Exhibit No.___(RBD-3T)
Docket UE-130043
Witness: R. Bryce Dalley

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP d/b/a Pacific Power & Light Company Respondent.	Docket UE-130043

PACIFICORP

REBUTTAL TESTIMONY OF R. BRYCE DALLEY

August 2, 2013

TABLE OF CONTENTS

PURPOSE OF TESTIMONY 1
INTER-JURISDICTIONAL ALLOCATION FACTORS 1
RESPONSE TO PARTIES' POSITIONS 2
RECOMMENDATION AND CONCLUSION 12

ATTACHED EXHIBIT

Exhibit No.___(RBD-4)—Staff Response to PacifiCorp's Data Request No. 1.2

Q. Are you the same R. Bryce Dalley that previously submitted direct testimony on behalf of PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or Company) in this case?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to issues related to the West Control Area inter-jurisdictional allocation methodology (WCA) raised by Washington Utilities and Transportation Commission (Commission) Staff witness Ms. Kendra A. White, Public Counsel Division of the Washington Attorney General's Office (Public Counsel) witness Mr. Sebastian Coppola, and Boise White Paper, LLC (Boise) witness Mr. Michael C. Deen.

INTER-JURISDICTIONAL ALLOCATION FACTORS

Q. Please briefly describe the WCA.

A. The WCA is the methodology used to allocate revenues, expenses, taxes, rate base balances, and other revenue requirement components to Washington. The Company has used this methodology in rate cases, annual Commission basis reports, and other regulatory filings since its adoption in the Company's 2006 general rate case, Docket UE-061546.[1] The WCA isolates costs and revenues associated with assets in the Company's west "control area" or "PacifiCorp West Balancing Authority Area" and allocates to Washington a proportionate share of the costs and revenues based primarily on Washington's relative contribution to demand and energy requirements.

[1] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power and Light Co.*, Docket UE-061546, Order 08 at 13 (June 21, 2007).

Q. Did the Company propose modifications to the WCA in its initial filing?

A. Yes. As discussed in my direct testimony, the Company proposed several modifications to the WCA that were designed to create greater consistency between the Company's revenue requirement and cost of service models and to more appropriately reflect the Company's cost to serve Washington customers.

Q. Please briefly describe each of the Company's proposed modifications.

A. The Company's proposed modifications relate primarily to calculation of net power costs (NPC)[2] and development of the Control Area Generation West (CAGW) allocation factor.[3] My rebuttal testimony focuses on issues related to the development of the WCA allocation factors; Mr. Gregory N. Duvall focuses on the modifications related to NPC in his rebuttal testimony.

Q. Did Staff and other parties accept the Company's proposed modifications to the WCA?

A. No. The parties uniformly reject the proposed modifications and, in some cases, recommend alternative changes to the WCA that exacerbate the issues that the Company's modifications were designed to address.

RESPONSE TO PARTIES' POSITIONS

Q. Please summarize Staff's position on allocation factors.

A. Staff's position is perplexing. On the one hand, Staff recommends that the revenue requirement in this case use "the WCA allocation methodology that the Commission approved in the Company's 2006 general rate case . . . . The Company has proposed

[2] The Company's proposed modifications are presented in my direct testimony, as well as the direct testimonies of Mr. Gregory N. Duvall (Exhibit No.__(GND-1CT)) and Mr. Steven R. McDougal (Exhibit No.___(SRM-1T)).

[3] Changes to the CAGW factor also affect other factors that are based upon the CAGW factor. *See* Exhibit No.___(SRM-1T) at page 27, n.15; Exhibit No.___(SRM-5).

revisions to the Approved WCA that Staff asks the Commission to reject at this time."[4] Staff also recommends that the Company file a comprehensive report on the WCA allocation factors 90 days before the Company's next general rate case.

On the other hand, Staff also suggests that if the Commission accepts the Company's changes to the WCA, then the Commission should also accept additional adjustments to the allocation factors.[5] Staff's alternative proposal is to use the peak credit ratio to weight the System Generation (SG) allocation factor, use the top 200 hours in the calculation of generation and transmission allocation factors, and to substitute the System Net Plant (SNP) allocation factor for the System Overhead (SO) factor to allocate general and intangible plant and administrative and general (A&G) expenses.

Q. Does the Company agree with Staff's primary position to revert to the "Approved WCA"?[6]

A. No. The Company is disappointed that Staff has taken this initial position. Staff acknowledges that the parties to the collaborative process (discussed in my direct testimony and Mr. William R. Griffith's rebuttal testimony) were reluctant to "entirely overhaul the allocation methodology," but Staff rejects the discrete changes the Company has proposed in this case as "selective" and deficient because no "comprehensive review" of all allocation factors was presented.[7] This puts the Company in an untenable position.

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[4] Exhibit No.___(KAW-1CT) at page 3.
[5] *Id.* at 4.
[6] *Id.* at 3.
[7] *Id.* at 9.

This alleged lack of a comprehensive review is the basis for Staff's recommendation that the Company prepare a report on the WCA allocation factors 90 days before its next general rate case. There are several problems with this suggestion. First, a report discussing the operation of the WCA was provided as an exhibit to my direct testimony in this docket (Exhibit No. ___(RBD-2)) and an updated WCA manual was provided as an exhibit to Mr. McDougal's testimony (Exhibit No.___(SRM-5)). Second, Staff did in fact conduct a comprehensive review of the WCA as part of its investigation in this case. As Staff acknowledges, it issued "numerous data requests" on this topic, conducted "field visits at the Company's offices," and "spent significant time reviewing the West Control Area Inter-jurisdictional Allocation Methodology Manual."[8] In addition, "Staff went factor by factor deciding whether each allocation factor was still reasonable[.]"[9] Third, the WCA was discussed extensively during the 10 meetings held with parties (including Staff) for the collaborative process in 2012. Despite this review, however, Staff's primary position is for the Commission to maintain the status quo.

Q. Do you have any other concerns with Staff's primary position?

A. Yes. Requiring the Company to provide a report on the WCA allocation factors 90 days before its next general rate case effectively imposes a three-month stay-out period. In every Company rate case filing since 2009, the Company provided a detailed manual describing the derivation and basis for each of the allocation factors used in the filing (including this case). It is unclear what additional information Staff

[8] *Id.*
[9] *Id.*

is seeking beyond the three items identified in Ms. White's testimony.[10] These three discrete points do not require an extensive report or a three-month stay-out period to analyze and would be insufficient to facilitate a "comprehensive review."

Q. Instead of a report, are there other options for Staff to gather information about inter-jurisdictional allocation issues?

A. Yes. The Company is currently in the process of reviewing the inter-jurisdictional allocation methodology used in its other five states (the 2010 Protocol) with interested stakeholders (the multi-state process or MSP). As Staff acknowledges,[11] Staff agreed to participate in the MSP during the collaborative process, which the Company encourages. In this informal forum, parties are free to ask questions, to discuss alternatives, and to request analysis of potential options.

Q. Has Staff or any other party to this proceeding participated in the recent MSP discussions with the Company and stakeholders from its other jurisdictions?

A. No. Staff and other parties have not participated in the MSP discussions since approximately 2004.

Q. Does the Company agree with Staff's alternative modifications to the WCA allocation factors?

A. No. Interestingly, Staff states that all of its alternative proposed modifications should be adopted if the Commission accepts the Company's changes, yet nearly all of Staff's proposed adjustments are incompatible with the Company's changes. It is therefore unclear how the Commission could accept both Staff's and the Company's modifications as Staff suggests.

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[10] *Id*. at 20-21.
[11] *Id.* at 7.

Additionally, all of Staff's adjustments appear to be designed to reduce Washington's share of costs. For example, Staff recommends using the SNP factor instead of the SO factor to allocate general and intangible plant and A&G expenses, asserting that the Company's SO factor "unreasonably shifts costs to Washington."[12] But Staff provides minimal analysis to support this contention. Similarly, Public Counsel recommends using the SNP factor instead of the SO factor and instead of the Gross Plant System (GPS) factor used to allocate property taxes.[13]

Q. Staff asserts that "allocation of A&G costs has been contested on numerous occasions before the Commission, and remains contentious."[14] Is Staff's assertion related to PacifiCorp's use of the SO factor?

A. No. In fact, Staff fails to refer to any PacifiCorp docket where the SO factor has been "contentious" and merely cites to an industry report on cost of service prepared in 1994, twelve years before the adoption of the WCA. Staff also repeatedly asserts that the SO factor has been "controversial."[15] But since the adoption of the WCA in 2006 (where the SO factor was uncontested), no party in Washington has objected to the use of this factor to allocate general and intangible plant and A&G expenses. In fact, the SO allocation factor has been used in all six states since Pacific Power's merger with Utah Power, and to my knowledge no party in any state has objected to its use to allocate these types of costs.

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[12] *Id.* at 5.
[13] Exhibit No.__(SC-1CT) at pages 5-6, 13-15. Under the WCA and the 2010 Protocol, the GPS factor is used to allocate property taxes. The SO and GPS factors are different allocation codes, but the state allocation percentages are identical for both factors. Thus, I do not differentiate between the SO and GPS factors in the remainder of my testimony.
[14] Exhibit No.___(KAW-1CT) at page 15.
[15] *Id.* at 10, 15.

Q. Does the Company agree that the SO factor "unreasonably shifts costs to Washington" or is inappropriately used to allocate general and intangible plant, A&G, or property taxes?

A. No. These assertions are unfounded. The SO factor is used by all six of the Company's states to allocate general and intangible, A&G expenses, and property taxes. The development of this factor has remained unchanged since the adoption of the WCA in 2006. The use of a different inter-jurisdictional allocation methodology in Washington (the WCA) versus the Company's other five states (the 2010 Protocol) already creates allocation gaps that lead to under-recovery of costs for the Company. Modifications to factors common to both methodologies will widen these gaps.

Q. Staff asserts that "SNP is superior" to the SO factor and that the SO factor "over-allocates costs to slower growing jurisdictions."[16] Do you agree?

A. No. Again, these assertions are unfounded. Investments placed in service decades ago were acquired at cost levels significantly below what the same investment would cost today. By using gross plant, the SO factor appropriately allocates more recent investments at higher cost levels to jurisdictions with faster growth, and states with slower growth are allocated less costs.

Q. Staff recommends modifications to both the SG factor and CAGW factors. What is your response?

A. Although Staff is critical of the perceived inconsistency between the Company's development of the CAGW and the SG factors in the Company's filed case, there is a logical basis for the difference. CAGW is unique to the WCA and is only used to allocate west control area generation and transmission revenue requirement

[16] Exhibit No.___(KAW-1CT) at page 18.

components to Washington. No other states use this allocation factor for any purpose. The SG factor is used in Washington to allocate generation and transmission revenue requirement components not directly attributable to a specific control area. In comparison, the Company's other states use the SG factor to allocate all generation and transmission revenue requirement components.

Because the SG factor is used by all six states, consistency in its development among the six states is important. For allocation factors used by all six states, individual modifications by any one state create an allocation gap, putting the Company at risk of under-recovering costs. For this reason, in this filing the Company's calculation of the SG factor is consistent with the other five states.

Q. Please describe the two changes the Company made to the CAGW factor.

A. First, the Company proposed using the peak credit method for determining the demand/energy weightings used in developing the CAGW factor. Using this method (as described in the direct testimony of Mr. C. Craig Paice and the rebuttal testimony of Ms. Joelle R. Steward) results in 38 percent demand/62 percent energy weightings, consistent with the Company's cost of service study.[17]

Second, the Company proposed using the 200 coincident peaks (the highest 100 winter hours and the highest 100 summer hours) in developing the west control area demand component of the CAGW factor, which is also consistent with the cost of service study.

[17] Exhibit No.___(CCP-1T) at page 5; Exhibit No.___(CCP-4); Exhibit No.___(JRS-7T).

Q. What specific changes to the CAGW and SG factors does Staff recommend in its alternative position?

A. Staff recommends using the 200 coincident peaks for development of both the CAGW and SG factors and suggests using a different peak credit methodology to weight the demand and energy components.[18] Interestingly, Staff's alternative proposal would result in demand/energy weightings of 27 percent demand/73 percent energy, which is nearly the inverse of Staff's primary recommendation of maintaining the 75 percent demand/25 percent energy weightings used in the WCA approved in 2006. Staff may have been unaware of this inconsistency since Staff acknowledged in its response to PacifiCorp's data request 1.2 that it had not prepared a calculation of its alternative peak credit method. A copy of this response is attached as Exhibit No.___(RBD-4). In addition, Staff does not change the Company's proposed 38 percent demand/62 percent energy weightings in the cost of service study.

Q. Do Public Counsel and Boise also address the Company's changes to the CAGW factor?

A. Yes. Like Staff's primary position, both parties recommend that the Company revert to using 75 percent demand/25 percent energy weightings to develop the CAGW factor.[19] Public Counsel appears to reject the principle that Washington-specific allocation factors should align with the cost of service study, but with little explanation.[20] Boise rejects both the demand/energy weightings and the Company's use of the 200 coincident peaks to develop the west control area demand component of the CAGW factor, but Boise's rationale for rejecting the Company's changes is

[18] Exhibit No.___(KAW-1CT) at page 14.
[19] Exhibit No.___(SC-1CT) at page 5, 12.
[20] *Id*. at 12-13.

that none of the changes were agreed to in the collaborative process.[21] Boise provides no support for the notion that changes to the WCA may only be made by consensus.

Q. What is your recommendation to the Commission regarding the CAGW and SG factors?

A. The Company's position has not changed since its initial filing. The Company's calculation of the CAGW and SG factors appropriately allocates transmission and generation revenue requirement components to Washington, aligns the CAGW factor with the cost of service study, and maintains consistency with the Company's other states for the SG factor.

Q. Why did the Company propose modifications to the WCA in this case?

A. As discussed in Mr. Griffith's rebuttal testimony, the Company agreed to a general rate case stay-out to conduct an exhaustive collaborative process in 2012 to discuss, among other things, potential alternatives to the WCA. The WCA is used in Washington only and creates unique challenges for the Company because it does not reflect the actual operations of the Company, is inconsistent with how costs are allocated in the Company's five other state jurisdictions, is inconsistent with how the Company finances its investments, has impeded the adoption of a power cost adoption mechanism for the Company, and is a hybrid of situs and system-based methodologies.[22]

Unfortunately, the parties to the collaborative process were unable to reach consensus on an alternative allocation methodology for Washington, as noted by several witnesses in this case. Given this lack of consensus, as well as the on-going

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[21] Exhibit No.___(MCD-1T) at page 8.
[22] *See* Exhibit No.___(RBD-1T) at pages 3-4.

MSP to evaluate and discuss inter-jurisdictional allocation issues, the Company limited its recommendations in this case to discrete changes to WCA-specific factors. The Company also recommends that the Commission direct its staff to participate in the MSP discussions.

Q. Are the Company's proposed modifications to the WCA an interim measure to improve the allocation methodology used in Washington?

A. Yes. The Company would prefer to use a uniform allocation methodology among all its states and hopes that Washington's participation in the MSP will lead to this result after the expiration of the 2010 Protocol in the Company's other jurisdictions at the end of 2016. As discussed above, the parties' positions in this case seem to indicate that no incremental improvements may be made to the WCA in the interim, yet Staff and other Washington parties are not currently participating in the MSP.

Q. The Company states that the use of the WCA creates allocation gaps in cost recovery. Please explain further.

A. As mentioned above, the WCA is used in Washington only. The Company's other state jurisdictions all use the 2010 Protocol. The 2010 Protocol assumes that customers are served by the Company's entire integrated system. The WCA separates this integrated system into two fictitious systems (the west and east control areas) and assumes customers in Washington are served only by west control area resources. The states using the 2010 Protocol are allocated approximately 92 percent of total-company costs and investments; these states assume that Washington is allocated approximately eight percent. Accordingly, to the extent that the Company recovers less than this eight percent share under the WCA in Washington, those costs remain unrecovered.

Q. Does the WCA allow the Company to recover the eight percent that Washington is allocated under the 2010 Protocol?

A. No. Using data from the Company's initial filing, the Company's case under the 2010 Protocol would require a revenue increase of $59.7 million. The Company's filed case (using its proposed modifications to the WCA) requests a revenue increase of $42.8 million. Thus, even using the Company's proposed modified WCA, there is an existing allocation gap of approximately $16.9 million. If the Company reverted to the approved WCA, then this allocation gap would increase by approximately $11.7 million, for a total unrecovered revenue requirement of approximately $28.6 million. Accepting the parties' positions in this case would increase the gap even further—to as much as $48.9 million—as shown in Table 1 below.

TABLE 1

$ millions	Company Filing Using 2010 Protocol	Company Filing Using WCA with Modifications[1]	Company Filing Using Approved WCA[2]	Public Counsel[2]	Staff[2]	Boise[2]
Rev. Req. Increase	$59.7	$42.8	$31.1	$19.8	$14.6	$10.8
Allocation Gap	$0.0	($16.9)	($28.6)	($39.9)	($45.1)	($48.9)

1. Exhibit No.__(SRM-3), page 1.0.
2. Joint Preliminary Issues List filed July 9, 2013.

RECOMMENDATION AND CONCLUSION

Q. What is your recommendation for the Commission?

A. The Company recommends that the Commission adopt the Company's proposed modifications to the WCA and order Staff to participate in the MSP. As discussed by Mr. Griffith, the Company faces unique regulatory and business challenges in

Washington as compared to its other five state jurisdictions. But the lack of consensus in the collaborative process made it clear that the parties would not support a proposal to address some of these challenges by changing to the same system-based inter-jurisdictional allocation methodology as the other states. The Company therefore proposed limited modifications to create incremental improvement to the Washington regulatory environment for the Company. The Commission should accept these limited modifications as they more accurately reflect the cost to serve Washington customers.

Q. Does this conclude your rebuttal testimony?

A. Yes.