, Exh. No. BGM-1CT 13:6-14.

<sup>28</sup> *Id.*, 14:9-11.

1 asking the Commission to pre-determine in this case that the Jim Bridger plant will be  
2 removed from rates in 2025.

### 3 **RATE PLAN**

4 **Q. Why did the Company propose a rate plan in this case?**

5 A. The Company’s proposed rate plan responds to the direction provided by the  
6 Commission in the Company’s last two rate cases and in other recent decisions. The  
7 Commission and other parties have encouraged the Company to use alternative  
8 ratemaking tools that the Commission has successfully employed to address issues  
9 like regulatory lag, persistent under-recovery, and the need for frequent rate case  
10 filings. The purpose of the rate plan is to allow the Company to defer future rate case  
11 filings for several years, while still providing the Company an opportunity to earn its  
12 authorized rate of return. To that end, the rate plan consists of a second-year rate  
13 increase coupled with an agreement not file another rate case for a rate change  
14 effective before June 1, 2018. The rate plan constructively addresses Pacific Power’s  
15 earnings attrition and projected cost increases over the next two years.

16 **Q. Do the parties support the Company’s proposal?**

17 A. Staff supports the rate plan, while Public Counsel and Boise do not.

18 **Q. What is the basis for Staff’s support?**

19 A. Staff supports the rate plan as a way to end annual rate case filings and to address  
20 regulatory lag.<sup>29</sup> Staff testifies that the “proposed rate plan is a well-designed stay-  
21 out period with discrete adjustments”<sup>30</sup> that is “in step with prior Commission

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<sup>29</sup> Ball, Exh. No. JLB-1T 23:1-15.

<sup>30</sup> *Id.*, 3:11-12.

1 orders.”<sup>31</sup> The Company appreciates Staff’s support for the design of the rate plan  
2 and Staff’s recognition that the Company has proposed a framework that is consistent  
3 with the Commission’s prior direction. The Company is concerned, however, that  
4 while Staff is supportive in concept, Staff’s proposed revenue requirement  
5 undermines the value of the rate plan and makes it unworkable.

6 **Q. How does Staff’s overall position undermine the rate plan?**

7 A. Staff correctly testifies that the key feature of a rate plan is that in exchange for a  
8 stay-out period, the Company “either receives a series of pre-determined rate  
9 adjustments or some other type of incentive for agreeing to the stay-out period.”<sup>32</sup>  
10 Staff continues: “By providing a company with additional revenue, either through  
11 automatic adjustments, additional return on equity, or other mechanisms, the  
12 company is directly incentivized to control its costs in order to achieve maximum  
13 possible earnings.”<sup>33</sup> Staff’s overall recommended revenue requirement, however,  
14 does not provide the necessary incentive to allow the Company to agree to a stay-out  
15 period.

16 **Q. Does Staff’s recommended cost of capital support the proposed rate plan?**

17 A. No. Staff recommends a reduction in the Company’s return on equity, despite its own  
18 witness agreeing that the Company’s current return is reasonable.<sup>34</sup> Staff’s cost of  
19 capital recommendation, which sets the return on equity at the mid-point of the range,  
20 is also out of step with recent orders. In the PSE remand order, the majority of the  
21 Commission found that proposed stay-out provisions, earnings sharing mechanisms,

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<sup>31</sup> *Id.*, 7:8-9.

<sup>32</sup> *Id.*, 18:4-14.

<sup>33</sup> *Id.*, 18:4-14.

<sup>34</sup> Parcell, Exh. No. DCP-1T 4:10-12.

1 and aggressive conservation targets—all of which are included in this case—warrant  
2 a return on equity that is higher than the mid-point.<sup>35</sup> Staff’s recommendation  
3 appears to entirely ignore this direction from the Commission and its own  
4 recommendation that an effective rate plan requires regulatory support.

5 Staff also proposes a series of revenue requirement adjustments that virtually  
6 eliminates the Company’s requested rate increase, including a proposed disallowance  
7 of the Company’s SCRs that is based on erroneous analysis. Ultimately, if the rate  
8 plan is to be successful, there must be some incentive for the Company to stay out of  
9 a general rate case, which is currently lacking from Staff’s recommendation.

10 **Q. If the Commission adopts Staff’s proposed adjustments or materially reduces**  
11 **the Company’s proposed revenue requirement for the first year of the rate plan,**  
12 **will the Company agree to a stay-out period?**

13 A. In those circumstances, the Company respectfully reserves its right to evaluate the  
14 Commission’s order and determine whether to accept the rate plan as modified.

15 **Q. What is the basis for Public Counsel’s and Boise’s opposition to the rate plan?**

16 A. Both parties claim that the Company is not experiencing attrition and therefore has  
17 not justified the need for a rate plan. Specifically, Public Counsel claims that the  
18 historical evidence that the Company has not earned its authorized return since 2006  
19 is insufficient to demonstrate a “ten-year trend of earnings attrition.”<sup>36</sup> Boise  
20 similarly claims that the rate plan is based on “unfounded claims of attrition, which

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<sup>35</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-121697, *et al.*, Order 15 ¶¶ 157, 161-62 (June 29, 2015).

<sup>36</sup> Ramas, Exh. No. DMR-1T Revised (3/29/16) 43:4-44:25.

1 have not been appropriately supported by an attrition study.”<sup>37</sup> Without an attrition  
2 study, Public Counsel and Boise argue that there is no basis for a rate plan.

3 **Q. Does Staff agree that the Company’s historical under-recovery demonstrates**  
4 **that it is experiencing earnings attrition?**

5 A. No. Although Staff supports the rate plan, that support is not based on the  
6 Company’s earnings attrition.<sup>38</sup> Like the other parties, Staff too claims that the  
7 Company has not provided an attrition study or other in-depth analysis demonstrating  
8 that there is an “attrition trend” in Washington.<sup>39</sup>

9 **Q. How do you respond to the claim that the Company is not experiencing earnings**  
10 **attrition?**

11 A. The parties’ position is informed largely by their narrow definition of attrition.  
12 According to Staff’s testimony, attrition “is related to more than just a company’s  
13 achieved earnings; it is a holistic tool that requires analysis of the Company’s entire  
14 operations.”<sup>40</sup> Staff continues that the “purpose behind an attrition study is to identify  
15 historical test year relationships that may not continue into the rate effective  
16 period.”<sup>41</sup> Thus, according to Staff’s definition, a trend of under-earning alone does  
17 not demonstrate attrition.

18 **Q. Is Staff’s position consistent with the Commission’s definition of attrition?**

19 A. No. The Commission has not defined attrition as narrowly as Staff. The Commission  
20 has repeatedly defined attrition “broadly to mean any situation in which a rate-

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<sup>37</sup> Mullins, Exh. No. BGM-1CT 6:15-17.

<sup>38</sup> Ball, Exh. No. JLB-1T 23:1-15.

<sup>39</sup> *Id.*, 8:4-6.

<sup>40</sup> *Id.*, 22:15-17.

<sup>41</sup> *Id.*, 22:17-19.

1 regulated business fails to achieve its allowed earnings.”<sup>42</sup> This is the definition of  
2 attrition that the Company relies on to support its requested rate plan in this case.

3 **Q. Why did the Company not include an attrition study to support its proposed**  
4 **second-year rate increase?**

5 A. The Company is not proposing an attrition adjustment that relies on trending analysis  
6 or escalation factors to establish the Company’s second-year rate increase. Instead,  
7 the Company’s second-year rate increase is based on limited, discrete adjustments.  
8 The Company’s filing contrasts with the approaches taken by PSE in its ERF case and  
9 by Avista in its recent rate case, where the companies relied on trending analysis to  
10 develop escalation factors that were then applied to expenses, revenues, and rate base  
11 to determine the revenue requirement for the second-year rate increase.<sup>43</sup> Because the  
12 Company is not seeking this kind of attrition adjustment, Staff agrees that an attrition  
13 study is unnecessary to support the Company’s rate plan.

14 **Q. Has the Commission considered attrition when setting rates even without a**  
15 **formal attrition study?**

16 A. Yes. In PSE’s ERF case the Commission approved a rate plan that relied on  
17 escalation factors for the second-year rate increase (*i.e.*, an implicit attrition  
18 adjustment) even though PSE had not submitted a formal attrition study.<sup>44</sup> And in  
19 Avista’s 2015 rate case, the Commission affirmed that a discrete attrition adjustment

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<sup>42</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-121697, *et al.*, Order 07 ¶ 22, n. 23 (June 25, 2013); *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-121697, *et al.*, Order 07 ¶ 142 (June 25, 2013) (attrition is “often loosely applied to any situation in which a rate-regulated business fails to achieve its allowed earnings.”); *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-111048, *et al.*, Order 08 ¶ 484, n. 658 (May 7, 2012).

<sup>43</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-121697, *et al.*, Order 07 ¶ 149 (June 25, 2013); *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶¶ 97, 111 (Jan. 6, 2016).

<sup>44</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-121697, *et al.*, Order 07 ¶ 149 (June 25, 2013).



1 one of several tools to provide relief for a “demonstrated trend in under earning,”  
2 indicating that attrition can be considered even when a discrete attrition adjustment is  
3 not proposed.<sup>45</sup> A notable difference between the PSE ERF (which included an  
4 implicit attrition adjustment without a study) and Avista’s 2015 rate case (which  
5 included an explicit attrition adjustment with a study) was the fact that PSE had been  
6 consistently unable to achieve its authorized return, while Avista had been earning at  
7 or even above its authorized level.<sup>46</sup>

8 In this case, the Company requests approval of a two-year rate plan, using  
9 end-of-period rate base and attested pro forma capital additions, rather than a formal  
10 attrition adjustment, to address its trend of under-recovery and allow it to stay out of  
11 general rate cases for several years.

12 **Q. The Commission has previously found that the Company’s inability to achieve**  
13 **its authorized return since 2006 does not necessarily indicate that it will be**  
14 **unable to earn its authorized return during the rate year.<sup>47</sup> How do you**  
15 **respond?**

16 A. The Company believes that it is reasonable to use normalized historical data,  
17 including earnings, to forecast future events, which is consistent with Commission  
18 precedent. The Commission regularly employs normalized historical data to forecast  
19 components of future rates.<sup>48</sup>

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<sup>45</sup> *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶ 62-63 (Jan. 6, 2016).

<sup>46</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-121697, *et al.*, Order 07 ¶ 47 n. 59 (June 25, 2013); *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶ 105 (Jan. 6, 2016).

<sup>47</sup> *See e.g. Wash. Utils. & Transp. Comm’n v. Pacific Power & Light*, Dockets UE-140762, *et al.*, Order 08 ¶ 146 (Mar. 25, 2015).

<sup>48</sup> *See e.g. Id.* ¶ 52 (Mar. 25, 2015) (using six years of historical data to provide a normalized level of expense for the rate year); *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light*, Docket UE-100749, Order 06 ¶ 135 (Mar. 25, 2011) (using actual historical data to predict future net power costs).

1           Moreover, attrition studies, like the one that was recently approved in Avista’s  
2           2015 rate case, are based almost entirely on the use of historical data of expenses,  
3           revenues, and rate base to extrapolate future trends.<sup>49</sup> According to Staff’s comments  
4           filed in the Commission’s attrition investigation, attrition studies are an “exercise in  
5           inferential statistics, whereby inferences are made through empirical analysis of  
6           recorded observations.”<sup>50</sup> Staff has previously testified that an “attrition study is an  
7           acceptable basis upon which to calculate rates since historical data provide evidence  
8           of how fundamental ratemaking relationships are likely to behave over limited future  
9           time periods.”<sup>51</sup>

10           In other words, the attrition studies relied on to establish attrition adjustments  
11           explicitly assume that historical trends will continue into the future. If it is reasonable  
12           to assume that historical trends related to expenses, revenues, and rate base (i.e., the  
13           inputs to the calculation of return) will continue into the future, it is equally  
14           reasonable to assume that the historical trends of returns will continue into the future.

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<sup>49</sup> See e.g. *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶ 59 (Jan. 6, 2016) (attrition study “produced an historical trend of its expenses, revenue and rate base and the impact of that trend on its earnings to derive its alleged revenue deficiency.”). Similarly, the implicit attrition adjustment approved in PSE’s ERF also relied on “trending analysis” that was based on “actual historical trends in the growth rates of revenues, expenses, and rate base to estimate the erosion in rate of return caused by disparate growth in these categories . . .” *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-121697, *et al.*, Order 07 ¶ 149 (June 25, 2013).

<sup>50</sup> Docket UE-150040, Staff Comments on Utility Earning Attrition at 10 (Mar. 27, 2015).

<sup>51</sup> *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, McGuire, Exh. No. CRM-1T 17:19-21; see also Docket UE-150040, Staff Comments on Utility Earning Attrition at 6-7 (Mar. 27, 2015) (“an attrition analysis requires evaluation of only historical rates of growth in revenues, expenses and rate base . . . Staff believes the underlying attrition study is an acceptable basis upon which to base rates since historical data provide evidence of how these fundamental ratemaking relationships are likely to behave over limited future time periods enabling the Commission to exercise its judgment with respect to determining rates consistent with statutory requirements.”).

1 **Q. The parties also claim that the Company failed to demonstrate that its historical**  
2 **under-earning is caused by factors outside of its control that are expected to**  
3 **persist into the future.<sup>52</sup> What factors have contributed to the Company’s**  
4 **inability to earn its authorized return?**

5 A. There are numerous cost drivers outside the Company’s control that will continue to  
6 impact its future earnings during the rate year. For example, as discussed in the  
7 rebuttal testimony of Ms. Hymas, wage and labor costs associated with medical and  
8 post-retirement benefits have continued to grow, and those costs are outside the  
9 Company’s control.

10 In addition, as Staff observed in the last case, the Company’s declining  
11 Washington load has historically contributed to its inability to recover the costs to  
12 serve Washington customers.<sup>53</sup> While the proposed decoupling mechanism will  
13 largely address load growth concerns, it is not a perfect mechanism, and despite the  
14 use of decoupling mechanisms by other utilities, the Commission continues to point  
15 to load growth as a factor supporting earnings attrition for those utilities.<sup>54</sup>

16 **Q. Public Counsel contends that the Company’s costs are actually decreasing and**  
17 **therefore the Company is not experiencing earnings attrition.<sup>55</sup> Are declining**  
18 **costs evidence that the Company has not experienced earnings attrition?**

19 A. No. The fact that the Company aggressively controls and reduces its costs and is still  
20 unable to recover the cost to serve Washington customers does not prove the absence

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<sup>52</sup> See e.g. Ramas, Exh. No. DMR-1T Revised (3/29/16) 44:4-21.

<sup>53</sup> *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light*, Dockets UE-140762, et al., Twitchell, Exh. No. JBT-1T 23:22-24 (“the Company’s declining load trend is likely the primary reason the Company has not recovered its authorized revenue requirement since at least 2006”).

<sup>54</sup> See e.g. *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, et al., Order 05 ¶ 116 (Jan. 6, 2016) (relying on low load growth to support attrition adjustment despite the fact that Avista had a decoupling mechanism).

<sup>55</sup> Ramas, Exh. No. DMR-1T Revised (3/29/16) 44:22-46:12.

1 of earnings attrition. On the contrary, Public Counsel’s argument demonstrates that  
2 despite its efficiency savings, the Company’s authorized rates are insufficient to allow  
3 it an opportunity to earn its return.

4 Public Counsel also made largely the same argument in Avista’s 2015 rate  
5 case, claiming that a declining revenue requirement calculated using the conventional  
6 modified historical test year demonstrated that Avista was not experiencing earnings  
7 attrition.<sup>56</sup> The Commission rejected Public Counsel’s argument in that case and  
8 found that Avista was experiencing attrition.<sup>57</sup> Although the Avista case is distinct  
9 from this case in many ways, the Commission was clear that a declining revenue  
10 requirement, in and of itself, does not rebut claims of attrition.

11 **Q. Boise argues that a second-year rate increase is inconsistent with the**  
12 **Commission’s known and measurable standard<sup>58</sup> and that the rate plan consists**  
13 **of impermissible single-issue ratemaking.<sup>59</sup> How do you respond?**

14 A. The Company’s proposed second-year rate increase is based on discrete adjustments,  
15 primarily related to pro forma capital additions that will be placed in service well  
16 before the proposed effective date of the second-year rate adjustment. The Company  
17 has agreed to submit attestations regarding the in-service dates and final costs of  
18 those projects so that—before rates change—the adjustments will be fully known and  
19 measurable and resources will be used and useful. Staff supports the Company’s

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<sup>56</sup> *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Ramas, Exh. No. DMR-1T 10:8-11:11; *see also Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶ 132 (Jan. 6, 2016).

<sup>57</sup> *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶ 135 (Jan. 6, 2016).

<sup>58</sup> Mullins, Exh. No. BGM-1CT 7:15-17.

<sup>59</sup> *Id.*, 8:3-13.

1 proposed use of attestations to verify both the in-service date and the final costs for  
2 each pro forma capital addition.<sup>60</sup>

3 Moreover, the Commission's prior approval of rate plans demonstrates that it  
4 has adopted a flexible approach to ratemaking and will use different tools even when  
5 doing so departs from traditional ratemaking. The Commission recently expressed  
6 greater willingness to depart from traditional ratemaking when it observed that  
7 utilities do not need to demonstrate extreme financial distress and that it is not  
8 necessary to require a finding of extraordinary circumstances to justify the use of  
9 tools like attrition adjustments and rate plans.<sup>61</sup>

10 **Q. Do parties support the Company's proposal to extend its five-year LIBA**  
11 **program as a part of its rate plan?**

12 A. Yes. In addition, there appears to be general agreement that the parties will  
13 participate in a collaborative effort regarding potential modifications to the program  
14 for the future.

#### 15 **END-OF-PERIOD RATE BASE BALANCES**

16 **Q. Why did the Company propose using end-of-period rate base balances in its**  
17 **initial filing?**

18 A. The Company modeled its filing on Staff's testimony in the Company's 2013 general  
19 rate case regarding the design of a limited-issue rate filing using a Commission Basis  
20 Report. In that testimony, Staff supported use of end-of-period rate base to reflect  
21 balances that are likely to exist during the rate year and address the Company's  
22 persistent under-earning. In this case, the use of end-of-period rate base is

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<sup>60</sup> Ball, Exh. No. JLB-1T 24:17-25:17.

<sup>61</sup> *Wash. Utils. & Transp. Comm'n v. Avista*, Dockets UE-150204, *et al.*, Order 05 ¶ 110 (Jan. 6, 2016).

1 particularly important because of the Company's commitment not to file another  
2 general rate case with rates effective before June 1, 2018, if the two-year rate plan is  
3 approved.

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

5 A. Staff supports the use of end-of-period rate base, while Public Counsel and Boise  
6 oppose it.

7 **Q. What is the basis for Staff's support in this case?**

8 A. Staff testifies that it is appropriate to use end-of-period balances in the context of a  
9 two-year rate plan because it "more appropriately align[s] rate base balances with the  
10 rate effective period in both years one and two of the rate plan."<sup>62</sup> Staff's support  
11 specifically focuses on the fact that the Company's proposed use of end-of-period rate  
12 base as part of its overall rate plan.

13 **Q. Has the Commission previously approved the use of end-of-period rate base as  
14 part of a rate plan?**

15 A. Yes. When the Commission approved PSE's rate plan in 2013, the approval included  
16 the use of end of period rate base as a critical component of the plan.<sup>63</sup> In that case,  
17 the Commission found that end-of-period rate base mitigated the consequences of  
18 PSE's "earnings attrition," which was supported by "ample evidence" that PSE had  
19 not achieved its authorized rate of return for electric service since 2006 and that its  
20 electric earnings were 70 basis points below its authorized rate of return for the  
21 preceding year.<sup>64</sup> Importantly, in the PSE case, the Commission approved the use of

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<sup>62</sup> Huang, Exh. No. JH-1T 4:6-9.

<sup>63</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-121697, *et al.*, Order 07 ¶ 48 (June 25, 2013).

<sup>64</sup> *Id.*, Order 07 ¶ 47 n. 59 (June 25, 2013).

1 end-of-period rate base even though it constituted a significant portion of the utility's  
2 overall rate increase.

3 **Q. What is the basis for Public Counsel's and Boise's opposition?**

4 A. Both Public Counsel and Boise contend that the Company has not satisfied the  
5 criteria for approval of end-of-period rate base that the Commission articulated in the  
6 Company's 2013 and 2014 rate cases.<sup>65</sup>

7 **Q. Please describe the Commission's treatment of rate base in the Company's 2013  
8 general rate case.**

9 A. In the Company's 2013 general rate case, the Commission approved the use of end-  
10 of-period rate base specifically to "address at least some of the impacts of regulatory  
11 lag on PacifiCorp."<sup>66</sup> The Commission observed that while regulatory lag encourages  
12 efficient operations and is therefore tolerated to some degree, during recent periods  
13 the impact of regulatory lag on the ability of Pacific Power to earn its authorized  
14 revenue requirement had contributed to a pattern of almost continuous rate cases.<sup>67</sup>

15 In the 2013 general rate case, the Commission also indicated that in any future  
16 rate case seeking end-of-period rate base treatment, it expected to "see a more fully  
17 developed record and a more refined approach to ensuring there is not a resulting  
18 violation of the matching principle."<sup>68</sup>

19 **Q. Did the Commission approve the use of end-of-period rate base in the 2014  
20 general rate case?**

21 A. No. In the 2014 general rate case, the Commission rejected the use of end-of-period

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<sup>65</sup> Ramas, Exh. No. DMR-1T Revised (3/29/16) 9:9-17; Mullins, Exh. No. BGM-1T 22:8-20.

<sup>66</sup> *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-130043, Order 05 ¶ 184 (Dec. 4, 2013).

<sup>67</sup> *Id.*, ¶ 181 (Dec. 4, 2013).

<sup>68</sup> *Id.*, ¶ 185 (Dec. 4, 2013).

1 rate base for three reasons. First, the Commission found that PacifiCorp had not  
2 established that it met one of the four conditions that justify end-of-period rate base,  
3 which are: “(a) abnormal growth in plant; (b) inflation and/or attrition; (c) as a means  
4 to reduce regulatory lag; (d) failure of a utility to earn its authorized rate of return  
5 over an historical period.”<sup>69</sup>

6 Second, the Commission found that its approval of end-of-period rate base in  
7 the 2013 rate case did not break the pattern of near-continuous rate cases.<sup>70</sup>

8 Third, the Commission found that the record in the 2014 rate case was  
9 inadequate to demonstrate that the use of end-of-period rate base did not violate the  
10 matching principle.<sup>71</sup>

11 Importantly, the Commission did not foreclose the possibility of end-of-period  
12 rate base in the future “if there is an adequate showing that it promises the results we  
13 expect and is determined to be an appropriate regulatory mechanism under specific,  
14 well documented facts supporting its use.”<sup>72</sup>

15 **Q. Has the Company demonstrated in this case that conditions justify the use of**  
16 **end-of-period rate base?**

17 A. Yes. At least two conditions are present in this case. First, the use of end-of-period  
18 rate base will reduce regulatory lag, which is an important component of the  
19 Company’s proposed rate plan. If the rate plan is approved, Pacific Power will not  
20 file another rate case for a rate change effective before June 1, 2018. The use of end-  
21 of-period rate base in this case will allow rates to reflect the plant balances at the end

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<sup>69</sup> *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light*, Dockets UE-140762, *et al.*, Order 08 ¶ 146 (Mar. 25, 2015).

<sup>70</sup> *Id.*, ¶¶ 147, 149.

<sup>71</sup> *Id.*, ¶ 150.

<sup>72</sup> *Id.*, ¶ 151.



1 of the test year, or June 30, 2015, thus more accurately reflecting the level of rate  
2 base during the rate-effective period.

3 Second, the Company has not earned its authorized rate of return over the  
4 historical period, as discussed above. Although in this case Public Counsel argues  
5 that historical under-earning is no basis for end-of-period rate base, it took the  
6 opposite position in Avista’s 2015 rate case. In that case, Public Counsel supported  
7 the use of end-of-period rate base for Avista’s gas operations, observing:

8 [I]f a utility is able to clearly demonstrate that it is  
9 experiencing attrition **or that it has been unable to achieve its**  
10 **authorized rate of return** under the more traditional historic  
11 test year approach, the Commission can also consider using  
12 End of Period amounts for determining rate base to offset  
13 demonstrated attrition or regulatory lag issues.<sup>73</sup>

14 Public Counsel testified that Avista presented “compelling evidence” that it had  
15 “consistently earned below its authorized rate of return for its natural gas  
16 operations.”<sup>74</sup> The compelling evidence consisted of Avista’s annual rates of return  
17 for its gas operations. In that case, Public Counsel supported the use of end-of-period  
18 rate base for Avista’s gas operations largely, if not exclusively, because of the  
19 Company’s consistent under-earning.<sup>75</sup> Yet, in this case, Public Counsel contends  
20 that the same type of compelling evidence is insufficient, without providing any  
21 distinction between its testimony in the Avista case and here.

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<sup>73</sup> *Wash. Utils. & Transp. Comm’n v. Avista*, Dockets UE-150204, *et al.*, Ramas Exh. No. DMR-1T Revised (3/29/16) 23:14-18 (emphasis added).

<sup>74</sup> *Id.*, 64:11-14.

<sup>75</sup> *Id.*, 31:20-32:2, 5:8-11, 23:14-19, 25:14-19.

1 **Q. In the Company’s 2014 general rate case, the Commission specifically indicated**  
2 **that the “fact that the Company failed in the past to earn its authorized return**  
3 **cannot justify use of EOP rate base absent a showing that, due to factors beyond**  
4 **the Company’s control, the Commission can expect this condition to continue**  
5 **into the future.”<sup>76</sup> What factors beyond the Company’s control will impact the**  
6 **Company’s ability to earn its authorized return in the future?**

7 A. As discussed above, there are numerous factors that have contributed to the  
8 Company’s inability to earn its authorized return and that are expected to continue  
9 into the future.

10 **Q. Will the use of end-of-period rate base in this case help break the continuous**  
11 **pattern of rate case filings?**

12 A. Yes. As discussed above, if the rate plan is approved the Company will not file  
13 another general rate case for a rate change effective before June 1, 2018. This is an  
14 important distinction between this case and the 2014 rate case.

#### 15 **DECOUPLING MECHANISM**

16 **Q. Do parties generally support the Company’s proposed decoupling mechanism?**

17 A. Yes. The Company’s proposal was modeled on the recently approved mechanisms  
18 for PSE and Avista, along with the Commissions guidance in its generic decoupling  
19 policy report. The Company appreciates the parties’ support, and the parties’  
20 additional recommendations are generally acceptable modifications to the Company’s  
21 proposal. Approval of the decoupling mechanism will provide the Company a better

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<sup>76</sup> *Wash. Utils. & Transp. Comm’n v. Pacific Power & Light*, Dockets UE-140762, *et al.*, Order 08 ¶ 146 (Mar. 25, 2015).

1 opportunity to recover its fixed costs to serve Washington customers and mitigate the  
2 impacts of low or negative load growth.

3 In addition, as part of the decoupling mechanism, the Company will  
4 implement an earnings test, which will be particularly important if the proposed rate  
5 plan is approved as a reasonable check on the Company's earnings during the second  
6 year of the plan. The Company also agrees to increase its conservation targets to  
7 ensure that the decoupling mechanism does not adversely impact the acquisition of  
8 cost-effective conservation.

### 9 CONCLUSION

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

11 A. The Company respectfully requests that the Commission approve the reasonable rate  
12 increases the Company has proposed in its limited-issue rate filing and rate plan. The  
13 Company's request in this case is consistent with the Commission's prior direction  
14 and uses tools that will, if adopted, allow the Company to stay out of rate cases for  
15 several years. Moreover, accelerating depreciation of the Jim Bridger plant and  
16 Colstrip Unit 4 will provide much needed flexibility to the Company and protect  
17 customers against the risk of early plant retirement cost recovery. Approving the  
18 Company's SCRs will affirm the Company's sophisticated and thorough analysis  
19 demonstrating that the investment was prudent and confirm that hindsight review and  
20 flawed analysis is no basis for a finding of imprudence.

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

22 A. Yes.