Application No. 18-04-002
Exhibit PAC/1400
Witness: Etta Lockey

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

PACIFICORP

REDACTED

Rebuttal Testimony of Etta Lockey

Policy and Rebuttal Summary

November 2018

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ATTACHED EXHIBITS

Exhibit No. PAC/1401—California Fire Threat Map

Confidential Exhibit No. PAC/1402—PacifiCorp Annual Incentive Plan

1 **Q. Are you the same Etta Lockey that served direct testimony in Investigation (I.)**
2 **17-04-019 on behalf of PacifiCorp d/b/a Pacific Power (PacifiCorp)?**
3 A. Yes.

4 **I. PURPOSE AND SUMMARY OF TESTIMONY**

5 **Q. What is the purpose of your rebuttal testimony in this proceeding?**
6 A. The purpose of my testimony is to rebut the testimony of Sierra Club and the Public
7 Advocates Office at the California Public Utilities Commission (Cal Advocates) on
8 the issues of coal plant depreciation and retirement, and customer funding of
9 PacifiCorp's incentive-based compensation, respectively. I also testify as to certain
10 business and regulatory risks that PacifiCorp faces relevant to the company's cost of
11 capital, and I briefly address treatment of certain tax benefits associated with recent
12 changes in federal tax law. I am adopting the testimony of Mr. Scott Bolton, Senior
13 Vice President, External Affairs and Customer Solutions, submitted as Exhibit No.
14 PAC/100–Policy and Allocation Methodology.
15 **Q. Please summarize your testimony.**
16 A. My testimony addresses Sierra Club's recommendations that all actual and projected
17 capital costs incurred at certain PacifiCorp coal-fired generating plants be disallowed
18 for periods ranging between 2013 and 2019.[1] Sierra Club's recommendations are
19 unreasonable because they are based on a flawed analysis of PacifiCorp's installation
20 of emissions control equipment necessary to comply with state and federal
21 environmental regulations. Sierra Club also ignores the practical realities of prudent

[1] Direct Testimony of Jeremy Fisher, PhD, p. 4-5.

1 utility decision-making regarding plant retirement, minimizing net power costs, and
2 resource planning.
3 In addition, my testimony addresses Sierra Club's recommendation to deny
4 PacifiCorp's proposal to accelerate depreciation of coal-fired generation assets in
5 California unless PacifiCorp commits to shut down certain coal plants by 2023.
6 Sierra Club's proposal inappropriately links two distinct issues—depreciation and
7 shut-down—without consideration of the operational impacts to PacifiCorp's system.
8 PacifiCorp is increasing its portfolio of renewable energy resources through wind
9 repowering and significant new wind and transmission investment, referred to as
10 Energy Vision (EV) 2020,[2] and is continuing to transition its generation fleet toward
11 more renewable resources.
12 To ensure that PacifiCorp's system provides reliable service through this
13 transition, however, PacifiCorp must continue analyzing its resource portfolio,
14 including potential coal unit retirements, through the integrated resource planning
15 (IRP) process. This robust analytical process, described more fully by Mr. Rick T.
16 Link in his rebuttal testimony (Exhibit No. PAC/1800), is the appropriate process for
17 evaluating coal unit retirements. Without any analysis, PacifiCorp cannot shut down
18 the large number of generating plants that Sierra Club targets for immediate closure.
19 Sierra Club fails to provide any evidence explaining how PacifiCorp could replace the
20 generation from the coal-fired units Sierra Club proposes to close and ignores that

[2] The EV 2020 program includes repowering 905 megawatts (MW) of existing wind power, constructing 1150 MW of new wind power and constructing 140 miles of 500 kilovolt transmission lines to improve access to the grid for wind generation resources. First included in the 2017 IRP, the project is expected to be completed by the end of 2020 at a cost of $3.1 billion.

1 major resource decisions of this type are evaluated through PacifiCorp's robust IRP
2 process.
3 Next, I address Sierra Club's unsupported recommendation that the
4 Commission ensure that the Energy Imbalance Market (EIM) not allow out-of-state
5 coal operations to send power to California. Sierra Club neither identifies its specific
6 criticism of the current operation of the EIM, nor does it suggest any changes. There
7 is no substance to Sierra Club's recommendation, which is arguably outside the scope
8 of this proceeding in any event. The EIM is structured by the California Independent
9 System Operator (CAISO) tariffs approved by the Federal Energy Regulatory
10 Commission and operated through the CAISO's dispatch of generation plants. The
11 Commission cannot unilaterally modify the EIM or dictate the actions of the CAISO.
12 Responding to Cal Advocates, I address the recommendation that customer
13 funding be approved for only one-third of PacifiCorp's incentive-based compensation
14 program, limited to individual performance awards. Cal Advocates recommend a
15 two-thirds disallowance for compensation based on company performance and
16 business unit performance. Even applying Cal Advocates' argument, with which the
17 company does not agree, the component parts of PacifiCorp's Annual Incentive Plan
18 (AIP) support, at most, a disallowance of 23 percent for company revenues and
19 certain customer satisfaction metrics.
20 With respect to Cal Advocates' recommendations regarding the cost of capital
21 for PacifiCorp, I discuss several factors that cause increased business and financial
22 risk for PacifiCorp. While I outline the causes of the increased risk, I defer to the

1 company's cost of capital witness, Mr. Kurt G. Strunk, to describe how these risk
2 factors impact the calculation of the cost of capital.
3 Finally, I address PacifiCorp's planned treatment of the amounts recorded in
4 its Tax Reform Memorandum Account for 2018, which was established to track the
5 impacts of the 2018 tax reform bill. Cal Advocates recommend that the refund of all
6 tax savings be appropriately returned to ratepayers. PacifiCorp agrees.

7 II. PACIFICORP'S COAL-FIRED GENERATION COSTS ARE REASONABLE

8 A. Policy Arguments Against Sierra Club's Recommendations

9 **Q. What costs related to PacifiCorp's coal-fired generating assets does Sierra Club**
10 **recommend the Commission disallow?**
11 A. Sierra Club essentially recommends a disallowance for all capital costs associated
12 with the plants over the last five years, as well as capital costs for the 2019 Test Year.
13 Specifically, Sierra Club recommends that the Commission:
14 1. Disallow the costs of installing emission control equipment at Naughton 1 and
15 Selective Catalytic Reduction (SCR) emissions control equipment at Jim
16 Bridger Units 3 and 4, Craig, and Hayden;
17 2. Disallow all capital costs incurred and projected to occur at Jim Bridger Units
18 3 and 4 from January 2016 through December 2019;
19 3. Disallow all capital costs incurred at Craig from December 2017 to December
20 2019, including the major maintenance overhaul at Craig Unit 2 before the
21 SCR installation was completed;
22 4. Disallow all capital costs incurred at Hayden Units 1 and 2 from December
23 2016 to December 2019, and the costs of any major maintenance overhaul
24 cycles completed at Hayden between January 2013 and December 2016;

1 5. Disallow ongoing capital costs from January 2018 to December 2019 at a
2 significant portion of PacifiCorp's coal-fired generating plants; and
3 6. Deny recovery of future capital costs for those plants until PacifiCorp
4 demonstrates that the units are in the interests of California customers.[3]

5 **Q. Are Sierra Club's recommended disallowances reasonable?**

6 A. No. PacifiCorp's decisions to install SCR emissions control equipment at the Jim
7 Bridger, Craig, and Hayden plants were prudent. Mr. Chad A. Teply's testimony
8 describes the applicable state and federal environmental regulations that required the
9 company to take action at each of those plants. For Jim Bridger, Mr. Teply's
10 testimony, along with that of Mr. Link and Mr. Dana M. Ralston, describes the
11 company's comprehensive economic analysis. This analyzed in detail each of the
12 potential compliance options available to the company and demonstrated
13 unequivocally that at all relevant times the installation of SCRs at Jim Bridger Units 3
14 and 4 was the least-cost, least-risk regulatory compliance option available to the
15 company. The company's economic analysis was subject to unprecedented review—
16 both in IRP proceedings and in resource approval and prudence reviews in multiple
17 states. As described by Mr. Teply, Sierra Club improperly focuses on only one
18 regulatory outcome—the Washington Utilities and Transportation Commission's
19 decision to allow recovery of only the SCR expense, but not a return on that expense.
20 Sierra Club ignores the other state proceedings, most notably in Wyoming and Utah,
21 which found that the installation of SCRs was prudent based on conditions known at
22 the time the decision was made.

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[3] Direct Testimony of Jeremy Fisher, Ph.D, on Behalf of Sierra Club (Fisher Direct), pp. 4 (line 4)–5 (line 2).

1 For Craig and Hayden, where the company is a minority owner, Mr. Teply's
2 testimony demonstrates that the company prudently analyzed its options under the
3 relevant agreements with each plant's co-owners. Based on the applicable state and
4 federal environmental regulations and the terms of the agreements, PacifiCorp could
5 not have stopped the SCR installation. Sierra Club's claim that a reasonable utility
6 would have sued its plant partners, even if there was a small likelihood of success, as
7 was the case here, is untenable.

8 The emission control investments at Naughton were also reasonable and
9 prudent, as described by Mr. Teply. These investments have already been found
10 prudent and they are included in California rates. Sierra Club's challenge is therefore
11 too late.

12 Not only was PacifiCorp's prior installation of emission control equipment
13 reasonable, but PacifiCorp's other capital investments in the ongoing operations and
14 maintenance of its coal plants are also prudent. As explained by Mr. Link and Mr.
15 Teply, the company's IRP has never indicated that it was prudent to retire any of the
16 units Sierra Club challenges. Indeed, in this case, Sierra Club could only muster
17 evidence that shows, at best, retiring a single unit may be economic in 2022. But that
18 does not change years of economic analysis that has consistently shown early
19 retirement of multiple units is not the best option, and ignores the benefits these units
20 have historically provided to California customers through lower net power costs.

21 PacifiCorp remains committed to reevaluating its coal-fired plants on a regular
22 basis to determine whether their continued operation is cost-effective. But that
23 evaluation should occur in the comprehensive resource planning forum, not general

1 rates cases. And until a coal plant is shown to be uneconomic, the plant must be
2 operated and maintained responsibly, including incurring necessary ongoing
3 operation and maintenance expense and capital investment, including major
4 maintenance overhauls. Disallowing these necessary and prudent costs would deny
5 PacifiCorp the opportunity to recover its costs and earn a reasonable return. Such a
6 result would be contrary to fundamental legal and policy precedent in utility
7 regulation.

8 PacifiCorp's investments are prudent and reasonable. All three categories of
9 capital costs that Sierra Club recommends the Commission disallow—past capital
10 expenditures, ongoing capital costs, and future capital costs—are necessary to ensure
11 PacifiCorp's generation fleet is well-maintained, safe, and reliable. Moreover, it is
12 important to remember that PacifiCorp is in the midst of a major transition in the
13 allocation of costs amongst the six states it serves, and its proposal to accelerate
14 depreciation of its coal-fired assets in California rates means that California
15 customers have the opportunity to pay off the capital costs of coal by 2029.[4]

16 Q. **Sierra Club claims that PacifiCorp spent nearly [REDACTED] in capital on its coal**
17 **fleet since its 2011 rate case and has not addressed the prudence of the vast**
18 **majority of these expenditures in this case.[5] Please respond.**

19 A. In support of this claim, Sierra Club points to an exhibit that includes PacifiCorp's
20 past and forecast capital budgets for certain coals plants,[6] which does not demonstrate
21 actual dollars invested in the time frame referenced. To be clear, since PacifiCorp's

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[4] See Direct Testimony of Etta Lockey, I.17-04-019, Exhibit No. PAC/100, pp. 1-5 to 1-8.
[5] Fisher Direct at 44.
[6] Fisher Direct, Exhibit No. JIF 17.

1 2011 general rate case, PacifiCorp has included California's allocated share of
2 approximately $1.9 billion in total-company capital investments (including but not
3 limited to investments in coal plants) in California rates through its post test year
4 adjustment mechanism (PTAM) for major capital additions. This is approximately
5 $4.8 million on a California revenue requirement basis. Of that amount, $781,000 is
6 for emissions control equipment at three coal-fired plants; the remainder of the
7 expenditures were for non-coal resources. Because these expenditures are already in
8 rates,[7] they are not included in this case.[8] Instead, the company's filing in this case
9 reflects the major capital additions that are not yet reflected in rates. As Sierra Club
10 acknowledges, the company has provided testimony supporting the prudence of
11 "several hundred million dollars of environmental retrofits" in this case.[9]

12 **B. The Commission Should Reject Sierra Club's Recommendation that**
13 **Accelerated Depreciation of Coal Plants be Accompanied by the Closure**
14 **of a Substantial Portion of PacifiCorp's Coal Fleet.**

15 **Q. Sierra Club recommends that the Commission require PacifiCorp to commit to**
16 **retiring multiple coal-fired units that Sierra Club believes are "non-economic"**
17 **by 2023 as a condition of adopting PacifiCorp's proposal to accelerate the**
18 **depreciation of its coal plants.[10] Do you agree with this recommendation?**

19 A. No, I do not. Sierra Club is conflating policy-based ratemaking (setting the
20 depreciable life of a given utility asset for cost recovery) with the cost-effective

[7] The Commission approved Advice Letter 476-E (effective date August 25, 2012) and Advice Letter 507-E (effective date August 22, 2014).
[8] See Decision (D.) 15-12-018, p. 7 ("PacifiCorp's ECACs are filed as applications and its PTAMs are filed as advice letters, so parties have an opportunity to review and protest these requests within the advice letter process. Therefore, no further review in a GRC is required.").
[9] Fisher Direct at 44.
[10] Fisher Direct, p. 5 (lines 6–9).

1 operational life of a generating asset (the actual retirement date of the plant). The
2 depreciable life for individual assets merely sets the period of time over which the
3 book value of an asset is recovered through rates. This is separate and distinct from
4 the economic operational life of an asset, which is analyzed through the IRP.
5 In this case, PacifiCorp is proposing to accelerate depreciation on coal units to
6 the earlier of end-of-useful life or 2029. Accelerating depreciation, on its own, is not
7 a commitment to retire a coal unit, nor would it be appropriate to use a unit's
8 depreciable life as a proxy for the economic analysis of whether it is cost-effective to
9 run a unit. Accelerating depreciation does, however, reduced stranded asset risk
10 associated with coal units and creates greater flexibility for PacifiCorp as it continues
11 to analyze the economic operational lives of its coal fleet. Accelerating depreciation
12 also removes the capital costs of coal plants from California rates sooner, at the same
13 time that PacifiCorp is increasing renewable generation resources in its resource
14 portfolio. The actual retirement of a generation unit, however, will be determined by
15 the IRP process. Closure of a generation plant requires an economic analysis of its
16 cost effectiveness, which is entirely distinct from a policy-based ratemaking decision
17 as to the length of time over which a unit's book value is depreciated.
18 In addition, retirement of the company's coal fleet before a determination in
19 the IRP that such retirement is the cost-effective decision can lead to increased net
20 power costs for customers. Whenever a generation asset is taken out of service,
21 whether a baseload or peaking source of generation, the power it produces must be
22 replaced, either by purchasing power in the wholesale markets or by acquiring
23 replacement generation. Obtaining replacement power can be more expensive,

1 particularly in the short-term market, leading to an increase in net power costs in
2 customers' rates. As important to the decision to retire a unit is the analysis
3 supporting what will replace it, and here Sierra Club proposes major retirements
4 without any consideration of the replacement resource strategy (or any consideration
5 of the cost impact of retiring more than a single unit). Accordingly, a forced early
6 retirement of plants, as suggested by Sierra Club, is neither prudent nor beneficial to
7 customers.

8 Sierra Club's recommendation to force early retirements, without the benefit
9 of economic analysis to support the early retirements, is also inconsistent with its
10 argument that the company should have continually re-assessed the economics of the
11 Jim Bridger SCR decision right up to when the commitment became irreversible.
12 Even assuming there was merit in Sierra Club's contention that certain units are
13 economic to retire early (which there is not), it is entirely inconsistent with prudent
14 resource planning to commit—unequivocally—to the shutdown of a major generating
15 resource five years from now without any economic analysis to support such a
16 decision.

17 PacifiCorp supports the efforts of each state it serves to align the energy
18 resources customers pay for with the state's policy goals. The alignment of costs
19 with each state's climate and energy policy does not, however, justify an automatic or
20 immediate divestment of generating assets and the stranding of costs associated with
21 those generating assets. Notably, PacifiCorp is proposing to accelerate the
22 depreciable lives of its coal plants without significant rate increases for customers,
23 creating flexibility in the evaluation of future coal unit retirements and mitigating

1 stranded cost risk. In addition, through the ongoing multi-state process discussions,
2 PacifiCorp is working towards a cost-allocation protocol and realignment of
3 generation resources that more closely aligns with state environmental policies across
4 PacifiCorp's six-state service territory, including California's clear preference for
5 non-greenhouse gas (GHG) energy resources.

6 **Q. Please explain.**

7 A. The western states served by PacifiCorp—California, Oregon, and Washington—
8 have adopted policies that promote the use of non-GHG energy resources. All three
9 states have adopted some form of Renewable Portfolio Standard (RPS) requirements
10 for regulated utilities. California has adopted a Cap-and-Trade market to reduce
11 GHG emissions, and a similar program may be adopted in Oregon soon. In the
12 Eastern portion of PacifiCorp's service territory, Wyoming, Utah, and Idaho have not
13 adopted an RPS requirement. In fact, in Wyoming there was a recent, unsuccessful
14 attempt to mandate a minimum coal procurement standard. None of the Eastern
15 states have adopted GHG reduction plans.

16 **Q. Is PacifiCorp taking any other steps to modify its cost allocation of coal-fired**
17 **resources to better match the energy policies of the six states it serves?**

18 A. Yes. PacifiCorp's efforts to realign its inter-jurisdictional cost allocation
19 methodology to allow states to pay primarily for generating resources that support
20 their energy resource policies is addressed in Exhibit Nos. PAC/300-I, PAC/1300-I,
21 and PAC/100.

1 **Q. How do you respond to Sierra Club's characterization of PacifiCorp's testimony**
2 **regarding the continued use of coal-fired generation?**
3 A. Sierra Club mischaracterizes PacifiCorp witnesses' testimony, and refers to certain
4 snippets of testimony out of context. As a preliminary matter, PacifiCorp emphasizes
5 that it is continually reassessing the cost effectiveness of its coal fleet in its annual
6 IRP and IRP Update process. That is the appropriate place to determine when and
7 how a unit should be retired.
8 The testimony of Mr. Gary Hoogeveen before the Wyoming Legislature cited
9 by Sierra Club actually reiterates this point. Had Sierra Club quoted the remainder of
10 Mr. Hoogeveen's testimony between the 4:05:50 and 4:09:16 marks, Dr. Fisher's
11 testimony would have included Mr. Hoogeveen's discussion of the planned end-of-
12 depreciable life dates for the coal plants located in Wyoming, which are part of the
13 record in this proceeding,[11] and the fact that the IRP is the mechanism by which
14 PacifiCorp studies plants' depreciable lives and identifies the lowest-cost solutions
15 for its customers. Moreover, the question to which Mr. Hoogeveen was responding
16 was not, as Sierra Club states, about the pending proposal to accelerate the
17 depreciation of its coal units[12]; the Representative was merely asking for a point of
18 reference for where the Wyoming-sited coal plants are in their life cycles, based on
19 the fact that most of the plants are well into their operational lives, and what the
20 future entails for those assets.[13] Mr. Hoogeveen's response describing the current
21 depreciable lives and the IRP process was straightforward, and his observation that

[11] Exhibit No. PAC/100, pp. 11–14; Exhibit No. PAC/101.
[12] Fisher Direct, p. 66 (lines 5–6).
[13] At 4:06:42.

1 accelerated depreciation of any given coal plant is not "set in stone" merely reflects
2 the fact that PacifiCorp constantly reevaluates the cost-effectiveness of its generating
3 assets in the annual IRP and IRP Update process. This is a plain fact, not
4 "opportunistic" messaging.[14]

5 **C. <u>Sierra Club's Recommendations Regarding the Energy Imbalance</u>**
6 **<u>Market Should Be Rejected</u>**

7 **Q. Sierra Club recommends that the Commission ensure that the EIM "construct is**
8 **not improperly construed to support out-of-state coal operations."[15] What is**
9 **your response to this recommendation?**

10 A. Sierra Club's recommendation is premised on flawed assumptions. First, Sierra Club
11 claims that the company improperly used a "dispatch credit" in the 2018 Coal Study
12 PacifiCorp agreed to perform in its 2017 IRP proceeding before the Public Utility
13 Commission of Oregon to impute EIM benefits to the company's coal resources.[16]
14 This is incorrect. As described by Mr. Link in his rebuttal testimony, Sierra Club
15 mischaracterizes the purposes behind the dispatch credit—which was simply to
16 reflect the fact that the company's coal resources provide EIM benefits that will be
17 lost if the resource is retired. In any event, Sierra Club's concern over the dispatch
18 credit is irrelevant because, as Sierra Club concedes, the company already agreed not
19 use the dispatch credit for purposes of its 2019 IRP modeling.[17]

20 Second, PacifiCorp is properly dispatching power into the EIM as required by
21 the tariffs, requirements, and instructions of the CAISO, as described in the Direct

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[14] Fisher Direct, p. 66 (line 11).
[15] Fisher Direct, pp. 5 (lines 3–5), 62 (lines 1–3).
[16] Fisher Direct, pp. 60 (line 4)–61 (line 27).
[17] Fisher Direct, at p. 62 (lines 4-9).

1 Testimony of Mr. Joseph P. Hoerner in the Allocation Investigation.[18] Sierra Club's
2 testimony in this case does not claim otherwise.
3 Third, Sierra Club's argument once again flouts the Commission's multiple
4 rulings in the Allocation Proceeding and the General Rate Case that issues related to
5 dispatch of coal plants are outside the scope of this proceeding.[19] The Commission
6 should disregard Sierra Club's recommendation on that basis alone.
7 Fourth, Sierra Club's argument that the Commission should "[t]ake
8 appropriate measures to ensure that the Energy Imbalance Market . . . construct is not
9 improperly constructed to support out-of-state coal operations[20]" is vague,
10 unsupported by any evidence, and essentially meaningless. The CAISO oversees and
11 administers the EIM, not the Commission. It is unclear what Sierra Club would have
12 the Commission do to modify how the CAISO dispatches energy under the EIM to be
13 sure that it is not "improperly constructed." Beyond that stumbling block, Sierra
14 Club offers no suggestions on what measures to adopt or how the Commission could
15 implement them.

16 17 18 **III. PACIFICORP FACES REGULATORY AND BUSINESS RISKS THAT SHOULD BE CONSIDERED IN DETERMINING THE COMPANY'S COST OF CAPITAL**

19 **Q. Does PacifiCorp face regulatory and business risks in California that Cal**
20 **Advocates did not address in its cost of capital recommendation?**
21 A. Yes. I am not offering testimony as to how these risks should be used to determine

[18] Exhibit No. PAC/200-I (Hoerner); Exhibit No. PAC/1500-I.
[19] A.18-04-002, *Assigned Commissioner's Scoping Memo and Ruling*, p. 5 ("We continue to find, as we did in the Scoping Memo and Ruling issued in I.17-04-019, that least-cost dispatch of coal plants is outside the scope of this proceeding; that and related questions are more appropriately addressed in a future review of PacifiCorp's ECAC mechanism.").
[20] Fisher Direct, p. 5 (lines 3–5).

1 PacifiCorp's cost of capital; our expert witness Mr. Kurt G. Strunk will speak to that
2 issue. However, I can testify that there are unique risk factors present in the
3 company's California service territory that the Commission should consider in the
4 cost of capital analysis.

5 **Q. To what risks in particular do you refer?**

6 A. The California Legislature is very active in the area of energy utility regulation, and
7 new legislation frequently imposes challenging requirements on regulated California
8 electric utilities, including PacifiCorp. For example, the Legislature recently passed
9 SB 100, which adopts a very aggressive 100 percent renewable resource and zero-
10 carbon resource requirement for California utilities by 2045. Depending on how this
11 requirement is implemented, it could require the company to procure substantial
12 additional renewable resources and lead to significant implementation issues
13 regarding the regulatory treatment of existing fossil generation assets, including both
14 natural gas and coal-fired generation.

15 Moreover, the California Legislature regularly amends existing energy policy
16 legislation and adopts new energy policy legislation, which results in continued
17 changes to the company's regulatory obligations. Because the legislative landscape is
18 subject to change, PacifiCorp faces significant and ongoing regulatory risk as a result
19 of the continued evolution of California state policy on energy and environmental
20 issues.

21 In addition, the Legislature enacted SB 901 in this most recent legislative
22 session, which adopts complex new requirements for electric utilities in California
23 with respect to the development and implementation of wildfire mitigation plans, the

1 continued assessment and improvement of such plans, and the development of a
2 safety culture assessment program. If a utility is penalized for non-compliance with
3 its wildfire mitigation plan, any penalties assessed to the utility are not recoverable in
4 rates, nor are the costs of independent evaluators who must assess the utility's safety
5 culture assessment.

6 PacifiCorp supports the Legislature's policy goals regarding renewable
7 energy, emissions reductions, and wildfire safety. In the context of this general rate
8 case, however, it is also necessary to acknowledge that frequent changes in
9 procurement mandates and directives to develop specific operational plans result in
10 increased operational risk for the regulated utility.

11 **Q. Does PacifiCorp face a serious risk that a wildfire in its service territory may**
12 **damage its system and equipment or the homes and businesses of its customers?**

13 A. Yes. PacifiCorp is acutely aware of this risk and is working diligently to prevent
14 damage to its system from wildfires. In addition, the company is continually
15 improving its Wildfire Management Plan, in conjunction with regulators and other
16 agencies tasked with combatting wildfires. Notwithstanding that effort, PacifiCorp
17 has been faced with multiple wildfires in its California service territory in recent
18 years.[21] Attached is a fire threat map for PacifiCorp's California service territory that
19 shows that a significant portion has elevated or extreme fire threat designations.[22]

[21] The following fires impacted PacifiCorp's California service territory: Summer Fires, July-Aug. 2014; Boles Fire, Sept. 2014; Klamathon Fire, July 2018; and the Delta Fire, Sept. 2018. The company has notified the Commission of losses and damage resulting from these fires pursuant to its CEMA tariff, and has filed applications to recover costs related to the damage from the 2014 fires. Subsequent applications will seek recovery of costs incurred due to the 2018 fires. In addition, other fires such as the Gap Fire in 2016 impacted PacifiCorp's California service territory but did not meet the threshold for activating CEMA.
[22] Exhibit No. PAC/1401.

1 The company has reported damage from wildfires to the Commission under its
2 Catastrophic Event Memorandum Account (CEMA) for those fires meeting the
3 requirements to activate CEMA.

4 **Q. Does PacifiCorp face additional risk due to the potential formation of**
5 **Community Choice Aggregation (CCA) entities in its service territory?**

6 A. Yes. While no CCA has been established in the PacifiCorp service territory to date,
7 customers have expressed interest in forming a CCA, as evidenced by public
8 testimony at the recent Public Participation Hearing in this case, held in Weed,
9 California. In addition, existing CCAs have demonstrated the ability to expand
10 quickly by adding contiguous cities or counties to their service territory.[23] Such
11 expansions are relatively simple because they require only local governing board
12 approval. There is an existing CCA providing service to Humboldt County that is
13 immediately adjacent to PacifiCorp's service territory.[24] There has also been public
14 discussion about the creation of CCAs in Oregon that could include territory
15 contiguous to the northern boundary of PacifiCorp's California service territory.

16 **Q. Does PacifiCorp face additional risk because of the recent Commission Decision**
17 **adopting a new Power Charge Indifference Adjustment (PCIA) calculation**
18 **mechanism?**

19 A. Potentially, yes. The recent Commission D.18-10-019, modifying the PCIA
20 Methodology, directly applies to the three large California electric utilities, Pacific
21 Gas & Electric, Southern California Edison, and San Diego Gas & Electric. It is

[23] Marin Clean Energy has expanded to offer service to Napa and Solano County as well as multiple cities within Contra Costa County. Sonoma Clean Power serves both Sonoma and Mendocino Counties, as well as multiple cities in adjacent areas.
[24] Redwood Coast Energy Authority.

1 unclear what indifference methodology would apply to PacifiCorp and whether it
2 would adequately prevent cost-shifting or stranding of costs on the company's
3 system. Assuming that the Commission adopted the same procedures as it approved
4 in D.18-10-019, after the initial year in which PCIA charges were calculated, any
5 future increase in the amount of the PCIA charge imposed on load serving entities
6 with departing load (such as CCAs) would be limited by a cap of 0.5 cents/kilowatt-
7 hour. If PacifiCorp were to experience stranded costs due to the departing load that
8 switches to CCA service, this cap could make it difficult for PacifiCorp to timely
9 recover the full amount of its stranded costs.

10 **Q. Is PacifiCorp planning significant capital investment in the next few years,**
11 **including the period covered by this general rate case?**

12 A. Yes. As indicated above, PacifiCorp intends to spend $3.1 billion to construct the
13 new renewable and transmission resources included in the EV2020 program. In
14 addition, PacifiCorp continues to make cost-effective capital investments in its other
15 generating plants as needed to ensure that the plants are properly maintained so that
16 they can continue to provide safe and reliable service to customers.

17 IV. PACIFICORP'S INCENTIVE-BASED COMPENSATION PROVIDES 18 DIRECT BENEFITS TO CUSTOMERS

19 **Q. Cal Advocates recommend a 66.67 percent disallowance of the $609,868 in**
20 **incentive compensation that PacifiCorp seeks to recover in this general rate**
21 **case.[25] Do you agree with this recommendation?**

22 A. No, I do not. Cal Advocates' recommendation is based on three generic categories
23 into which PacifiCorp's AIP falls: individual performance, company performance,

[25] Cal Advocates-04, pp. 9(line 24)–10 (line 3).

1 and business unit performance.[26] The AIP is actually evaluated using the six "pillars"
2 or core principles of the Berkshire Hathaway Energy family of companies,[27] almost
3 all of which have direct customer benefits. The six core principles are: (1) customer
4 service; (2) employee commitment; (3) environmental respect; (4) regulatory
5 integrity; (5) operational excellence; and (6) financial strength. [REDACTED]
6 [REDACTED] AIP compensation.[28]

7 **Q. Please explain the customer benefits associated with each core principle.**

8 A. [REDACTED]
9 incentive-based compensation.

10 *Customer Service* is based on delivering reliable and dependable service to
11 customers at fair prices. This principle also includes providing exceptional service to
12 customers. Customer satisfaction surveys comprise only [REDACTED] of the total
13 incentive-based compensation calculation, and approximately [REDACTED] of the
14 Customer Service category. Keeping customer rates stable and as low as possible,
15 while ensuring reliable service, provides a direct customer benefit.

16 *Employee Commitment* is based on preventing employee injury and workplace
17 accidents, encouraging teamwork, and meeting goals related to employee
18 engagement, training, and development plans. Ensuring that PacifiCorp's employees
19 are safe, healthy, engaged with the company, and well-trained helps ensure that
20 PacifiCorp operates safely and well. This in turn benefits PacifiCorp's customers.

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[26] *Id.* at pp. 9 (line 17)–10 (line 14).
[27] See Berkshire Hathaway Energy, Our Core Principles,
https://www.berkshirehathawayenergyco.com/about-us/ (last visited November 10, 2018).
[28] Confidential Exhibit No. PAC/1402.

1 *Environmental Respect* focuses on increasing investment in renewable energy,
2 improving emissions rates and efficiency of fossil-fueled generation, offering
3 resources to help customers manage their energy use, and investing in new
4 transmission and distribution equipment to reduce the loss of kilowatts and improve
5 reliability. Reducing emissions, increasing renewable resources, offering demand-
6 side resources, and improving reliability provides a direct benefit to PacifiCorp's
7 customers.
8 *Regulatory Integrity* is based on minimizing rate increases by achieving
9 balanced regulatory and legislative outcomes. Achieving favorable regulatory
10 outcomes and legislation that do not have adverse impacts to the company or its
11 customers directly benefits customers.
12 *Operational Excellence* is based on achieving transmission and distribution
13 reliability goals. Operational Excellence is also based on optimizing availability
14 factors for PacifiCorp's thermal and renewables fleets, and on ensuring PacifiCorp's
15 electronic and physical assets are safe and secure. A reliable transmission and
16 distribution system, transmitting power produced by generating assets that are
17 performing at optimal levels, and whose electronic and physical assets are safe and
18 secure undeniably provides a direct benefit to PacifiCorp's customers.
19 *Financial Strength* is based on achieving strong credit ratings and maintaining
20 a high-quality, diversified portfolio of regulated businesses. A financially healthy
21 and well-capitalized utility is able to obtain lower interest rates, which translates to
22 lower costs for customers.

1 **Q. Is Cal Advocates' proposal for a 67 percent disallowance reasonable?**

2 A. No. As noted, I believe that every pillar of the AIP provides a direct benefit to
3 PacifiCorp's customers. And, based on my understanding of Commission precedent
4 regarding incentive-based compensation, even if the Commission made a
5 disallowance, it should be no more than approximately 23 percent (not 67 percent
6 recommended by Cal Advocates). If the Commission were to determine that the
7 Financial Strength pillar primarily benefits PacifiCorp's shareholders, that
8 determination would carry a [REDACTED] disallowance. If the Commission were to
9 determine that the customer satisfaction surveys similarly did not indicate direct
10 customer benefits, the corresponding [REDACTED] of the AIP calculation would also
11 be disallowed. Because the Customer Service pillar is primarily based on ensuring
12 rates do not increase beyond what is allowed in regulatory proceedings, however, the
13 remainder of Customer Service elements attributable to rate stabilization should be
14 recoverable in rates.

15 Based on Commission precedent disallowing customer funding of incentive-
16 based compensation for utility revenue and customer satisfaction, PacifiCorp will
17 reduce its requested AIP revenue by $149,601, or approximately 23%. This reduction
18 is reflected in the rebuttal testimony and workpapers of Ms. Shelley E. McCoy,
19 Exhibit Nos. PAC/1901 and PAC/1902, which address PacifiCorp's revised revenue
20 requirement.

1 **V. PACIFICORP'S 2018 INCOME TAX ADJUSTMENT WILL BE RETURNED**
2 **TO CUSTOMERS**

3 **Q. Cal Advocates note the Commission approved PacifiCorp's request to establish a**
4 **Tax Reform Memorandum Account to track the impact of the 2018 tax reform**
5 **bill, and recommend that all tax savings be appropriately returned to**
6 **ratepayers.[29] How do you respond?**

7 A. PacifiCorp agrees that the amounts in the Tax Reform Memorandum Account
8 associated with the 2018 tax reform bill should be returned to customers. PacifiCorp
9 is still in the process of calculating the full effects of the tax reform bill and expects
10 this to be finalized in early 2019. Once the final calculations are made, PacifiCorp
11 will file an Advice Letter for authority to return the funds in the Memorandum
12 Account to customers.

13 **Q. Does that conclude your testimony?**

14 A. Yes, it does.

[29] Cal Advocates-01, p. 4 (lines 7–15).