

Application No. 18-04-002
Exhibit PAC/1900
Witness: Shelley E. McCoy

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

PACIFICORP

Rebuttal Testimony of Shelley E. McCoy

Revenue Requirement

November 2018

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ATTACHED EXHIBITS

Exhibit No. PAC/1901 – Rebuttal California Results of Operations – December 2019

Confidential Exhibit No. PAC/1902 – Rebuttal Labor Escalators

1 **Q. Are you the same Shelley E. McCoy who submitted direct testimony in this case**
2 **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?**

6 A. The purpose of my testimony is to quantify the updates and revisions made to
7 PacifiCorp's proposed revenue requirement in the current rate filing.

8 **Q. Please summarize your testimony.**

9 A. My testimony explains and supports PacifiCorp's revised overall revenue requirement
10 increase of approximately \$806,000 for the 12-month test period ending December
11 2019. This is a decrease of approximately \$254,000 from the amount requested in
12 PacifiCorp's initial filing. My testimony discusses the revisions made to revenue
13 requirement components in this modified request.

14 **II. REVENUE REQUIREMENT**

15 **Q. Please describe the calculation of the revised overall revenue increase.**

16 A. PacifiCorp's revised revenue increase of approximately \$806,000 is calculated using
17 the 2017 Protocol allocation methodology. As stated in my direct testimony, this rate
18 filing was compiled using historical accounting information from the Base Period
19 (12 months ended June 30, 2017) as a starting point. The historical information is
20 then analyzed and adjusted to reflect known, measurable, anticipated changes, and to
21 include previous Commission-ordered adjustments. Since PacifiCorp's initial filing,
22 several changes have been made to modify the requested revenue increase. In support
23 of the revised calculations, Exhibit No. PAC/1901 shows PacifiCorp's revised

1 California revenue requirement. This exhibit incorporates revisions and updates to
 2 certain adjustments and provides updated iterations of workpapers that were
 3 presented in Exhibit No. PAC/1101 but now support PacifiCorp’s rebuttal revenue
 4 requirement calculations.

5 **Q. How many revisions has PacifiCorp made in its rebuttal revenue requirement**
 6 **calculations?**

7 A. In addition to the adjustments reflected in PacifiCorp’s initial filing, four revisions or
 8 updates have been made to revenue requirement in PacifiCorp’s rebuttal filing. Each
 9 revision or update is described in more detail later in this testimony. Table 1
 10 summarizes the impact of each change to the requested price change. Because of
 11 these revisions and updates, PacifiCorp’s revenue requirement allocation model also
 12 automatically synchronized two other adjustments to account for the impact of these
 13 changes to Interest Expense and Cash Working Capital calculations.

14 **TABLE 1—Rebuttal Revenue Requirement Increase**

Revenue Requirement Impact (\$)	
Requested Price Change - As Filed	1,060,522
<i>Rebuttal Updates and Revisions</i>	
Exclude Executive Compensation	(39,561)
Reduction to Incentive Compensation	(149,601)
Remove Glenrock III Wind Upgrades	(63,202)
Remove Weatherization Loan Balances	(2,083)
<i>Total Impacts of Rebutal Updates & Revisions</i>	<i>(254,446)</i>
Requested Price Change - Rebuttal	806,076

1 **Q. Please describe Exhibit No. PAC/1901.**

2 A. Exhibit No. PAC/1901 is the company's California Results of Operations Report
3 (Report), revised to incorporate changes and updates outlined in the table above. The
4 Report is organized in a manner similar to Exhibit No. PAC/1101:

- 5 • Tab 1 (Summary) reflects the California-allocated results based on the 2017
6 Protocol.
- 7 • Tab 2 (Results of Operations) details PacifiCorp's overall rebuttal revenue
8 requirement by Federal Energy Regulatory Commission (FERC) account and
9 2017 Protocol allocation factor.
- 10 • Tabs 4, 7, and 8 provide supporting documentation for adjustments that have been
11 revised in the calculation of PacifiCorp's rebuttal revenue requirement.

12 **III. DESCRIPTION OF REVISED ADJUSTMENTS**

13 **Executive Compensation**

14 **Q. Please describe the changes made to executive compensation expense.**

15 A. PacifiCorp has removed all officers' compensation from rates for recovery in the
16 current application. Officers refer to PacifiCorp's named officers as set forth in the
17 company's articles of incorporation and bylaws, and whose compensation was
18 included in PacifiCorp's initial filing.

19 **Q. What necessitated the company to make this change?**

20 A. This revision to remove officer compensation was made in accordance with Senate
21 Bill (SB) 901.¹ Since PacifiCorp's initial filing, California has enacted SB 901, which
22 requires that all compensation for officers of electrical corporations be paid solely by

¹ See Cal. Pub. Util. Code Sec. 706.

1 shareholders. As a result, PacifiCorp has identified these costs and is making this
2 adjustment to reflect the change in the law.

3 **Q. Has the Commission established a process for addressing the impact of removing**
4 **executive compensation from rates per SB 901?**

5 A. Yes. The Commission recently issued draft Resolution E-4963, requiring utilities to
6 establish memorandum accounts to track the impacts of the executive compensation
7 portion of SB 901 for later ratemaking treatment. SB 901 becomes effective
8 January 1, 2019, the same rate effective date requested by PacifiCorp in this case. As
9 such, and consistent with PacifiCorp's comments in response to draft Resolution
10 E-4963, PacifiCorp proposes to remove executive compensation from rates in this
11 proceeding. Removing executive compensation from rates through this case
12 eliminates the need to establish a memorandum account.

13 **Q. How has this change been incorporated in PacifiCorp's revised calculations?**

14 A. In its rebuttal revenue requirement calculations, PacifiCorp removed executive
15 compensation from its Wages and Benefits Adjustments (page 4.2, Exhibit No.
16 PAC/1101). Revised workpapers for this updated adjustment are presented in Exhibit
17 No. PAC/1901. The revenue requirement impact of this change is approximately
18 \$40,000. Detailed workpapers showing the removal of officers' salaries are provided
19 in confidential Exhibit No. PAC/1902. This exhibit contains a revised version of
20 page 4.2.3, similar to that provided in my confidential Exhibit No. PAC/1102, with
21 the only difference between the two being the removal of officers' salaries. Removal
22 of officers' incentive compensation is shown at the bottom of page 4.2.6 of Exhibit
23 No. PAC/1901.

1 **Incentive Compensation**

2 **Q. Please describe PacifiCorp's proposed revision to incentive compensation.**

3 A. In rebuttal, PacifiCorp has reduced test period incentive compensation by 23 percent.

4 This modification is also captured in PacifiCorp's rebuttal Wages and Benefits
5 Adjustments.

6 **Q. What is the justification for this revision to incentive compensation?**

7 A. This percentage of reduction to incentive compensation approximates the proportion
8 of PacifiCorp's incentive compensation calculations associated with financial
9 performance and customer satisfaction metrics. For further details on this reduction,
10 please refer to the rebuttal testimony of company witness Ms. Etta Lockey, Exhibit
11 No. PAC/1400 on pages 18-21.

12 **Q. How has this change been incorporated in PacifiCorp's revised calculations?**

13 A. In its rebuttal revenue requirement calculations, PacifiCorp reduced test period
14 incentive compensation by 23 percent. Revised workpapers for adjustment 4.2 are
15 presented in Exhibit No. PAC/1901. Reduction of the test period incentive
16 compensation is shown at the bottom of page 4.2.6 of Exhibit No. PAC/1901.

17 **Q. What is the total impact of the updates to PacifiCorp's incentive compensation
18 expense?**

19 A. The impact of reducing test period incentive compensation in this case is a decrease
20 to requested price change of approximately \$150,000.

21

1 **Wind Repowering Project Update**

2 **Q. Has there been any changes in the Wind Repowering Project capital additions**
3 **since PacifiCorp's initial filing?**

4 A. Yes, since PacifiCorp's initial filing, it has been determined that the upgrades planned
5 for the Glenrock III facility will not be completed by the end of 2019, the test period
6 in this case.

7 **Q. Has PacifiCorp done anything to reflect this change in its rebuttal revenue**
8 **requirement calculations?**

9 A. Yes. PacifiCorp has revised both adjustments capturing the impact of Wind
10 Repowering Projects in the revenue requirement calculations. Both the Wind
11 Repowering Project Capital Adjustments (page 8.11, Exhibit No. PAC/1101) and
12 Wind Repowering Capital Additions Annualization (page 8.12, Exhibit No.
13 PAC/1101) have been updated to exclude Glenrock III upgrades from calendar year
14 2019 test period results. Revised adjustment workpapers are provided in Exhibit No.
15 PAC/1901.

16 **Q. What is the impact of removing Glenrock III upgrades from the Wind**
17 **Repowering projects embedded in PacifiCorp's revenue requirement**
18 **calculations?**

19 A. The impact of removing Glenrock III capital additions due to wind repowering
20 upgrades is approximately \$63,000.

21 **Q. When will the upgrades to Glenrock III be complete?**

22 A. The wind repowering upgrades to Glenrock III are expected to be complete by the
23 end of 2020. As the completion of the wind repowering upgrades will occur after the

1 2019 test period of this case, PacifiCorp requests authorization to use its Post Test
2 Year Adjustment Mechanism (PTAM) to bring Glenrock III into rates after the wind
3 repowering upgrades are complete. This request is necessary as the wind repowering
4 upgrades are unlikely to reach the \$50 million threshold for use of the PTAM;
5 however, no party to this case has raised issues with PacifiCorp's wind repowering
6 project and use of the PTAM will minimize regulatory lag for a renewable wind
7 project with significant benefits to customers.

8 **Weatherization Loan Program**

9 **Q. In its review of PacifiCorp's initial filing, has the Public Advocates Office at the**
10 **California Public Utilities Commission (Cal Advocates) made any**
11 **recommendations that differ from the company's proposal?**

12 A. Yes, in its review of PacifiCorp's rate base components, Cal Advocates recommends
13 removal of Weatherization Loan Program balances from the company's rate base.

14 **Q. Does PacifiCorp agree with Cal Advocates recommendation?**

15 A. Yes. In PacifiCorp's response to Cal Advocates' data request inquiring about
16 Weatherization Loan balances, the company agreed that the Weatherization Loan
17 Program balances represent residual balances on programs that were discontinued
18 over 10 years ago and that these balances should be removed from rate base. A copy
19 of this data response has been provided on page 8.7.7 of Exhibit No. PAC/1901 for
20 reference. As such, PacifiCorp has modified adjustment 8.7 (Regulatory Asset
21 Amortization) to reflect the removal of approximately \$21,000 in Weatherization
22 Loan Programs from California's allocated rate base. A copy of the workpaper
23 supporting this revised adjustment is presented in Exhibit No. PAC/1901.

1 **Interest and Cash Working Capital True Up**

2 **Q. In addition to the revisions and updates discussed above, have any other**
3 **adjustments been updated?**

4 A. Yes. As part of the revenue requirement calculation, PacifiCorp's model
5 automatically recalibrates interest expense and cash working capital balances on a pro
6 forma basis with each change to pro forma rate base. Therefore, as a result of the rate
7 base revisions and updates described above, adjustments 7.1 (Interest Expense) and
8 8.1 (Cash Working Capital) have also been recalculated to reflect the appropriate
9 levels for the test period 12-months ending December 2019. A separate column is not
10 shown in the summary pages for Tab 7 and 8 for these adjustments as the interest and
11 cash working capital true-up components are calculated and shown on the adjustment
12 summary pages for each of the adjustments individually. Revised workpapers
13 supporting these updated adjustments are also presented in Exhibit No. PAC/1901.

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

15 A. Yes.