Application No. 22-05-006
Exhibit PAC/1300
Witness: Matthew D. McVee

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

PACIFICORP

Rebuttal Testimony of Matthew D. McVee

Policy and Time of Use Program

February 2023

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Q. Are you the same Matthew McVee who previously submitted direct testimony in this proceeding on behalf of PacifiCorp d/b/a Pacific Power (PacifiCorp or the Company)?

A. Yes.

I. PURPOSE AND SUMMARY OF TESTIMONY

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

A. My rebuttal testimony provides PacifiCorp's general policy positions. I provide a summary of the Company's rebuttal case reflecting certain corrections and updates. I also compare the overall positions taken by the California Public Utilities Commission's Public Advocates Office (Cal Advocates) and California Farm Bureau Federation (CFBF) regarding PacifiCorp's requested revenue requirement and respond to specific arguments raised by Cal Advocates and the CFBF.

II. PACIFICORP'S REBUTTAL POSITION

Q. Which intervenors filed direct testimony in the revenue requirement phase of this proceeding?

A. Both Cal Advocates and CFBF filed direct testimony in this proceeding. I will refer to these parties as the "Filing Parties."

Q. Please provide a comparison of the revenue change proposed by the Filing Parties in their direct testimony.

A. The revenue change proposed by Cal Advocates, as stated in its direct testimony, is indicated in Table 1 below. While the CFBF proposed recommendations regarding ROE and capital structure, the CFBF did not quantify the impacts of its recommendations on revenue requirement.[1]

Table 1: Filing Parties' Revenue Requirement Change and PacifiCorp's Rebuttal Position

Filing Party	Proposed Revenue Change (in millions)
Company – *As Filed*	$27.9
Cal Advocates[2]	$15.1
Company - *Rebuttal*	$27.1

Q. What are the major drivers causing the divergence between the Filing Parties' positions and the Company's direct testimony?

A. The delta between the Company's request and the positions of the Filing Parties is attributable to several key drivers: the calculation of ROE, capital structure, and various proposed adjustments. Proposed adjustments include disallowance of certain wildfire mitigation forecasted capital, removal of the Foote Creek II-IV capital addition, and the amortization period of certain costs. PacifiCorp's witnesses address the Filing Parties' recommended adjustments.

Q. Please summarize generally the Company's positions on rebuttal.

A. PacifiCorp requests that the Commission approve an annual revenue requirement increase of $27.1 million. PacifiCorp has made two revisions or updates to its proposed revenue requirement resulting in an approximately $800,000 reduction to its originally requested revenue requirement.[3] The updates are due to certain corrections and updates and are more fully explained in the testimony of Company witness Shelley E. McCoy.

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[1] CFBF/100, Reed/9-10.
[2] Cal Advocates-01 at 1.
[3] PAC/1600, McCoy/3.

III. PACIFICORP'S RETURN ON EQUITY (ROE) AND CAPITAL STRUCTURE

Q. What are the Filing Parties' positions on ROE and the equity portion of capital structure?

A. The Filing Parties' positions on ROE and the equity portion of capital structure are reflected in Table 2 below.

Table 2: Positions on ROE and Capital Structure

Filing Party	ROE	Capital Structure - Equity
Company – *as filed*	10.5%	52.25%
Cal Advocates[4]	9.0%	52.25%
CFBF[5]	9.5%	50.00%

Q. What are PacifiCorp's recommendations regarding ROE and Capital Structure?

A. PacifiCorp continues to request that the Commission approve an overall cost of capital of 7.60 percent, which is comprised of a capital structure of 52.25 percent equity, 47.74 percent long-term-debt, and 0.01 percent preferred stock and a ROE of 10.5 percent. Company witness Ann E. Bulkley supports this request and responds to Cal Advocates' arguments regarding ROE and both Company witness Bulkley and I address the arguments raised by CFBF witness Reed regarding ROE and Capital Structure.

[4] Cal Advocates-05 at 4.
[5] CFBF/100, Reed/9-10.

Q. CFBF witness Reed recommends that the Commission calculate revenue requirement using an ROE of 9.5 percent and a capital structure of 50 percent equity, 0.01 percent preferred stock, and 49.99 percent debt based on the Company's recent stipulation to in its Oregon general rate case.[6] How do you respond?

A. I disagree with CFBF's position for a number of reasons. CFBF witness Reed argues that it would be appropriate for this Commission to adopt the ROE and capital structure that was filed as part of a stipulation and approved in another jurisdiction, yet provides no analysis as to why that would be appropriate for PacifiCorp's vastly different California operations, regulatory environment and risk. The Commission should reject this recommendation.

By way of background, CFBF witness Reed is referring to the rate case filed in Oregon by PacifiCorp on March 1, 2022, docket UE 399.[7] On September 21, 2022, parties to that proceeding signed a stipulation resolving a number of disputed issues, which included ROE and capital structure.[8] As part of that negotiated stipulation, the parties agreed to maintain PacifiCorp's currently authorized Oregon return on equity of 9.5 percent and capital structure of 50 percent equity, 0.01 percent preferred stock, and 49.99 percent debt that was approved in PacifiCorp's last Oregon rate case filed in 2020, Docket UE 374.[9] The stipulation was based on the specific issues and record

[6] CFBF/100, Reed/9-10.
[7] *In the matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 399, Order No. 22-491 (Dec. 16, 2022).
[8] Docket No. 399, Third Partial Stipulation.
[9] *In the matter of PacifiCorp, dba Pacific Power, Request for a General Rate Revision*, Docket No. UE 374, Order No. 20-473 (Dec. 18, 2020).

developed in the Oregon proceeding, a proceeding to which CFBF was not a party.

Fundamentally, I believe CFBF witness Reed's proposal is inappropriate. The stipulation entered into in the Oregon rate case was the result of a compromise among the parties in that case. As explained in Section 22 of the stipulation, "[t]he Stipulating Parties agree that this agreement represents a compromise among competing interests and a resolution of all remaining contested revenue requirement issues …"[10] Thus, the ROE and capital structure accepted by PacifiCorp as part of a negotiated stipulation resolving issues in its Oregon general rate case or any other jurisdiction, does not set precedent.

Further, California and Oregon regulate utilities under different statutes, rules, and policies, the combination of which affect the utility's risk and should be considered when determining a reasonable rate of return. Risk of operations differs among the states and each state determines the appropriate cost of capital for utilities operating within that state. Accepting CFBF witness Reed's suggestion would disproportionately affect any utility operating in multiple states.

Most importantly, however, CFBF witness Reed's suggestion ignores the testimony filed by Company witness Bulkley in this case and Commission findings on ROE in other more relevant proceedings. Company witness Bulkley provides additional support for PacifiCorp's requested ROE in rebuttal testimony.[11] Accordingly, the Commission should reject any recommendation that ROE and capital structure from a stipulation in another jurisdiction is appropriate to set ROE in this

[10] Docket No. 399, Order No. 22-491, Appendix C at 13.
[11] Exhibit PAC/1400, Bulkley.

proceeding.

Q. Is there any other reason why the Commission should reject CFBF's proposal?

A. Yes. In California, the Commission approved a uniform cost of capital mechanism (CCM) for large investor-owned utilities (Large IOUs),[12] whereby cost of capital applications are made every third year for the following rate case test year.[13] In the interim years, the Large IOUs have two methods for setting cost of capital: (1) a formula adjustment mechanism that operates when interest rates change by a specified amount; and (2) an off-cycle cost of capital application based on an extra ordinary or catastrophic event.[14] Thus, Large IOUs can request to update cost of capital outside of the regular three-year cycle for certain events. The Commission just recently concluded a consolidated proceeding for applications based on extraordinary events filed by Southern California Edison Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company.[15]

Unlike the Large IOUs, PacifiCorp does not have a CCM and cannot file an application to reset cost of capital in the years between rate cases due to a change in interest rates or extraordinary events. Therefore, it is important that the Commission weigh the evidence in this proceeding to determine the appropriate capital structure and ROE. This is critical for PacifiCorp given the level of capital investment

[12] Large IOUs include Southern California Edison Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Gas Company.
[13] D.08-05-035 at 20-22, Ordering Paragraphs (OP) 1-2 (May 29, 2008), D.13-03-015 at 10, OP 2 (Mar. 21, 2013); D.19-12-056 at 55, OP 7; D.22-12-031, at 54, OP 6 (Dec. 15, 2022).
[14] D.08-05-035 at 21, OP 2, and at 19, Conclusion of Law 6.
[15] D.22-12-031.

required to meet its obligations to provide safe, reliable service in light of increasing risks such as wildfires.

IV. REQUESTED INCREASE AND IMPACT TO CUSTOMERS

Q. CFBF witness Reed discusses the increases requested in this proceeding and in PacifiCorp's 2023 Energy Cost Adjustment Clause (ECAC) proceeding, Application (A.) 22-08-001 and their impacts to agricultural customers.[16] How do you respond?

A. PacifiCorp recognizes that this is a larger increase and has proposed a number of updates to mitigate the rate impacts, including spreading amortizations of certain deferrals over six years, which is two rate case cycles, and additional rate design changes. PacifiCorp's investments at issue in this proceeding, however, are prudent investments in renewable generation and efforts to reduce the risk of wildfire. The Commission separately addresses the impacts of the recent rise in energy prices in PacifiCorp's ECAC.

It is also important to note that PacifiCorp's base rates have remained stable for nearly a decade. PacifiCorp has only filed two rate cases in the last decade, with its most recent resulting in a rate decrease. PacifiCorp filed this case after the Commission granted a one-year extension[17] to the three-year filing requirement.[18] The result was an additional year of lower rates from customers. Now, changes in market conditions, additional investments and overall risk to utilities necessitate an

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[16] CFBF/100, Reed/3-5.
[17] D.21-01-006
[18] *In* the *Matter of the Application of PacifiCorp (U901E), an Oregon Company, for an Order Authorizing a General Rate Increase Effective January 1, 2019*, A.18-04-002, D.20-02-025, Ordering Paragraphs 11, 17, and 18 (Feb. 18, 2020).

increase in the Company's revenue requirement.

PacifiCorp has made a concerted effort to manage its controllable costs since the 2019 Rate Case, but it is facing external pressures from state policies, especially related to wildfire mitigation, and rising net power costs. In this proceeding, I will address state polices as they impact the Company's request in this docket. The Company's net power costs should be addressed in A.22-08-001, where CFBF is also an intervenor.

Q. Please explain how climate change and state policies, especially those related to wildfire mitigation, has impacted the Company's request in this proceeding.

A. Of the Company's updated requested revenue requirement increase of $27.1 million, approximately 80 percent of the increase is related to wildfire mitigation and vegetation management costs. Even though PacifiCorp has and continues to make a concerted effort to manage its controllable costs, since its 2019 Rate Case, wildfire mitigation and vegetation management costs continue to increase.

As explained in Company witness Allen Berreth's direct testimony, pursuant to Senate Bill 901, PacifiCorp has developed and implemented a Wildfire Mitigation Plan (WMP). The Company's first WMP was filed and approved in 2019, after it filed its 2019 Rate Case. Its WMP Update was filed on May 6, 2022. The great majority of the costs in this proceeding relate to the implementation of these plans. This work is necessary to protect not only the safety and property of PacifiCorp's customers but also the Company's facilities. The costs associated with the work to implement the WMPs are prudent and reasonable, and no party has produced evidence to the contrary. Finally, the costs associated with not addressing the wildfire threat that is facing many states are far greater to the safety of PacifiCorp's customers and the Company's ability to continue safe, reliable electric service at low cost.

Q. Are there other costs associated with state energy policy that are contributing to the Company's costs at issue in this proceeding?

A. Yes. Another example is PacifiCorp's request to update the depreciable lives for Colstrip Units 3 and 4, Craig Unit 2, Hayden Units 1 and 2, and Naughton Units 1 and 2. These are coal-fueled generation facilities. The Company proposed to accelerate the depreciation of these units to align with the anticipated retirement dates identified in PacifiCorp's most recent integrated resource plan. Accelerating depreciation in these units supports PacifiCorp's resource transition to more renewable generation in furtherance of California energy policy.

Q. Please discuss PacifiCorp's recommendations in this proceeding to mitigate the impact of the proposed rate increase?

A. As part its direct case, the Company included a number of proposals to mitigate the requested rate increase, including

- An increase in the California Alternative Rates for Energy discount from 20 percent to 25 percent for eligible Schedule DL-6, residential, and AL-6, nonprofit group living facility, customers.[19]
- New time-of-use-options for customers.[20]
- A paperless bill credit.[21]; and

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[19] PAC/1100, Meredith/2, 6-7.
[20] *Id.* at 2, 7-17.
[21] *Id.* at 2, 23-24.

- A proposal to mitigate the impact of future wildfire mitigation costs by recovering such costs through annual filings in between rate cases.[22]

The Company must balance the impacts to customers in its requested increase with its ability to provide safe, reliable service to its customers at low cost. The costs in this proceeding reflect prudent and reasonable investments that allow the Company to provide safe and reliable service at low cost.

V. DEFERRAL OF WILDFIRE MITIGATION COSTS

Q. What is the purpose of this section of your testimony?

A. In this section of my testimony, I respond to Cal Advocates witness Nawaz regarding the recommendation to cap the recovery of deferred amounts included for amortization at actual costs through January 2022.

Q. Do you agree with Cal Advocates witness Nawaz's recommendation?

A. No. Cal Advocates witness Nawaz did not consider the impacts of my proposal to use PacifiCorp's Wildfire Mitigation Plan Memorandum Account (WMPMA).

Q. Please explain PacifiCorp's proposal regarding the recovery of future wildfire mitigation costs?

A. As I explained in my direct testimony, the Company has included wildfire mitigation capital costs forecasted to be in service by December 31, 2023, and a forecasted baseline of wildfire mitigation O&M costs in this current application. The Company proposes to continue using the WMPMA for incremental O&M and capital costs not included in rates. But instead of waiting until PacifiCorp's next general rate case, the Company proposes making an annual filing beginning in March 2024 to recover

[22] PAC/100, McVee/12-13.

incremental costs from the previous calendar year, effective April 1 each year. Company witness McCoy provides further detail on how the mechanism works in rebuttal testimony.

Q. Why is this important in mitigating these costs?

A. The annual update to rates for recovery of costs recorded in the WMPMA will allow for smaller updates to customer rates, rather than a larger increase every three years when PacifiCorp files a general rate case. Additionally, an April effective date will coincide with PacifiCorp's April Greenhouse Gas Climate Credit for residential and small business customers.

Q. Did the Filing Parties oppose the PacifiCorp's proposal regarding the recovery of future wildfire mitigation costs?

A. No party opposed the Company's proposal.

VI. SCHEDULE PA-20 TIME OF USE RATES

Q. What is the purpose of this section of your testimony?

A. In this section of my testimony, I respond to CFBF witness Reed's testimony regarding the voluntary nature of time of use rates for Schedule PA-20 customers.

Q. CFBF witness Reed testifies that there was an inconsistency between your and PacifiCorp witness Robert M. Meredith's direct testimonies regarding the voluntary nature of time of use rates for Schedule PA-20 customers.[23] How do you respond?

A. CFBF witness Reed is correct, and my direct testimony at page 15, lines 10-11 should have stated: "Further, the Company is recommending that the existing time of use

[23] CFBF/100, Reed/15-16.

pilot for irrigation customers be made ~~mandatory~~ *permanent*." Meaning that the pilot would become a permanent option as per the direct testimony of Company witness Meredith.[24]

VII. INTRODUCTION OF COMPANY WITNESSES

Q Please present the Company's witnesses submitting rebuttal testimony in response to direct testimony filed by Cal Advocates and CFBF.

A. In addition to myself, PacifiCorp is presenting rebuttal testimony from the following witnesses:

- In Exhibit PAC/1400, Ann E. Bulkley, Principal at The Brattle Group, continues to support the Company's recommendation for ROE and capital structure. She also responds to the recommendations of Cal Advocates and CFBF.
- In Exhibit PAC/1500, Timothy J. Hemstreet, PacifiCorp's Managing Director of Renewable Energy Development, responds to Cal Advocates testimony regarding the Foote Creek II, III, and IV Wind Energy Facilities Project.
- In Exhibit PAC/1600, Allen Berreth, PacifiCorp's Vice President of Transmission and Distribution Operations, responds to Cal Advocates' adjustments to capital and operating and maintenance expenses for wildfire mitigation and vegetation management. He also responds to criticisms of the Company's risk-based investment analysis.

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[24] PAC/1100, Meredith/15.

- In Exhibit PAC/1700, Shelley E. McCoy, PacifiCorp's Director of Revenue Requirement, presents modifications for revenue requirement changes due to corrections identified since the direct filing and updates based on current information. She also responds to various adjustments made by Cal Advocates made in direct testimony.

VIII. CONCLUSION

Q. Please summarize your recommendations to the Commission.

A. I recommend the Commission authorize an overall increase of $27.1 million or approximately 25.0 percent as supported by the Company's rebuttal testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes.