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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

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| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, |) | NO. UE-100749 |
| |) | |
| Complainant, |) | VOLUME VII |
| |) | PAGES 639 - 813 |
| |) | |
| vs. |) | |
| |) | |
| PACIFICORP, D/B/A PACIFIC |) | |
| POWER AND LIGHT COMPANY, |) | |
| |) | |
| Respondent. |) | |
| _____ |) | |

10 A hearing in the above matter was held on Thursday,
11 January 27, 2011, at 10:55 a.m., at 1300 South Evergreen Park
12 Drive Southwest, Olympia, Washington, before Administrative Law
13 Judge PATRICIA CLARK, Chairman JEFFREY GOLTZ,
14 Commissioner PATRICK OSHIE and Commissioner PHILIP JONES.

15 The parties were present as follows:

16 WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, by
17 Donald T. Trotter, Assistant Attorney General, P.O. Box 40128,
18 Olympia, Washington, 98504-0128. Telephone number is
19 (360) 664-1189.

20 PACIFICORP, by Katherine A. McDowell, Attorney at Law;
21 Amie Jamieson, Attorney at Law; Jordan White, Attorney at Law,
22 McDowell, Rackner & Gibson, PC, 419 Southwest 11th Avenue,
23 Suite 400, Portland, Oregon, 97205. Telephone number is (503)
24 595-3924.

25 INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES (ICNU), by
Irion A. Sanger, Attorney at Law, Davidson Van Cleve, PC,
333 Southwest Taylor, Suite 400, Portland, Oregon, 97204.
Telephone number if (503) 241-7242.

Lesley E. Kay, CCR No. 3244
Court Reporter

The parties were present as follows: (Continued)

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1 THE ENERGY PROJECT, by Brad M. Purdy, Attorney at Law,
2 2019 North 17th Street, Boise, Idaho, 83702. Telephone number
3 is (208) 384-1299.

3 WAL-MART STORES, INC.; SAM'S WEST, INC., by Arthur A.
4 Butler, Attorney at Law, Ater Wynne, 601 Union Street, Suite
5 1501, Seattle, Washington, 98101. Telephone number is (206)
6 623-4711.

5 PUBLIC COUNSEL, by Sarah Shifley, Assistant Attorney
6 General, 800 Fifth Avenue, Suite 2000, Seattle, Washington,
7 98104. Telephone number is (206) 464-6595.

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P R O C E E D I N G S

JUDGE CLARK: Good morning. It's June 27th, 2011, at, approximately, 10:55 a.m. This is the time and the place set for continuation of the hearing in Docket UE-100749. I'm Patricia Clark, Administrative Law Judge for the Commission presiding. The record should reflect that all Commissioners are present for this portion of the hearing.

I have a couple of housekeeping matters to attend to first. The first one is that Chairman Goltz and Commissioner Oshie have another regulatory commitment that will require them to be out of a portion of this hearing, possibly. To minimize any opportunity to miss any portion of the hearing we'll have a lunch recess today at 11:45 and that will probably run until, approximately, 1:15. If Chairman Goltz and Commissioner Oshie are unable to join us at that time we'll reconvene at 1:15. The Commissioners will read the portion of the transcript for any portion of the hearing that they missed prior to participating in any decision regarding those topics.

When we recessed yesterday afternoon I believe there was agreement that we would call Mr. Falkenberg first.

I'll call to you, Mr. Sanger. Call your first witness, please.

MR. SANGER: I call Mr. Randall Falkenberg.

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1 Q. I wanted to ask you first about some of your
2 adjustments relating to the WCA. So that begins with your
3 modeling of the eastern market adjustment, I believe it's
4 adjustment number three, starting at RJF-1T, page 15.

5 A. Yes.

6 Q. Now, there at lines 17 through 19 you indicate that
7 the company introduced this methodology in the rebuttal phase
8 of UE-061546. You were a participant in that proceeding,
9 weren't you?

10 A. That's right.

11 Q. It's true, isn't it, that the eastern market sale was
12 a staff adjustment which the company accepted in its rebuttal
13 case?

14 A. I think that's right, yes. I think that the company
15 did make some modifications to the staff proposal.

16 Q. It's also true that the staff and the company
17 presented the modeling details of this staff adjustment, I
18 believe it was staff adjustment 5.4, to the Commission in the
19 2006 case?

20 A. Not sure that the details were presented. There is a
21 fair amount of analysis that goes into that but I don't believe
22 it's part of the record or part of the exhibits. It requires a
23 grid run, for example, for the whole system. I don't believe
24 that was ever an exhibit.

25 Q. Well, the grid run would have been the result of the

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1 adjustment, correct?

2 A. No. The grid run that I'm talking about is a run
3 that's a modeling of the entire system and it's used to derive
4 some of the data that goes into that particular adjustment, so
5 it's an input.

6 Q. I see.

7 So that input was done and added into the final grid
8 run; is that correct?

9 A. Right. It's sort of the two-step process. First
10 there's a total system grid run done and then certain items
11 extracted from that and put into the WCA model.

12 Q. Now, in that case you proposed purchase from Pack East
13 as a part of this eastern market modeling which the Commission
14 rejected, correct?

15 A. Well, you've called it the same thing. It had a
16 different name in that case. I had an adjustment that was an
17 interchange adjustment which modeled both purchases and sales
18 between east and west. It modeled more markets. It modeled
19 more substantial transfers of capacity. The Commission felt
20 that the transmission, for example, that was relied on in that
21 adjustment was rather speculative which is something that the
22 company stated in its rebuttal testimony. In this particular
23 case the adjustment is quite different. I've simply taken the
24 company's modeling that was used but I've done it on an hourly
25 basis so that I've taken the actual transmission transfers, and

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1 that sort of thing, from the grid model and performed an hourly
2 analysis. It's not, really, the same adjustment.

3 Q. But, just to be clear, you proposed purchase
4 transaction from east to the west in the 2006 case and the
5 Commission rejected it, correct?

6 A. The Commission did, yes.

7 Q. In spite of that case history on pretty much every
8 page of your testimony on this issue in this case you claim
9 that the 2006 Order requires the company to include purchases
10 from the east, don't you?

11 A. Well, I'm not sure about what you're talking about
12 every page of my testimony. But, if you go to page 16 my
13 testimony I quoted from the Commission's Order and it did say
14 that the methodology of the WCA model would allow for the
15 indirect inclusion of these side benefits and costs if
16 purchases and sales between control areas are economic.

17 Q. But then at the bottom of page 16, top of 17, you
18 indicate that there was nothing in the Commission Order that
19 suggested that it intended to limit this modeling to allow
20 transactions to flow from west to east. Do you see that? Top
21 of page 17.

22 A. Top of page 17 it suggested the Commission intended
23 this modeling on peak hours or to only allow the transactions
24 to flow from west to east.

25 Q. And, again, on page 18 you indicate the company does

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1 not consider -- bottom of page 18 -- lines 22 to 23 -- the
2 company does not consider the possibility of purchases by Pack
3 West from Pack East. Do you see that?

4 A. I see that.

5 Q. Again, complaining about the purchase issue.

6 A. That is an issue, I think, worth addressing. In this
7 particular case the level of that part of the adjustment is
8 quite minimal, however.

9 Q. Isn't it true that on a WCA basis the purchase is
10 about a \$10,000 adjustment?

11 A. That sounds like a Washington basis. I thought it was
12 40,000.

13 Q. I meant to say "Washington."

14 WCA basis 48,000. Washington about ten. Does that
15 sound about right?

16 A. That sounds right.

17 Q. So, it's true, isn't it, that the bulk of your
18 adjustment is based on the way the staff adjustment 5.4 models
19 the sale from the west to the east --

20 MR. SANGER: Objection.

21 Which staff adjustment are you describing?

22 BY MS. MCDOWELL:

23 Q. The adjustment we were just discussing adopted in the
24 2006 case, the eastern market model, was adjustment 5.4. I
25 think we just discussed that.

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1 A. Right. Most of the adjustment is the transfer from
2 the west to the east and it eliminates certain problems. It
3 eliminates transactions that were made that were, in certain
4 hours, uneconomic. It allows for the transfer of energy in the
5 off-peak as well as in the on-peak and it does the transactions
6 on an hourly basis as opposed to when monthly average basis.

7 Q. Just to be clear, staff adjustment 5.4 was modeled in
8 this case exactly the same way as in the 2006 case in which the
9 Commission adopted that adjustment, correct? There's been no
10 change?

11 A. When you say "staff adjustment 5.4" you mean the
12 company's implementation of the eastern market sale?

13 Q. That's correct?

14 A. I believe that's correct.

15 Q. That adjustment has never included a purchase from
16 west to east, correct?

17 A. I don't believe it is, no.

18 Q. Now, there is one major change in your modeling, isn't
19 it, and that is that you don't propose to run that sale
20 transaction through the grid model, do you?

21 A. It could be run through the grid model. I encountered
22 some difficulties at the time when I was trying to implement
23 that. I have no objection to that but it would be more complex
24 because you would have to model a couple of different
25 transactions.

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1 Q. I just wondered about that because in your
2 Cross-answering testimony you do testify that where practical
3 you should run adjustments through the grid model; is that
4 correct?

5 A. If it can be done, I believe that's a good way to do
6 it. One of the things we've seen in doing the hourly modeling,
7 if you do the hourly modeling correctly you can get almost
8 identical results to running it through the grid model. We've
9 seen that time and time again, for example, for modeling of the
10 screens which were done on an hourly basis. So, it would be
11 better to do it that way but I'm pretty confident it wouldn't
12 have any real meaningful impact on the final result.

13 Q. To be clear, the adjustment you proposed here was not
14 run through the grid lock?

15 A. I did it outside the model.

16 Q. I want to ask you about your next WCA related
17 adjustment which is on -- you refer to it page 21. I believe
18 this is your adjustment four.

19 A. Yes.

20 Q. I think the only description of this adjustment is
21 this Q and A beginning at the top of page 21, line one, going
22 to line seven.

23 Do you have that?

24 A. Yes, I have that.

25 Q. Just to see if I understand the adjustment correctly,

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1 the adjustment proposes to remove the transmission links from
2 Pack West to Pack East to measure the reliability benefits that
3 Pack West you claim supports to Pack East; is that correct?

4 A. Yeah. Just to provide more detail: As I indicated
5 earlier there's first, all these adjustments, whether it's my
6 adjustment or the company's adjustment, are based on doing a
7 total system grid run modeled in our entire system. In that
8 modeling, in looking at these items on an hourly basis, I
9 discovered there were certain hours when no matter what you did
10 that west would lose money selling to the east. I discovered
11 the reason that was happening was that those sales weren't
12 being made for economic purpose. They were being made in the
13 grid model for reliability purposes. The eastern transmission
14 area needed capacity transfers from the west in order to avoid
15 imbalances or shortages, so I identified those transactions on
16 an hourly basis and that's what adjustment four is about.

17 Q. What you did, just so I understand it, is you tried to
18 isolate the east from the west and then looked at the
19 hypothetical energy and balances that were created by that
20 severing of the ties between east and west. Is that a fair
21 summary?

22 A. What I was trying to do was identify the times when
23 the east was relying on the west for reliability purposes as
24 opposed to economic purposes and that's what this analysis did.

25 Q. Can you turn to your Exhibit 6C, which is a

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1 confidential transmission topography. I think we can handle
2 these questions without getting into confidential answers on
3 the record. If you think I am asking you something that's
4 confidential then just say so and we'll take the appropriate
5 steps.

6 A. Yes, I have it.

7 Q. You would agree that to accurately model Pacific east
8 standalone generation capacity it would be important to include
9 all transmission capacity allocated to Pack East?

10 A. Yes.

11 Q. As I understand it, your adjustment, basically,
12 severed the east from the west by just drawing a line where it
13 says on this topography map, "West East." Do you see that?

14 A. That's right. That was the intent.

15 Q. In doing that you remove the link from Colstrip to
16 Goshen. Do you see that?

17 A. Yes.

18 Q. Then you remove the link from IPC to path C, correct?

19 A. That's correct. I'm going to tell you, I'm going from
20 memory here. I believe that's what I would have done.

21 Q. Aren't the cost of both of these transmission links
22 allocated to Pack East?

23 A. That may well be the case but they're bringing in
24 capacity from the west, so I was just trying to see -- in other
25 words, if you didn't have the west here, it wouldn't matter.

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1 Those transmission lines wouldn't have anything to bring in,
2 those links.

3 Q. But by removing those links, which the east paid for,
4 haven't you significantly understated Pack East's standalone
5 generation capacity?

6 A. The purpose was to identify in which instances the
7 east was requiring support for reliability purposes from the
8 west and by doing this I was able to identify these hours. I'm
9 not suggesting that that's how the system operates. I'm
10 suggesting that's how I figured out which hours were being
11 supplied from the west for reliability purposes and
12 differentiate those from the ones that were taking place for
13 economic purposes.

14 Q. Didn't you artificially create the situation where
15 east was relying on the west by removing some of the east's
16 transmission capacity?

17 A. Well, it's no different than running the WCA model
18 without the rest of the system, without the eastern system.

19 Q. Except that the WCA model allocates to the WCA all the
20 costs charged to the WCA. And your model --

21 A. And some additional ones.

22 Q. And your modeling does not allocate to the east costs
23 that are charged --

24 JUDGE CLARK: Excuse me. We can only have one person
25 speaking at a time in order for the court reporter to make a

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1 transcript.

2 MR. SANGER: Did Mr. Falkenberg answer the first
3 question that was asked?

4 JUDGE CLARK: It's a little confusing.

5 MS. MCDOWELL: I will rephrase.

6 JUDGE CLARK: Restate the question and take a breath
7 and let Mr. Falkenberg respond and, likewise, if you can do
8 that. I think you both were speaking over each other. Thanks.

9 MS. MCDOWELL: Thank you.

10 Q. My question is: By removing these transmission links
11 that are paid for by the east aren't you understating, and
12 unfairly so, the east generation capacity creating these
13 reserve imbalances?

14 MR. SANGER: Objection, Your Honor. There's
15 two compound questions. I think she needs to first make her
16 point about understatement before she tries to characterize it
17 as being unfair.

18 MS. MCDOWELL: I'll be happy to rephrase.

19 Q. Aren't you, by severing the east from the west in the
20 manner in which you have, haven't you understated the
21 transmission capacity and the generation capacity of the east?

22 A. No. What I've really done is removed the west from
23 the analysis of the east. I've done effectively a grid run
24 that has the west as a standalone entity and the east as a
25 standalone entity.

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1 Q. I wanted to ask you about the Idaho point-to-point
2 transmission contract.

3 Let me take you to your testimony. That is, I
4 believe, pages 31 -- let me make sure I have the right page.

5 A. I have 32.

6 Q. Yeah. Top of page 32. Thank you.

7 JUDGE CLARK: I just want to remind everyone that this
8 page is a page that includes confidential information and if
9 you're going to conduct inquiry or if a response requires
10 confidential information we'll do an in-camera session.

11 MS. MCDOWELL: Let me just check with Mr. Duvall to
12 determine what is confidential here.

13 (Ms. McDowell speaking with Mr. Duvall.)

14 BY MS. MCDOWELL:

15 Q. So, Mr. Falkenberg, I take it you reviewed
16 Mr. Duvall's work papers underlying his testimony in this
17 proceeding?

18 A. Yes.

19 Q. Would you accept, subject to check of Mr. Duvall's
20 work paper 5C7, that the company has excluded, approximately,
21 one third of the total costs of the Idaho point-to-point
22 contract from this case is, approximately, one point six
23 million of the total contract cost?

24 A. Yes. That's correct. However, I think that's a bit
25 misleading because the point-to-point contract actually has

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1 two elements. There's what's called "point-to-point east" and
2 "point-to-point west." Mr. Duvall did eliminate the
3 point-to-point east portion of that which I'll accept your
4 representation as to how much that was. That part of the
5 contract only provides benefits. It only provides service to
6 the east. It does not provide anything to the west. The
7 portion which he left provides value to both the east and to
8 the west. It provides energy transfers to the west and it
9 provides reserve transfers to the east. One of the things that
10 the Commission decided in the Order, in the 2006 case
11 Docket 61546, was that they wouldn't allow for the benefits of
12 those reserve transfers to be shared with the west. In other
13 words, they wouldn't allow those benefits to be part of the WCA
14 model but Mr. Duvall has included some of the cost of providing
15 that benefit to the east. So, I don't think it's fair to
16 exclude the value that the west is providing to the east if
17 we're also going to but not exclude costs of that. That's what
18 this adjustment is for.

19 Q. But in the 2006 case the Commission allowed the
20 underlying cost of the transmission, didn't they?

21 A. Nobody raised that issue. That was never raised. In
22 fact, we didn't discover it until a couple of cases later
23 through discovery.

24 Q. The flip side of your argument in the 2006 case, and
25 the 2006 case you tried to impute benefits associated with that

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1 line, and here you're trying to disallow the costs associated
2 with the line. Isn't it the same adjustment, just a different
3 way of approaching it?

4 A. No. It's much different. First of all, the benefits
5 to the east are much more substantial than the cost. The east
6 derives substantially larger benefits than the cost. What I'm
7 saying is that if we're not going to recognize in the WCA model
8 the fact that the west provides reserves to the east then we
9 should not consider the cost of that either. It's completely
10 different part of it. It seems to me it's only fair.

11 Q. But, when the Commission rejected your adjustment for
12 benefits in the 2006 case it did so because it found that the
13 benefits were speculative, correct?

14 A. They did state that, but, again, in this case there's
15 nothing speculative about the amount of the cost. And the
16 level of the benefits is something I did verify through grid
17 runs that I did with the total system model that the company
18 used and they were substantial.

19 Q. What remains speculative, however, is whether that
20 line is really providing valuable reserves to the east. That's
21 the whole point of your adjustment in the 2006 case and your
22 adjustment in this case, as well.

23 A. It's not speculative. The company has stated in
24 response to discovery that it is providing that value and it's
25 one of the exhibits which I presented.

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1 Q. Mr. Falkenberg, I wanted to ask you about another
2 transmission adjustment you made, that's the DC inertie
3 adjustment. There I believe you talk about that on page 33 of
4 your testimony.

5 A. Yes. I have that.

6 MS. MCDOWELL: Again, let me confer with my client to
7 make sure I'm not getting into any confidential information.

8 (Ms. McDowell speaking with Mr. Duvall.)

9 BY MS. MCDOWELL:

10 Q. Mr. Faldenberg, you proposed to disallow costs of the
11 DC inertie on the basis of the grid model does not show
12 transactions using this transmission line in the test period;
13 is that correct?

14 A. There's none included in the test period.

15 Q. In support of that adjustment you cite to several
16 DR's, including the confidential attachment to ICNU DR 10.4.
17 Do you see that on line 12?

18 A. Yes.

19 Q. It's true, isn't it, that that response shows that the
20 company makes over 200 purchase power transactions a year over
21 the line?

22 MR. SANGER: Does Counsel have a document to provide?

23 MS. MCDOWELL: I don't have it because it wasn't an
24 exhibit and you referred to it and didn't make it an exhibit
25 but I was afraid you would object if I brought it in.

1 So, based on your understanding and the reference you
2 make here, isn't it true that that's what that attachment says?

3 A. I recall that attachment. I don't recall the number
4 of transactions. I recall that the dollar amount wasn't very
5 substantial and I believe that there are -- and just to make it
6 clear, that data request asked for transactions over a
7 historical period. It wasn't asking for anything that was
8 included in the test year. There were other data requests that
9 went to that, and they were very clear that there weren't any
10 such transactions in test year. I believe 10.4 was actual
11 historical transactions and I believe it was established that
12 those generally only occur very close in time to the actual
13 event so that's why they're not in the test year.

14 Q. But on a year-end, year-out basis there's hundreds of
15 transactions a year that go over that line, correct?

16 A. I don't know how many there are. There are some.

17 Q. Now, you don't dispute that this transmission line is
18 important and valuable, do you?

19 A. Well, the basis for the adjustment is the miss-match
20 between the costs of the line and the benefits included in the
21 test year. We have 100 percent of the cost but zero percent of
22 the benefits.

23 Q. In fact, in testimony you filed in Idaho after you
24 filed your rebuttal testimony in this case, you stated that,
25 quote, "Transmission capacity in the region is limited and it

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1 is hard to imagine that this important link has no value."

2 Do you recall that testimony?

3 A. I do.

4 Q. You don't dispute historically that the DC intertie
5 has been a pretty valuable resource to the company, correct?

6 A. I believe that also came up in my Cross-Examination in
7 Idaho.

8 I guess the point I would make, originally the
9 transaction was tied to providing service to a particular
10 contract. That contract terminated quite some time ago. So,
11 it would seem to me that the prudent approach would be to
12 evaluate whether or not an expenditure of close to \$5,000,000 a
13 year needed to be continued or not. One would look at ways in
14 order to see if there were ways to modify the contract,
15 renegotiate it or escape from it. We put in discovery on that
16 asking if the company had done so and the company said it
17 couldn't produce any documents that indicated it had done
18 anything of that sort.

19 Q. Following up on that issue around discovery, it's
20 true, isn't it, that the company has provided discovery to you
21 on the DC intertie expenses in all recent general rate cases
22 until at least the 2003 Washington general rate case?

23 A. I'm sure it's been included in the transmission cost.

24 Q. It's fair to say that in the 2006 general rate case
25 where all of these issues around the WCA were focused upon the

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1 parties conducted quite a comprehensive review of all the
2 transmission resources of the company to determine whether they
3 were used and useful to this jurisdiction, correct?

4 A. I'm not sure if it was nearly as comprehensive as the
5 review that we have subsequently conducted.

6 The other thing I'd point out is that the
7 circumstances in the 2006 case were much different. We were
8 using a test year that included a lot of historical data. In
9 this case we've got a tester that's projected far out into the
10 future. So, it's very probable that a lot of the actual
11 transactions that the DC intertie supported were part of that
12 test year in that case but they're not part of the test year in
13 this case, so there's a substantial difference.

14 Q. I want to ask you about that test year but first let
15 me verify that no party -- to your knowledge -- no party has
16 previously raised issues around the DC intertie in any of these
17 recent cases, including the 2006 case where the WCA method was
18 approved by the Commission.

19 MR. SANGER: Objection, Your Honor.

20 Which recent cases is Counsel referring to?

21 MS. MCDOWELL: I was going back to my question about
22 that we provided data requests to you on this issue from
23 2000 -- all recent cases from 2003 forward.

24 Q. So, since that time, from the 2003 cases forward, to
25 your knowledge, no parties has raised issues around the use and

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1 usefulness of the DC intertie, have they?

2 A. I'm not aware of any party raising that issue,
3 however, I would point out that it was not until the 2008 case
4 that we actually got the company to provide for each of the
5 contracts that are modeled in grid a linkage between the cost
6 of the contract and the transaction or the contract which it
7 applied and how it was modeled in grid and that sort of thing.
8 We found a great deal of information on that. If we just did
9 everything based on what we did in the 2006 case I think we'd
10 have a much different filing here.

11 Q. Can I turn your attention to another adjustment, this
12 is your arbitrage adjustments. Your testimony on that begins,
13 I believe, on page three.

14 A. Okay.

15 Q. Sorry. It's page six.

16 A. Okay.

17 Q. On lines nine through ten you indicate that this
18 adjustment is partially premised on the basis that this filing
19 uses a forecast period more advanced than any of the company's
20 cases.

21 Do you see that?

22 A. Yes.

23 Q. Now, power costs in this case are forecast for the
24 rate affected period, correct?

25 A. I believe it ends March of 2012. That should coincide

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1 with the rate affected period.

2 Q. You were a witness for ICNU and PacifiCorp's last
3 general rate case, the 09/02/05 case, correct?

4 A. I don't think anybody was a witness in that case,
5 other than the company.

6 Q. Well --

7 A. That case was settled.

8 Q. You spent time in that case and filed testimony in
9 support of the settlement, didn't you?

10 A. Well, I remember writing testimony regarding the
11 settlement but there was some dispute about whether the
12 testimony really addressed what it was supposed to and I
13 thought that we put in a different witness. I could be
14 confusing that with, yet, the 2008 case. I'd have to tell you,
15 I don't remember at this point. The testimony in support of
16 settlements are usually pretty perfunctory.

17 Q. But you did work on that case?

18 A. I absolutely worked on the case, I'm sure of that.

19 Q. I should have asked you that question, I guess.

20 It's true in that case the company used the rate
21 effective period for the test period, as well?

22 A. I don't recall that. I don't think it was as
23 advanced.

24 Q. Can you turn to Cross-Examination Exhibit RJF-17?

25 A. (Witness complies.)

0663

1 Okay.

2 Q. I'll represent it's Mr. Dalley's testimony from the
3 09/02/05 case.

4 A. Okay.

5 Q. And there at page 10 of the exhibit, beginning on
6 lines 14 going to 20, Mr. Dalley describes the test period in
7 the '09 case, and on lines 18 -- basically, it looks like
8 lines 17 through 18 -- indicates the test period was for the
9 rate effective period 12 months ending December of 2010.

10 Do you see that?

11 Are you with me?

12 A. I'm getting there.

13 Yes, I see that.

14 Q. It's the exact same forecast period as in this case,
15 correct?

16 A. Well, it's a different time period but it would have
17 been the rate affected period, yes.

18 Q. Now, back to your testimony at page nine, there you
19 argue that arbitrage's margin should be included because of the
20 net power costs modeling does not capture profitable short-term
21 firm transactions that may be made in the rate affected period.

22 Is that a fair summary of your testimony?

23 A. Yes.

24 Q. Can you turn to your next Cross-Examination exhibit in
25 sequence from the one we just looked at, RJF-18?

0664

1 A. (Witness complies.)

2 I have it.

3 Q. Can you turn to page 32 of that exhibit?

4 A. (Witness complies.)

5 I'm assuming you mean your numbering "32" --

6 Q. It is confusing.

7 I'm meaning the exhibit numbering.

8 A. Okay. The one that starts "Second, while it's

9 possible ..." --

10 Q. Yeah. I probably should have directed you to page 18

11 of that exhibit.

12 A. Okay.

13 Q. The page that has the heading "Short-Term Transaction

14 Modeling."

15 Do you see that?

16 A. Not on page 18.

17 Q. Excuse me. Page 30. I'm sorry.

18 A. I have that.

19 Q. In the 2006 case you proposed an adjustment

20 disallowing all short-term firm transactions, in part, because

21 the company's modeling did not capture profitable short-term

22 firm transactions that might be made in the rate affected

23 period; is that correct?

24 A. I'll have to take a look at this and just refresh my

25 memory.

0665

1 I think here the argument more had to do with the fact
2 that short-term firm transactions were not producing a benefit
3 and I argued that they weren't used and useful. The Commission
4 didn't agree so I haven't made that argument again.

5 Q. Can you turn to page 32 of that exhibit?

6 A. (Witness complies.)

7 Yes.

8 Q. And there, from lines one to six, you support this
9 adjustment on the basis that it would not be possible to
10 reflect all the short-term firm transactions in the test year
11 because of the trades that take place and the rate affected
12 period will not be reflected in the model.

13 Do you see that?

14 A. Yes. I see that.

15 Q. Your adjustment, in this case, really makes the same
16 argument about short-term firm transactions that you were
17 making in the 2006 case, correct?

18 A. I think the arguments were somewhat different. This
19 was one criticism I had of the method. But, the original
20 problem in the 2006 case, I think, was that the market had
21 moved against the company in the short-term firm trades that it
22 had made and, so, that was the reason why it was not producing
23 any benefits and it was a detriment. As I said, the Commission
24 didn't agree with the adjustment so I didn't make it.

25 Now, this aspect of the adjustment was true then and

0666

1 it's true now. The modeling that's done doesn't reflect some
2 of these arbitrage profits that could be made. I think that's
3 a valid basis for an adjustment and one which the Oregon
4 Commission, for example, has used.

5 Q. I'll ask you about that in a minute.

6 Just to tie this up: The Commission rejected your
7 adjustment in the 2006 case for the short-term transactions,
8 correct?

9 A. They did disagree with a different adjustment.

10 Q. You were just referring to the Oregon Order in support
11 of your arbitrage adjustment. Do you recall that?

12 A. That's right.

13 Q. On page 10 of your testimony you cite that Order.

14 A. Yes.

15 Q. Now, in that case it was the staff and not ICNU that
16 proposed that adjustment, correct?

17 A. I did not propose that adjustment, and the adjustment
18 that the Commission adopted was not actually one that the staff
19 proposed. It actually didn't accept the staff adjustment.
20 They fashioned their own adjustment based on an exhibit that
21 the company provided in the hearing.

22 Q. In fact, the language of the Commission Order which
23 you omitted from this citation actually states, "We do not
24 adopt staff's adjustment," correct?

25 A. That's correct.

0667

1 Q. And the adjustment that was adopted in this case was
2 less than five percent of the total adjustment proposed by the
3 staff in that case?

4 A. That's true. The staff adjustment was quite a bit
5 larger.

6 Q. So, now, the Oregon adjustment that was adopted
7 includes both trading and arbitrage transactions, correct?

8 A. That's correct.

9 Q. In this case, if you included the trading with the
10 arbitrage, it's true, isn't it, it would reduce the adjustment
11 by, approximately, one million on a WCA basis?

12 A. That sounds right.

13 Q. That adjustment is based on four years of historical
14 data, correct?

15 A. That's right.

16 Q. If the adjustment was based on just the most recent
17 year of historical data it would be much smaller, correct?

18 A. That's my recollection, yes. I think there's been a
19 downward trend through the recession and that sort of thing,
20 but one of the reasons for using four-year average is to
21 normalize out things that happen in a single year.

22 Q. I want to shift to one more of your adjustments, this
23 one is your combined cycle startup O and M adjustment. You
24 describe this at, I believe, page 14.

25 A. Yes.

0668

1 Q. On line seven through eight you say, "Because my
2 screens result in a much smaller number of startups than the
3 company screens there's also a change in the amount of
4 incremental startup fuel and fixed (non MPC) O and N expenses
5 included in the test year."

6 Do you see that?

7 A. Yes.

8 Q. And then you indicate that that fixed non-MPC O and M
9 is what comprises your adjustment 22; is that correct?

10 A. That's right.

11 Q. Now, can we agree that by the words "incremental" you
12 mean O and M costs related to the fact that the screening
13 adjustment to the grid model causes plants to cycle on and off
14 more often than they would without the adjustment?

15 A. The "incremental" means that when a unit is started up
16 there's some additional cost. We all agree there's a fuel cost
17 and there is, potentially, and O and M cost. The screening
18 adjustment, whether it's mine or the company's, produces a
19 certain number of starts. My screen adjustment produced fewer
20 starts than did the company's so I was trying to reflect that
21 savings in O and M based on the inputs that the company had
22 used in computing the screening adjustment and computing,
23 therefore, the number of starts.

24 Q. I take it that the premise of your adjustment 22 is to
25 identify and remove a portion of that incremental O and M that

0669

1 the company included in its filing in the first place?

2 A. Based on the testimony of Mr. Duvall, which was not at
3 all clear originally. The company indicated they did not
4 include any original adjustment for that, which was somewhat
5 different, I think, than what the company had done in other
6 cases. So I would agree that some of the adjustment -- and I
7 can provide the exact number but I think about half would be
8 removed to reflect that fact that the company didn't include
9 any such adjustment in the first place. Now, I think, however,
10 also to be fair, if we're not treating the incremental O and M
11 as a legitimate cost then it should be left out of the
12 screening calculation and I think at the end the screens would
13 be more efficient you could still end up having a lower net
14 power cost.

15 Q. Just to be clear, when you say "about half" are you
16 referring to adjustment 22?

17 A. That's right.

18 Q. Half of adjustment 22 or all of adjustment 22?

19 A. I think I calculated it once, and I can provide that,
20 but I believe it was around half.

21 Q. Let's go through that, then, because I want to ask you
22 about the testimony -- let's begin with the testimony of
23 Mr. Dalley in this case. That's RBD-1T. I'm assuming you
24 probably don't have that testimony with you so I'm happy to
25 hand you a copy of it.

0670

1 So, again, just because we're kind of switching gears
2 here, I'm referring to Mr. Dalley's Direct testimony, RBD-1T,
3 page four.

4 A. Page four?

5 Q. Yes.

6 A. Okay.

7 Q. And there at lines 15 through 17 Mr. Dalley testifies
8 that O and M expenses were developed using historical expense
9 levels for the 12 months ended December 31st, 2009, normalize
10 with restating and pro forma rate adjustments.

11 Do you see that?

12 A. Yes.

13 Q. Certainly the historical expense levels would not
14 include any of this incremental startup O and M, correct?

15 A. No. But as I normalized or restating performance
16 adjustments could have.

17 Q. Let's look at that, then. Those are stated from
18 pages ten through 12 of his testimony he goes through his tab
19 four which are his pro forma and restating adjustments to O and
20 M. So, basically, page 10, line eight, continuing on to page
21 12, he goes through adjustments in 4.1 through 4.8. There's no
22 adjustment that refers to incremental startup O and M, is
23 there?

24 A. I don't see any.

25 Q. Now, do you recall filing supplemental testimony in

0671

1 this proceeding in December of 2010?

2 A. I do.

3 Q. And there on page --

4 JUDGE CLARK: Do you have an exhibit number?

5 MS. MCDOWELL: I'm sorry.

6 RJF-10T.

7 JUDGE CLARK: Thank you.

8 THE WITNESS: I have it.

9 BY MS. MCDOWELL:

10 Q. Thank you.

11 And there on page one, lines 14 through 15 -- do you
12 have that?

13 A. Yes.

14 Q. -- there you say, "I introduce a new adjustment not
15 addressed by the company 4.9 related to a combined cycle plant
16 startup O and M pro forma adjustment."

17 Do you see that?

18 A. That's right.

19 Q. So, the affect of this, basically, was to take a
20 company's per-books data, which don't have this amount in it,
21 and then take them down further to remove what you believe was
22 the incremental startup O and M in this case. Isn't that
23 correct?

24 A. That's right. This was done -- I guess, perhaps you
25 were on the telephone call with -- we had several parties,

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1 including the Judge, and we had a very long discussion about
2 how to reformulate our testimony and that was what I ended up
3 doing in relation to that discussion. So, it was necessary to
4 come up with a new pro forma adjustment because I didn't --
5 originally we didn't put it into the right categories. This
6 was the only category that made sense.

7 Q. Can you turn to page two of RJF-11, which is the
8 exhibit that goes with your testimony?

9 A. Perhaps Mr. Sanger could provide it for me. I don't
10 have that.

11 Okay.

12 Q. Can you turn to page two of RJF-11, please?

13 A. I have it.

14 Q. So, the last column of that exhibit is a column
15 labeled "4.9."

16 Do you see that?

17 A. I see it.

18 Q. And then it says "combined cycle O and M adjustment."
19 And then it removes, basically, \$561,124.

20 Do you see that?

21 A. I do.

22 Q. That is the amount you're removing from the company's
23 per-books data for this O and M adjustment you're making; is
24 that right?

25 A. Well, I think in this case it's the amount I'm

0673

1 removing from the pro forma adjustments, but the affect is the
2 same.

3 Q. Well, the per-books data are the actual O and M
4 expenses. We just established that, correct?

5 A. That's correct.

6 Q. What you're doing is taking the actual per-books data
7 and then subtracting the amount for your startup adjustment,
8 correct?

9 A. Well, I think that's certainly the affect of it, yes.

10 Q. Isn't it true that adjustment 22 is incorrectly
11 backing out a cost that isn't in the test period data in the
12 first place?

13 A. As I indicated, I was unaware that that wasn't
14 included in the first place and so I agree with that.

15 MS. MCDOWELL: That's all I have.

16 Thank you.

17 JUDGE CLARK: Does that conclude your
18 Cross-Examination?

19 MS. MCDOWELL: It does. Thank you.

20 JUDGE CLARK: As I indicated earlier, we need to take
21 a lunch recess from 11:45 to 1:15.

22 We're at recess until 1:15.

23 (Lunch break.)

24 JUDGE CLARK: Back on the record.

25 When we recessed for lunch Mr. Falkenberg was on the

0674

1 stand, this had concluded Cross-Examination, and we are turning
2 to Commissioner inquiry.

3 Commissioner Jones.

4 COMMISSIONER JONES: Good afternoon.

5 THE WITNESS: Good afternoon.

6 COMMISSIONER JONES: First of all, could you turn to
7 RJF-6C again, what I call the "yellow diagram?"

8 THE WITNESS: Yes.

9 JUDGE CLARK: You're talking about page 16,
10 Commissioner Jones?

11 CHAIRMAN GOLTZ: Six C.

12 JUDGE CLARK: Thank you.

13 COMMISSIONER JONES: I would like to clarify. I think
14 there was an exchange on this before. I'd just like to clarify
15 my understanding of this diagram.

16 So, if in your adjustment you remove the Colstrip
17 Goshen transmission costs, your adjustment, does that remove
18 the generation from PACE, that is assigned to PACE, meaning the
19 eastern control area.

20 THE WITNESS: Right. I don't think I removed that
21 line. I'd have to check my work papers.

22 In other words, the idea was just to limit the flow
23 from the west side to the east side --

24 COMMISSIONER JONES: But you don't know for sure if
25 that removed --

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1 THE WITNESS: I'd have to check that. I could provide
2 that, if you'd like.

3 COMMISSIONER JONES: Could you also clarify that for
4 the IPC? You made a similar adjustment, as you said, for the
5 Idaho --

6 THE WITNESS: Right. The Idaho adjustment is somewhat
7 different. That's removed some of the cost of point-to-point
8 contract that goes in both directions.

9 COMMISSIONER JONES: Okay. Well, that would be
10 helpful if you could do that for the record.

11 THE WITNESS: Sure.

12 COMMISSIONER JONES: I had a more general question in
13 terms of your adjustments. You make how many adjustments to
14 power costs in your case before us? There were like 18 or 20.

15 THE WITNESS: Let me look it up.

16 Yeah. I actually got 20 adjustments and then there's
17 a placeholder for what's called a "balancing adjustment."
18 That's what you get when you combine all the other adjustments.

19 COMMISSIONER JONES: How many of these adjustments did
20 you run within the grid model and how many outside of the grid
21 model?

22 THE WITNESS: Okay. I can just go down the list. The
23 added sales margin is outside the model. Commitment logic
24 screen is in the model. East market sale, three and four,
25 outside the model. SCL state line is in the model. SMUD

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1 contract delivery is in the model. The transmission cost,
2 seven, eight and nine are outside the model but they're just in
3 addition of a fixed number of dollars to the model so it really
4 makes no difference if you put it in or out. Non-firm
5 transmission is in the model. Wind integration, number 11, was
6 in the model. Twelve through 15 are outside the model but the
7 company just added a fixed number of dollars, again, to the
8 test year for those items, so they're really outside model,
9 anyway. Planned outage schedule is in the model. Colstrip
10 outage is in the model. JD fuel adjustment is in the model.
11 Minimum loading duration is in the model. The forward price
12 curve updates were, basically, in the model adjustments the
13 company had made that I modified slightly.

14 COMMISSIONER JONES: Just to clarify: On the wind
15 integration adjustments, number 11, the modeling of intra-hour
16 wind integration is in the grid model, correct?

17 THE WITNESS: Correct.

18 COMMISSIONER JONES: But the inter or the other
19 adjustments, like the inter-hour wind adjustment, is outside of
20 the model?

21 THE WITNESS: Right. Those were all outside the
22 model, really, on the company's end, too. They added a line
23 item to the spreadsheet.

24 COMMISSIONER JONES: In general, is it better -- and
25 I'm asking this as a decision maker, just myself -- but is it

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1 better and more accurate to have an adjustment run within the
2 grid model or outside of the grid model? I think earlier you
3 said "if practicable, it's better to do it in grid," but then
4 you said something like "the end results for these outside grid
5 adjustments are roughly the same." You said something like
6 that, didn't you?

7 THE WITNESS: Certainly you want to run it through the
8 model when you can, as long as it -- in some adjustments, like
9 the transmission costs, all the grid does is, it takes a fixed
10 number of dollars and transmission costs from the input and
11 puts that line item on the output. From that sort of thing it
12 doesn't really matter. For some of the things where you're
13 trying to measure interactions between one type of thing and
14 another, it makes a lot more difference to do the model, like
15 the outage rates adjustments, for example, the model does that
16 perfectly well. It's far easier to do it in the model than
17 outside the model. It really depends on the nature of the
18 problem. In this particular case, really, adjustments three
19 and four, which are the ones, I think, the company was asking
20 about, could be done in the model or out of the model. I don't
21 have a feeling about it.

22 COMMISSIONER JONES: You have access to the grid
23 model, don't you? I understand it's web based and easily
24 accessible through the web.

25 THE WITNESS: Yes.

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1 COMMISSIONER JONES: How long would it take, depending
2 on a Commission decision, to run updates within the model and
3 outside of the model once we make a decision?

4 THE WITNESS: If you make a decision in terms of what
5 certain adjustments to adopt, let's say you did one, three,
6 five, seven or nine, whatever, it should be relatively quickly.
7 It should be easy for the company to do it fairly quickly
8 because at this point we already provided the company with all
9 of the work papers and all of the pertinent input changes to
10 grid that are necessary to do various adjustments. They should
11 be able to do it fairly quickly, and they've had the
12 opportunity through discovery and ask questions about how we do
13 various adjustments and they have done that. So, I believe
14 that they're in position to know how to implement all the
15 different adjustments and should be able to do so within, I
16 would think, a week.

17 COMMISSIONER JONES: Judge, that's all I have.

18 JUDGE CLARK: Thank you, Commissioner Jones.
19 Any inquiry, Commissioner Oshie?

20 COMMISSIONER OSHIE: No.

21 JUDGE CLARK: Chairman Goltz.

22 CHAIRMAN GOLTZ: Perhaps you covered this,
23 Mr. Falkenberg, but in the rebuttal by the company -- and I'm
24 looking at Exhibit GND-7 --

25 JUDGE CLARK: Do you have Mr. Duvall's testimony,

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1 Mr. Falkenberg?

2 THE WITNESS: I only have it in electronic form.

3 CHAIRMAN GOLTZ: He can have mine, actually.

4 GND-7 there is a summary of their rebuttal position on
5 it?

6 THE WITNESS: Yes.

7 CHAIRMAN GOLTZ: The line numbers, I think, are five,
8 six, seven, eight, nine. It starts with "Mid-Columbia
9 purchases."

10 THE WITNESS: Yes.

11 CHAIRMAN GOLTZ: And next, below that, those are
12 rebuttal positions by the company and I -- my question is, if
13 you're prepared to say: Which of those rebuttal companies do
14 you accept or oppose?

15 THE WITNESS: We've had some discussion with the
16 company about this on a couple of these items. I believe
17 that --

18 CHAIRMAN GOLTZ: It may be --

19 THE WITNESS: We sort of got an agreement on a few
20 items but I'm reluctant to talk about it at this point.

21 CHAIRMAN GOLTZ: It may be, then, that either on brief
22 or in response to a Bench request we would ask those questions
23 if we wanted to get them ahead of brief and we can get the
24 lawyers at this point.

25 MR. SANGER: Mr. Falkenberg could testify as to now,

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1 not mentioning any discussions we've had with the company since
2 they filed, but our position to date he could give you what our
3 position is on these. We had subsequent discussions which are
4 not in the record at this point. I would advise him not to
5 discuss those but he can discuss our position on these updates
6 as of prior to those discussions.

7 THE WITNESS: Okay. So, your question is starting
8 with adjustment 11 through 20 or starting with four through
9 nine?

10 CHAIRMAN GOLTZ: Five through nine.

11 THE WITNESS: Okay.

12 I don't have a problem with number five. We don't
13 agree with number six. The Idaho Power point-to-point
14 transmission rate, I don't agree with that.

15 CHAIRMAN GOLTZ: That's number seven?

16 THE WITNESS: That's right.

17 I don't have any objection to eight or nine.

18 CHAIRMAN GOLTZ: That's, basically, what I was asking
19 about.

20 And, then, finally, I think we got into this with
21 Commissioner Jones, he had asked you how long it would take, in
22 your view, the company, to re-run the model assuming a number
23 of adjustments, some yours, some staff's, some rebuttal,
24 changes by the company, and you said "about a week." My
25 question in response to that is: So, then, assuming that takes

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1 a week and they provide something, how long would it take you
2 to review that?

3 THE WITNESS: Yeah. I guess, to be clear, I think I
4 could do those calculations in a few days, but they have more
5 layers of approvals and things to go through, so it might take
6 them longer. I'm not saying they're less efficient but since I
7 know these adjustments I think --

8 CHAIRMAN GOLTZ: So they would run it and you would
9 review it?

10 THE WITNESS: Yes. I would say it would probably take
11 to review all of the things that they've done and make sure
12 we're in agreement with their calculations and their
13 implementation I think that's probably about three business
14 days.

15 CHAIRMAN GOLTZ: Thank you very much.

16 JUDGE CLARK: Mr. Sanger, any Redirect?

17 MR. SANGER: Yes, Your Honor.

18 REDIRECT EXAMINATION

19 BY MR. SANGER:

20 Q. Chairman Goltz just asked you a question about how
21 long it would take you to review the adjustments if the
22 Commission orders a decision in this case. When answering that
23 question pertaining to the adjustments that you had proposed in
24 this case, so you would be reviewing the adjustments if the
25 Commission adopts any of those adjustments, you're talking

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1 about a few days to do that?

2 A. Right. In other words, if the Commission Order said
3 "we want you to adopt following adjustments from ICNU," since I
4 already know what those items are it should be relatively quick
5 for me to see if I agree with the way the company did those
6 calculations.

7 Q. Would it take you a different period of time to review
8 and update or something of that matter?

9 A. It really depends on the scope of the update. If the
10 update is very broad in scope, such as what the company did
11 when they originally provided WUTC 143, which became later the
12 basis for their update, and I had to do fairly extensive
13 discovery on that and ask a lot of questions, and that was a
14 process that took quite awhile, and in that process we
15 discovered things like the Chehalis reserve that we didn't
16 believe belonged. Now, if it was a fairly narrow in scope
17 update where we were looking at, for example, just the forward
18 price curve then that's the kind of thing that would be a few
19 days.

20 Q. Thank you.

21 I have one further question regarding the
22 Cross-Examination of you by Ms. McDowell. She asked you some
23 questions about your proposed adjustment related to the added
24 sales margins.

25 Do you recollect that discussion?

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1 A. Yes, I do.

2 Q. Just to clarify the record, is your proposal in this
3 case the same as the staff proposal in the Oregon proceeding
4 that she referred to?

5 A. No. It's not what the ordinance staff proposed. The
6 arbitrage portion of it is the same as what the Oregon
7 Commission adopted.

8 MR. SANGER: Thank you.

9 No further questions.

10 JUDGE CLARK: Thank you, Mr. Falkenberg.

11 Before I can ask if you can be excused I need you to
12 give me back GND-7.

13 Thank you.

14 Is there any objection to this witness being excused?

15 Hearing none, you're excused, Mr. Falkenberg. Thank
16 you for your testimony.

17 I believe we agreed at the conclusion of yesterday's
18 hearing that we would turn next to Wal-Mart presentation of
19 their case.

20 Mr. Butler, call your next witness.

21 MR. BUTLER: Wal-Mart calls Steve Chriss.

22 STEVE CHRISS, having been duly sworn to tell the
23 truth, the whole truth and nothing but the truth, testified on
24 his oath as follows:

25 JUDGE CLARK: Thank you. Please be seated.

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1 State your full name for the record, please, and spell
2 your last.

3 THE WITNESS: Steve W. Chriss C-H-R-I-S-S.

4 JUDGE CLARK: Thank you, Mr. Chriss.

5 Mr. Butler.

6 DIRECT EXAMINATION

7 BY MR. BUTLER:

8 Q. Mr. Chriss, do you have any changes or corrections to
9 the pre-filed testimony on exhibits in this case?

10 A. I do not.

11 MR. BUTLER: Mr. Chriss is available for
12 Cross-Examination.

13 JUDGE CLARK: Thank you. I think we only have one
14 entity who indicated Cross.

15 Is that correct, Ms. Shifley?

16 MS. SHIFLEY: That's correct.

17 CROSS EXAMINATION

18 BY MS. SHIFLEY:

19 Q. Good afternoon, Mr. Chriss. I anticipate this will be
20 rather brief.

21 You are the only witness for Wal-Mart in this case,
22 correct?

23 A. That is correct.

24 Q. Your testimony, your pre-filed testimony, addresses
25 only revenue allocation and rate design for a single class; is

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1 that correct?

2 A. That is correct.

3 Q. Wal-Mart is not proposing any adjustments on the rate
4 of return in this case?

5 A. No.

6 Q. Or on power costs?

7 A. No.

8 Q. Or on operating maintenance, administrative or general
9 costs?

10 A. No.

11 Q. Just to clarify, your revenue allocation proposal
12 would have the affect of shifting more of a rate increase on
13 residential customers than what the company originally
14 proposed; is that correct?

15 A. The proposal -- at the company's revenue requirement
16 from their initial case it would do that. The number is,
17 actually, fairly small.

18 Q. Thank you.

19 The testimony that you filed in this case responds to
20 the revenue allocation proposal made by Mr. Griffith in his
21 initial Direct testimony, correct?

22 A. Yes, it does. If you look on page six I explain that
23 my concern with the across-the-board average increase is that
24 for schedules 24, 36 and 40, from a cost of service
25 perspective, in that rates should reflect the cost that the

0686

1 company incurs to serve those customers. Actually, it's across
2 the board and above the system average. I apologize. It's a
3 step backwards because you're taking customer classes that are
4 already paying rates above the cost to serve and you're taking
5 dollars that are taken off of lighting and moving them onto
6 those classes, so you're making the revenue responsibility
7 greater for customers who are already paying more than their
8 revenue responsibility.

9 Q. Thank you. I think most of these questions would
10 require a "Yes" or "No" answer.

11 Did you file any Cross answering testimony in this
12 case?

13 A. I did not.

14 Q. You have not addressed the most recent rates for
15 proposal of the company?

16 A. I have not.

17 Q. Nor does your recommendation take into consideration
18 any of the other adjustments proposed and the response
19 testimony of other parties or the rebuttal testimony of the
20 company; is that correct?

21 A. That's correct.

22 Q. I'm assuming that you've had a chance to, generally,
23 review the other parties' testimony in this case?

24 A. I have.

25 Q. So you'd be aware that ICU offer the testimony of

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1 Mr. Nachbar which specifically addresses the impact of the
2 company's requested rate increase on Boise Cascade in light of
3 the financial pressures facing the company?

4 A. I don't have it in front of me so I can't speak to it.

5 Q. You're aware the testimony of Mr. Nachbar is offered?

6 A. I understand that he was a witness in this docket but
7 I don't recall, specifically, what his testimony was about.

8 Q. In your testimony did you offer any evidence regarding
9 Wal-Mart's financial health?

10 A. I did not, but I don't believe that parties standing
11 to be able to address issues in a case in whether rates are
12 just and reasonable depends on the position of their financial
13 health.

14 Q. So, in your testimony you didn't mention the
15 Wal-Mart's overall earnings and income have continued to
16 increase --

17 MR. TROTTER: Objection. I want to preserve your
18 earlier ruling striking the exhibit. I think it's fair to say
19 that Wal-Mart does not. Might, perhaps, some other witnesses
20 they have not interjected this issue into the case.

21 MS. SHIFLEY: I'll withdraw the question, Your Honor.

22 I have no further questions for you. Thank you.

23 JUDGE CLARK: All right. Let's see if any
24 Commissioners have any inquiries for you, Mr. Chriss.

25 Commissioner Jones?

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1 COMMISSIONER JONES: No questions.

2 JUDGE CLARK: Commissioner Oshie?

3 COMMISSIONER OSHIE: Yes. Thank you.

4 Mr. Chriss, what schedule is Wal-Mart taking service
5 under?

6 THE WITNESS: We take service under three schedules,
7 actually. The primary schedule under which we take service is
8 rate 36. We also have load on rate 24 and we also have one
9 facility on schedule 48.

10 COMMISSIONER OSHIE: You're familiar with Ms. Novak's
11 testimony on the cost of service?

12 THE WITNESS: I don't recall it specifically but if
13 you have something --

14 COMMISSIONER OSHIE: Well, it's a little bit unclear
15 to me. I can ask her. But it explains here -- it's in
16 confidential testimony -- but, basically, it says that the
17 company explains that there's -- I would characterize it this
18 way -- great diversity within the commercial class which leads
19 to a difficult time producing a coefficient that would properly
20 allocate cost. I don't, based on the testimony, I'm not sure
21 her testimony, I'm not sure what class that is, but the
22 commercial class, and, so, perhaps you can enlighten a bit. My
23 question, really, is: Do you agree with her?

24 THE WITNESS: I guess I'd ask for the specific
25 statement. If you can provide that piece of testimony it would

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1 be easier to respond to.

2 COMMISSIONER OSHIE: It's the testimony of Ms. Novak.
3 That's VN-1TC. I don't know if your counsel has it.

4 It's her testimony, page ten.

5 JUDGE CLARK: The record should reflect that we
6 provided Mr. Chriss with a copy of this document just in case
7 he's not familiar with our rules. If the document is on yellow
8 paper that means it's confidential and any information that is
9 highlighted on that page is something that you cannot disclose
10 in an open hearing. You have to answer more generally.

11 COMMISSIONER OSHIE: This is with regard to
12 temperature normalization.

13 THE WITNESS: Are you referring to line -- basically,
14 starting on line five?

15 COMMISSIONER OSHIE: I'm beginning from line three
16 down through line eight, ending at "temperature." Period.
17 Actually, all the way to eight to nine. It's just a short
18 little sentence.

19 THE WITNESS: I think, speaking very generally, and
20 from my experience, the commercial class is very -- there's a
21 lot of variety amongst the customers. Just look at Wal-Mart,
22 specifically, depending on what state we're in or under what
23 utility we could have rates that people would say, "Well, those
24 are commercial rates." We could have rates that are industrial
25 rates. We take service on secondary. We take service on

0690

1 primary and some jurisdictions we even have stores hooked up to
2 the sub-transmission system. So, there is a lot of variety.
3 It does present a challenge. But I'm not familiar enough with
4 her analysis to speak directly to how it would impact her
5 numbers.

6 COMMISSIONER OSHIE: Or really to her conclusion,
7 then, that she states there.

8 THE WITNESS: Correct. I will agree that there are a
9 variety of characteristics among the class or within the class.

10 COMMISSIONER OSHIE: Thank you.

11 JUDGE CLARK: Chairman Goltz.

12 CHAIRMAN GOLTZ: No questions.

13 JUDGE CLARK: Again, Redirect?

14 MR. BUTLER: Yes.

15 REDIRECT EXAMINATION

16 BY MR. BUTLER:

17 Q. Mr. Chriss, in your testimony did you address or did
18 you provide any analysis of the PacifiCorp cost study in this
19 case?

20 A. I did not. If you look on page four, line 13, that
21 Q and A, that essentially says we accept the cost of service
22 model for the purpose of this docket.

23 Q. You were asked a question by Ms. Shifley about your
24 testimony and recommendation relative to the proposals in the
25 rebuttal testimony of the company or responsive testimony of

0691

1 the staff. Could you summarize, again, what your
2 recommendation was with respect to rates per inter-rate design?

3 A. My recommendation begins on page six, line 12. And,
4 again, this is the recommendation at the revenue requirement
5 that's initially proposed by PacifiCorp, and what I recommended
6 was to implement their increases to lighting and rate schedule
7 47 as proposed for rate schedules 24, 36 and 40, set those at
8 the jurisdictional average, and then for the classes that
9 currently pay costs that currently pay rates that are less than
10 the cost incurred to provide service, allocate those extra
11 dollars to those classes. It's a fairly small amount of money.
12 The key principle behind the recommendation is that rates
13 should be set in a way that they reflect cost of service and to
14 say that the Commission should determine that it's important to
15 them that this principle be followed in rate making.

16 The second part of the recommendation is that if the
17 revenue requirement goes down staff's proposal and PacifiCorp
18 revenue requirements are both lower than the initial determined
19 to what extent rates could be moved because there's more room
20 to work with. And, so, both staff and the company have both
21 provided rebuttal allocations that reflect that, the revenue
22 requirements have gone down, and taken the opportunity to move
23 rates closer to cost of service.

24 Q. Are the recommendations of the staff and the company
25 consistent with the second part of your recommendation?

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1 A. They are.

2 MR. BUTLER: Thank you.

3 No further questions.

4 JUDGE CLARK: Thank you for your testimony,

5 Mr. Chriss.

6 Is there any objection to this witness being excused?

7 Hearing none, you're excused. Thank you, Mr. Chriss.

8 I believe that concludes Wal-Mart's case.

9 Thank you.

10 Mr. Trotter, we would turn next to presentation of the
11 remaining staff witnesses. I want to thank you again for
12 allowing interruption of the presentation of your case
13 yesterday.

14 MR. TROTTER: Yes, Your Honor.

15 Our next witness is Mr. Elgin.

16 JUDGE CLARK: Mr. Trotter, were you going to report on
17 a procedural matter?

18 MR. TROTTER: Yes. This was, I think, suggestion from
19 the Bench that the parties discuss compliance filing issues and
20 I'll recite what I think we came up with and other parties can
21 chime in when I'm done.

22 The agreement has a few parts to it. First part is
23 that the parties would ask the Commission to ask a Bench
24 request to PacifiCorp. The request would have PacifiCorp use
25 the December 1st, 2010, electric and gas price curves to

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1 restate the net power costs in the company's rebuttal case.
2 That company would include supporting work papers and it would
3 respond by Friday, February 4th, 2011, a week after tomorrow,
4 whatever that day is.

5 The company would use that data for its compliance
6 filing subject to a couple of considerations; One, being
7 adjustments made by the Commission in its Order; and, two,
8 subject to the rights of the party to contest the compliance
9 filing, including arguing there should be no update.

10 Some further elements, the company agrees to be
11 available to parties to informally work through issues
12 regarding its Bench request response and related issues. The
13 parties recognize the Commission is the one that determines
14 whether the compliance filing is in compliance with the Order.
15 Finally, the parties agree to continue to discuss these issues
16 in a time which could result in a different process in the next
17 case. What I just said was intended to convey a process. It
18 wasn't necessarily to convey a particular result.

19 That's what I have and I'll let other parties comment.

20 MS. MCDOWELL: I understand from my clients that
21 Mr. Trotter's summary of the agreement, at least from
22 PacifiCorp's perspective, is accurate. Thank you.

23 CHAIRMAN GOLTZ: It might be useful -- assuming that
24 everyone agrees with that -- it might be useful so we don't
25 have to -- I assume the Bench request would have to go out

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1 pretty soon -- so it might be useful to have that typed up and
2 submitted or even e-mailed in just so we don't have to wait for
3 the transcript so we have everything.

4 MR. TROTTER: That's fine. I can supply the language.

5 JUDGE CLARK: That would be helpful, Mr. Trotter.

6 Does the Commissioners have any questions on the
7 process outlined by Mr. Trotter?

8 CHAIRMAN GOLTZ: I gathered, so that means, basically,
9 the forward price curve would be December 31st?

10 MR. TROTTER: If one is to be used it would be that
11 one.

12 CHAIRMAN GOLTZ: Other parties would reserve the right
13 to argue that that should not be used but you reserve the right
14 to?

15 MR. TROTTER: I think there's a general consensus that
16 if there's going to be an update that that's the price curve to
17 use, but some parties said that they want to reserve the
18 right --

19 COMMISSIONER GOLTZ: So that information would be
20 supplied by Friday, February 4th, then, in the briefs, which
21 presumably, after Friday, the 4th, parties may object at that
22 point?

23 MR. TROTTER: I'm not sure at what point parties would
24 object. I think the idea was we would get the compliance
25 filing and there would be time to review it and, therefore,

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1 when the compliance filing comes in people will be up to speed
2 on the general format of what they're expected to see and it
3 might expedite the review process. I don't think it might
4 necessarily be a briefing matter.

5 JUDGE CLARK: Thank you, Mr. Trotter.

6 MR. SANGER: I would like to say that I agree with the
7 process as Mr. Trotter has outlined that ICNU will likely, in
8 its brief, address the issue as to whether or not an update
9 should be allowed and how that would occur. We do support the
10 process and PacifiCorp providing the information.

11 JUDGE CLARK: Does anyone object to the process?

12 Then we'll move forward with the presentation of
13 staff's case.

14 Mr. Trotter has already called his first witness.

15 KENNETH ELGIN, having been duly sworn to tell the
16 truth, the whole truth and nothing but the truth, testified on
17 his oath as follows:

18 JUDGE CLARK: Please be seated.

19 Please state your full name for the record and spell
20 your last.

21 THE WITNESS: Kenneth Elgin, E-L-G-I-N.

22 JUDGE CLARK: Thank you.

23 Mr. Trotter.

24 MR. TROTTER: Thank you, Your Honor.

25 ///

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DIRECT EXAMINATION

1

2 BY MR. TROTTER:

3 Q. Mr. Elgin, do you have any corrections to make to your
4 testimony?

5 A. Yes. Page 36.

6 Q. This is your Direct?

7 A. Yes. Exhibit KLE-1T.

8 Q. Page 36?

9 A. Yes.

10 JUDGE CLARK: If you can give us just a minute,
11 Mr. Trotter.

12 I think we're there now. Thank you.

13 THE WITNESS: On line eight, after the word "shows"
14 strike the word "the" and insert "observations by."

15 On line nine, strike the three words "is in the" and
16 substitute the word "of."

17 Again, on line nine, strike the word "range."

18 The sentence on page 36, lines eight and nine, would
19 now read, "For my proxy group the data and Dr. Hadaway's
20 exhibit shows observations by value line earnings growth
21 estimates of seven to eight percent."

22 Q. Is that it?

23 A. Yes.

24 MR. TROTTER: Thank you, Your Honor. Mr. Elgin is
25 available for Cross.

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1 JUDGE CLARK: All right. I believe the only party
2 indicating Cross for Mr. Elgin is PacifiCorp.

3 I'll call on you, Ms. McDowell.

4 MS. MCDOWELL: Thank you, Judge Clark.

5 CROSS EXAMINATION

6 BY MS. MCDOWELL:

7 Good afternoon, Mr. Elgin.

8 A. Good afternoon.

9 Q. Mr. Elgin, your current position, which you state on
10 KLE-2, is the senior financial analyst for the Commission; is
11 that correct?

12 A. Yes.

13 Q. In that position I assume you're familiar with recent
14 cost of capital decisions by the Washington Commission?

15 A. Yes.

16 Q. So the most recent case in which cost of capital was
17 fully litigated and decided involved Puget Sound Energy,
18 Docket UE-090704.

19 Are you familiar with that case?

20 A. Yes.

21 Q. And the Commission in that case set a return on equity
22 of ten point one percent. Does that sound right?

23 A. Correct.

24 Q. That was in a decision dated April 2nd, 2010.

25 Does that sound right?

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1 A. Yes.

2 Q. Mr. Parcell filed testimony for staff in that case,
3 correct?

4 A. Yes.

5 Q. Mr. Parcell's recommendation for an ROE in that case
6 was 10 percent, correct?

7 A. Yes.

8 Q. That's 50 basis points higher than your recommendation
9 for PacifiCorp in this case, correct?

10 A. Yes.

11 Q. Now, Mr. Parcell, if you could turn to your Cross
12 exhibit KLE-5, please.

13 A. (Witness complies.)

14 I have that.

15 Q. Mr. Parcell filed that testimony recommending a
16 10 percent ROE for Puget on November 17th, 2009.

17 Do you see that?

18 A. Yes.

19 Q. The most recent interest rates available to
20 Mr. Parcell for that testimony would have been, roughly,
21 September, October, 2009, correct?

22 A. I don't recall, specifically. I could accept that
23 subject to check.

24 Q. Do you have a copy of Mr. Hadaway's Direct testimony
25 with you?

0699

1 A. Yes, I do.

2 One moment please.

3 Q. SCH-1T.

4 A. Yes. I have that.

5 Q. Can you turn to page 21 of that testimony?

6 JUDGE CLARK: If you can give us just a minute.

7 All right. Thank you.

8 BY MS. MCDOWELL:

9 Q. Do you have page 21, Mr. Elgin?

10 A. Yes, I do.

11 Q. This is a long-term interest rate table for single --
12 among other things -- it shows single A utility interest rates.
13 Can you look at interest rate levels for those months we just
14 identified, September of 2009 and October of 2009?

15 Do you see those?

16 A. Yes.

17 Q. For September of 2009 the single A utility interest
18 rate was 5.53 percent.

19 Do you see that?

20 A. Yes. That's what's the exhibit shows.

21 Q. October of 2009, 5.55 percent.

22 Do you see that?

23 A. Yes.

24 Q. Does that comport with your general understanding of
25 where interest rates were during that period of time?

0700

1 A. Well, I don't know exactly how merchant -- if you note
2 on the bottom of the page this comes from the merchant bond
3 record. I don't know exactly how they do this and weight this
4 but this is, generally, my understanding of the average A-rated
5 bonds or long-term bonds. I believe it's at least 20-year
6 maturity. They're seasoned bonds, traded on a regular basis.
7 They're fairly liquid. I would, again, accept that those were
8 the general kind of costs that were available to a single A
9 rated utility at that time.

10 Q. Thank you.

11 Were you here yesterday when Mr. Gorman testified that
12 about current single A interest rates, at least current as of
13 December of 2010?

14 A. Yes.

15 Q. He identified that most recent rate, according to
16 Moody's, as 5.56 percent.

17 Do you recall that?

18 A. Yes.

19 Q. That's roughly the same interest rate level as
20 prevailed in September of 2009 and October of 2009, correct?

21 A. Yes.

22 Q. Can you turn to page 22 of your testimony? That's
23 KLE-1T.

24 A. One moment please.

25 I have that.

0701

1 Q. Now, on that page you identify your proxy group that
2 you use for purposes of determining PacifiCorp's cost of
3 capital, correct?

4 A. Yes, I do.

5 Q. On that page, at lines 18 through 20, you criticize
6 Dr. Hadaway's proxy group of 22 companies as simply too large
7 and too complex for an investor to consider in making a
8 rational investment decision. Do you see that?

9 A. Yes.

10 Q. I'd like you to turn back to Mr. Parcell's testimony,
11 KLE-5, please.

12 A. (Witness complies.)

13 Q. Can you please turn to page three and four of that
14 testimony, please?

15 A. You mean page three of the exhibit as marked in the
16 upper right-hand corner, ma'am?

17 Q. That's correct.

18 A. Yes. I have that.

19 Q. Mr. Parcell explains his proxy group -- do you see
20 there that he used both his own proxy group and then the
21 two proxy groups selected by Puget's cost of capital witness?

22 A. Yes.

23 Q. Now, are you familiar with Mr. Rothschild's testimony,
24 this goes back further in PacifiCorp's 2005 general rate case,
25 the last time cost of capital was set for PacifiCorp?

0702

1 A. Yes, I am.

2 Q. Are you aware that staff's expert, Mr. Rothschild, in
3 that case did accept Dr. Hadaway's proxy group for purposes of
4 determining cost of capital?

5 A. Yes, he did.

6 Q. Now, can you turn to pages 13 through 15 of KLE-5,
7 please?

8 A. (Witness complies.)

9 Q. This is Mr. Parcell's DCF analysis. Do you see that
10 portion of his analysis?

11 A. That would be a fair characterization. Its at the
12 top, it indicates it's one element of his determination of
13 growth rate in the DCF formula and it's a summary of its
14 comparison of companies for growth rates and retained earnings.

15 Q. So, I counted up the companies on this list and I
16 counted eight in the first group and I think it was 27 in the
17 second group and 21 in the third group for a total of
18 56 companies. Will you accept that count subject to check?

19 A. Yes, I will.

20 Q. So, just to be clear, Mr. Parcell, then, conducted DCF
21 analysis for a total of 56 companies by using these three proxy
22 groups; is that correct?

23 A. Yes, that's what he did. If you look at -- what the
24 exhibit also shows in the very top group of his primary proxy
25 group comprised seven companies. He has, in the middle of the

0703

1 page, the average S&P electric companies and then he has the
2 integrated companies and then he calculates, on the far
3 right-hand corner, averages for each of the groups, 3.4, 5.3
4 and 4.8. It also indicates that the numbers on that table, if
5 you average them, gets to a growth rate and retained earnings
6 of 4.5 percent, which is consistent with the result that my
7 estimate for the proxy group for growth. So, the numbers tend
8 to be the same.

9 For reference for the Commissioners, that number
10 appears in my Direct testimony on page 38. It's on line --
11 well, it's in a table but it's between lines four and five
12 where my estimate and retained growth and earnings for the DCF
13 is five percent. In other words, whether you use seven or 56,
14 it appears that the data is indicating the same number.

15 Q. Can you turn back to the excerpt of Mr. Parcell's
16 testimony? That's KLE-5 at pages seven to eight?

17 A. (Witness complies.)

18 I have that.

19 Q. At those pages Mr. Parcell presents his, I think he
20 refers to "raw DCF calculations" and that's at the bottom of
21 page seven, and then derives a DCF range on page eight.

22 Do you see that?

23 A. Yes.

24 Q. Mr. Parcell does not propose any adjustments to the
25 inputs or results of this calculation, does he?

0704

1 A. No. Mr. Parcell and I are different analysts and we
2 propose and do our DCF studies differently.

3 Q. Now, I'd like to follow up on that, because in
4 contrast to Mr. Parcell's approach, you made many adjustments
5 in the estimates of each of your dividend growth rates, right?

6 A. Yes, and I think good DCF analysis is precisely the
7 foundation of that requires informed judgment and an analysis
8 of the data and it's precisely what I did.

9 Q. Can you turn to page 30 of your testimony, please?
10 That's KLE-1T.

11 A. I have that.

12 Q. Now, the first dividend growth rate you looked at were
13 the value line figures, is that correct, the value line average
14 dividend growth?

15 A. What value line projects for dividend growth through
16 the period that it publishes in its data, that's correct.

17 Q. Thank you.

18 So, the data from value line indicated that the
19 dividend growth rate for your proxy group was 6.63 percent
20 there on line seven.

21 Do you see that?

22 A. Yes.

23 Q. You adjusted that growth rate down to 4.75 percent; is
24 that correct?

25 A. Well, that's a mischaracterization of what I did. As

0705

1 I explained in my testimony, two of the companies in the group
2 had recent change in the dividend policy. And, so, in the year
3 that they were reporting on how value line calculates the
4 dividend growth they do not account for a change in payout
5 ratio. And, so, what I did was look at the change in payout
6 ratio and adjust it to an expected growth rate more consistent
7 with what could be maintained in the long term. As I said in
8 my testimony, that, for example, was Wisconsin energy. If you
9 take what value line says you cannot have that kind of growth
10 rate sustained in the long term based on that one anomaly where
11 they increase their dividend in the prior period and the same
12 with Avista. I think it's a rational adjustment to the data
13 that makes perfect sense.

14 Q. Then just continuing on, your next growth rate you
15 reviewed was growth in book value and you did that analysis on
16 page 31, correct?

17 A. That's correct.

18 Q. There you adjusted the growth and book value upward
19 from 4.14 percent to 4.5 percent.

20 Do you see that?

21 A. Yes, I see that.

22 Q. The next growth rate you looked at is on the next
23 page, page 32.

24 Do you see that?

25 A. Yes.

0706

1 Q. There you went through your "b times r" analysis, and
2 there you removed three of the seven companies from your group
3 to derive your five percent.

4 A. That's not correct. That's not what I did.

5 Q. You did adjust your number to arrive at the
6 five percent result that you portray; is that correct?

7 A. Yes. As I explained in my testimony, for two of the
8 company's value line indicates an earned return on book equity
9 in the low sevens. I adjusted the earned return on book equity
10 up to 10 percent because under DCF theory, in the long run, you
11 cannot have poor sustained earned book returns without
12 affecting the market price of the stock.

13 In my judgment, if you turn back to page 31 -- excuse
14 me -- not 31. If you look at the BR rate you get a result that
15 is not rational under DCF. Either the stock price would have
16 to decline or the earned returns would have to go up.
17 Conversely, for DPL, which has indicated very high earned book
18 return of 28 percent, I, again, adjusted that to 10 percent.
19 So that, again, under DCF theory you have to have equilibrium.
20 If DPL would continue to have high earned returns on book
21 equity the stock price would, of course, rise which would
22 affect the yield. These are, again, rational adjustments that
23 are consistent with DCF theory to make the data consistent and
24 what are rational, in my mind, a rational investor would do
25 given those specific companies and evaluating the financial

0707

1 performance of them.

2 Q. So, then, moving on to the next growth rate you
3 reviewed on page 36 was the value line earnings growth
4 estimates. That takes us to the Q and A for which you had some
5 corrections earlier today.

6 Do you see that?

7 A. Yes.

8 Q. Those earning growth estimates were in the 7.8 percent
9 range and you rejected those as too high.

10 Do you see that?

11 A. Yes.

12 Q. So, then, the next thing on page 37 you reviewed,
13 beginning on line nine, earnings estimates from Zack's and
14 Thompson's -- do you see that -- in the 5.6 to six percent
15 range?

16 A. Yes.

17 Q. And you adjusted those to five point five percent on
18 line 19.

19 Do you see that?

20 A. Yes.

21 Q. So, then, finally, on page 38 you present a conclusion
22 table which has the results that we just have gone through
23 including that earnings per share number of 5.5 percent.

24 Do you see that?

25 A. Yes.

0708

1 Q. And then in your narrative conclusion you state a
2 range of growth in dividends of 4.5 to five percent.

3 Do you see that?

4 A. Yes.

5 Q. So, then, you removed completely the earnings per
6 share number of 5.5 percent from your range of growth rates,
7 correct?

8 A. No, that's not what I did.

9 Q. The range to five percent does not include your
10 5.5 percent earnings per share range, does it?

11 A. I considered it. I weighed it. As my testimony
12 indicates that I believe earnings estimates are there and
13 investors consider them, but for utility stocks and for
14 investors making rational investment decisions regarding long
15 term sustainable growth and dividends, they evaluate that data,
16 but, in my opinion, considerably more weight should be given to
17 growth in dividends per share and growth in book value and
18 growth in retained earnings and with less weight to the
19 dividends per share growth indicated figures on this table.
20 It's not that I excluded them, I just gave less weight to them.

21 Q. Can you turn back to Mr. Parcell's testimony and there
22 I want to take you to page KLE-5 at page 17.

23 A. (Witness complies.)

24 I have that.

25 Q. It's true that one similarity between your analysis

0709

1 and Mr. Parcell's is that you both present an analysis of
2 pre-taxed coverage ratios, correct?

3 A. Yes.

4 Q. Now, Mr. Parcell's exhibit does note at the bottom
5 there that Standard and Poor's no longer employs the pre-tax
6 coverage ratio as one of its qualitative ratio ratings
7 criteria.

8 Do you see that?

9 A. Yes.

10 Q. Mr. Parcell's exhibit further states that the above
11 cited S&P benchmark ratios reflect the 1999 criteria reported
12 by S&P, correct?

13 A. Yes.

14 Q. Your pre-tax coverage ratio analysis, is that KLE-1T,
15 your testimony as pages 16 through 18. Can you turn to that
16 please?

17 A. (Witness complies.)

18 I have that.

19 Q. Now, unlike Mr. Parcell, you didn't mention anywhere
20 the fact that Standard and Poor's has not relied upon this
21 financial metric for than than ten years, did you?

22 A. Again, I didn't do a financial S&P analysis. There
23 was no need, in my opinion, to do what S&P does for several
24 reasons. But, implicit in the calculations that S&P does, any
25 of the cash flow metrics that they rely on today the foundation

0710

1 for them is exactly operating margin or profit margin or
2 pre-tax interest coverage. It's the foundation for any cash
3 flow metric. The only difference between the two is that the
4 current analysis adds cash flow items from non-cash items,
5 particularly depreciation and for taxes.

6 In my opinion, and the way I do financial analysis, I
7 much prefer operating margin or pre-tax coverage because it's
8 amenable to sensitivity analysis because it deals with the
9 variability of the company's operating margin or profit margin
10 and that captures changes in revenues and changes in expenses.
11 It does not deal or capture any of the cash flow items that
12 arise from depreciation or defer taxes.

13 Q. Just to be clear, if the inquiry is whether a
14 particular cost of capital would support a particular credit
15 rating the pre-tax ratio analysis really would not be
16 applicable to that analysis, would it?

17 A. No. I don't think I have done a credit rating
18 analysis because you can do the coverages but there are so many
19 qualitative factors that S&P, Fitch and Moody's rely on, it's
20 not a transparent process. And, so, while it's an exercise
21 that one can do and it produces metrics, in my mind, I could do
22 it but I could still not, with any definitive abilities, tell
23 the Commission, "This will result in this or that sort of bond
24 rating." It's just not possible.

25 Q. Mr. Elgin, in your analysis you indicate that -- I

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1 think this is at the bottom of page 17, top of page 18 -- but
2 the test you use to measure the safety of the capital structure
3 is whether it meets or exceeds a two-times ratio and there you
4 say that would be a level that would be triggered if
5 PacifiCorp's return on equity fell significantly to four
6 percent.

7 Do you see that?

8 A. Yes.

9 Q. Let me just ask you about an exhibit we have for
10 another staff member. This is MDF-8.

11 I'll represent to you that that is Mr. Foisy's summary
12 sheet of his revenue requirement model.

13 Do you see that?

14 There's a line on there that's shaded that has an ROE
15 number.

16 A. I've not seen this before. I don't know --

17 Q. Let me ask you this: Would you accept, subject to
18 check with Mr. Foisy, that using staff's analysis PacifiCorp's
19 return on equity for the test period, including all the staff's
20 rate-making adjustments, is approximately 4.21 percent?

21 MR. TROTTER: I'll object to the question, Your Honor.
22 The question asked whether this included all of staff's
23 adjustments and it obviously does not include staff
24 recommendation for a substantial revenue increase with the
25 company, and this is also after all pro forma and restating

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1 adjustments, so, it has nothing to do with actual. I'll object
2 to the question. This isn't the quality of data that can
3 justify such a data and it's an incomplete question to begin
4 with.

5 JUDGE CLARK: Response?

6 MS. MCDOWELL: It's staff's data and it's staff's data
7 of the revenue requirements. It shows all of the staff
8 adjustments and has the resulting return and ROE on it and then
9 it is that exhibit that staff relies upon for their proposed
10 recommended increase in this case?

11 MR. TROTTER: It does not contain additional revenues
12 so it does not contain all the staff's adjustments.

13 MS. MCDOWELL: It's the current implied number for
14 which staff then says this particular revenue adjustment is
15 required because this is the implied ROE.

16 MR. TROTTER: It is what it is. What it is is the
17 restated pro forma results before ratings and the question is
18 meaningless. I'll object.

19 JUDGE CLARK: I'll sustain the objection. I don't
20 think this is going to render an inquiry that's going to be
21 helpful to the Commission.

22 MS. MCDOWELL: I'll move on.

23 Q. Now, do you recall in 2006 in PacifiCorp's general
24 rate case you submitted testimony proposing an adjustment to
25 PacifiCorp's cost of capital related to the adoption of power

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1 cost adjustment mechanism? Do you recall that?

2 A. Yes. I believe the company provided excerpts from
3 that testimony as a proposed Cross Examination exhibit. I
4 believe that's what it is.

5 Is that KLE-5?

6 Q. That's correct.

7 A. Excuse me. Dash --

8 Q. Dash four.

9 A. Dash four.

10 Q. Thank you.

11 Now, can you turn to page three of that exhibit?

12 A. (Witness complies.)

13 Q. Do you see there on line seven your recommendation to
14 adjust the company's common equity ratio from 46 percent to
15 42 percent based on the adoption of a power cost adjustment
16 mechanism?

17 A. Based on the adoption of staff's proposed mechanism,
18 that's correct.

19 Q. You also tested the reasonableness of that
20 recommendation using a pre-tax interest coverage ratio
21 analysis; is that correct?

22 A. Well, it's not the reasonableness. I used the pre-tax
23 coverage ratio to calculate the bands and the sharing mechanism
24 and how risk would be apportioned given, at least, my
25 understanding that the Commission's policy, at that time, was

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1 that the adoption of a PCAM mechanism required a cost of
2 capital offset. I was trying to, at that point, implement the
3 Commission's policy and use pre-tax interest coverage as a
4 means to apportion that risk given the revenue sharing of the
5 proposed PCAM mechanism. That's what I did.

6 Q. Can you turn to page 12 of that exhibit, KLE-4?

7 A. Yes. I have that.

8 Q. There you identify the benchmark that you, I think,
9 just explained and you stated it relates to the point where the
10 company's ability to access external sources of capital would
11 begin to be threatened under adverse power supply conditions
12 and a non-PCAM environment. I believe this point is when the
13 company's coverage ratio falls to 2.5 times.

14 Do you see that?

15 A. Yes.

16 MR. TROTTER: What page?

17 MS. MCDOWELL: Page 12 of KLE-4.

18 So, in this case you used a two times ratio and
19 indicated that the alarm would trigger at around four percent
20 ROE?

21 A. Yes. The staff recommendation at that time was when
22 the coverage fell to that point, it not only would the
23 mechanism trigger but there would be automatic rate relief at
24 that point. So, in my mind, when PCAM mechanisms just defer
25 power costs, that's not sufficient when you get to that sort of

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1 earnings levels. So, then when the results come in and their
2 adverse power conditions coverages approach, two, it was my
3 position that utilities would be entitled to rate relief at
4 that time, because, conversely, in comparing to non-PCAM
5 environment where, in my mind, the trigger for interim rate
6 relief under the Commission's interim rate standards, the
7 Pacific Northwest Bell case, the U-7230. You need to look at
8 the entire package that we proposed in relating to the specific
9 pretext coverage ratio analysis that I performed for the
10 Commission in that case.

11 Q. It's fair to say if you increased your alarm trigger
12 from two to 2.5 times you'd also be increasing the ROE point --
13 up from four to more like five to six, something in that range?

14 A. I have my entire testimony here. I think I calculated
15 where that would be. If you give me a moment, I'll give you
16 the figure.

17 Q. That would be great.

18 A. The implied return on equity at 2.5 times would be
19 6.77 percent.

20 Q. Thank you.

21 We talked previously about your proxy group and it's
22 true that you added Avista -- you basically selected certain of
23 Dr. Hadaway's proxy group companies and then added a Avista to
24 form your proxy group?

25 A. Yes.

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1 Q. You included them in your proxy group, I think,
2 because you said that Avista has strong similarities to
3 PacifiCorp.

4 A. I think they're a Washington company. They serve
5 eastern Washington. Primarily electric. They have some hydro
6 exposure. The economics in their territory are similar.
7 There's similar rates. There's many things that make them
8 similar.

9 Q. The most recent Commission decision on return of
10 equity involves Avista, correct?

11 A. The most recent contested case?

12 Q. The most recent decision. We talked about the most
13 recent contested case, which was the Puget case. The most
14 recent decision on cost of capital or return on equity involves
15 Avista, correct?

16 A. That there was a settlement, yes.

17 Q. That was approved in an Order of the Commission on
18 November 19, 2001, correct?

19 CHAIRMAN GOLTZ: 2010.

20 MS. MCDOWELL: I misspoke.

21 Q. It's UE-100467, approved November 19, 2010.

22 Does that sound better?

23 A. That sounds much better.

24 Q. So that decision adopted a stipulation setting ten
25 point --

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1 MR. TROTTER: I'm going to object. That stipulation
2 contains a provision that bars its use. It's precedent and now
3 it's being used as precedent. I'll object. I think the
4 Commission approved that provision as part of the overall
5 settlement.

6 JUDGE CLARK: Ms. McDowell.

7 MS. MCDOWELL: It's a Commission Order. I acknowledge
8 it's a settlement. I understand it's a settlement but it's a
9 Commission decision that's the most recent Commission decision
10 so return on equity in this state so I wanted to ask a question
11 or two about it.

12 JUDGE CLARK: I'll overrule the objection provided the
13 question is rephrased to clearly indicate that this is a
14 settlement stipulation.

15 BY MS. MCDOWELL:

16 Q. So, that decision adopted a settlement stipulation
17 which contained a 10.2 percent return on equity, correct?

18 A. Well, I wouldn't use the word "decision." I would say
19 that the Commission accepted the settlement stipulation and in
20 that settlement stipulation 10.2 was the ROE that the parties
21 agreed on and the Commission accepted that.

22 Q. The equity share that the parties proposed in their
23 stipulation, and which was accepted by the Commission, was
24 approximately 46.5 percent?

25 MR. TROTTER: I'll object.

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1 Can I have a continuing objection to this line of
2 questioning, Your Honor?

3 Just for clarification, if the company had used the
4 last settlement for PacifiCorp for this purpose I'd have the
5 same objection, and it would be equally inappropriate. Thank
6 you.

7 JUDGE CLARK: Thank you.

8 Ms. McDowell.

9 MS. MCDOWELL: It's the same objection and I have the
10 same response, I have clearly in talking about a settlement I'm
11 understanding the limitations of that but I think it's still a
12 relevant point to inquire about, in part, because it's a part
13 of Mr. Elgin's proxy group.

14 JUDGE CLARK: I'm going to allow the inquiry as long
15 as the inquiry is narrowly focused on the content of that
16 particular case and agreement.

17 BY MS. MCDOWELL:

18 Q. Do you want me to ask it again?

19 A. No. I have it, ma'am.

20 Yes. Forty-six point five percent was the equity
21 ratio embodied in the stipulation and accepted by the
22 Commission.

23 Q. Avista has an energy recovery mechanism, correct?

24 A. Yes, it does.

25 Q. Do you recall that PacifiCorp's proposed PCAM in its

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1 2006 case was generally modeled on Avista's energy recovery
2 mechanism?

3 A. I don't recall.

4 Q. Based on your testimony from the 2006 case I assume
5 your position here would be that Avista's equity in the capital
6 structure should be four percent less than PacifiCorp's because
7 Avista has an energy recovering mechanism and PacifiCorp does
8 not, correct?

9 A. No. That is not my testimony.

10 MS. MCDOWELL: That's all I have. Thank you.

11 JUDGE CLARK: All right. No other party indicated
12 Cross-Examination for Mr. Elgin.

13 I'll turn to Commissioner inquiry.

14 Commissioner Jones.

15 COMMISSIONER JONES: Are we going to have a break
16 pretty soon?

17 JUDGE CLARK: I would say we're going to have a break
18 right now for 15 minutes.

19 (Short break was taken in the proceedings.)

20 JUDGE CLARK: We're back on the record.

21 Commissioner Jones.

22 COMMISSIONER JONES: Thank you, Judge Clark.

23 I just have a few questions, Mr. Elgin. The first
24 regards the selection of the proxy group. I think it's
25 accurate to say that the two other capital witnesses,

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1 Mr. Gorman and Dr. Hadaway, used a proxy group consisting of
2 22 companies, correct?

3 THE WITNESS: Yes. They used the same proxy group.

4 COMMISSIONER JONES: And then you took that down to
5 how many companies?

6 THE WITNESS: Six.

7 COMMISSIONER JONES: And I think I read your testimony
8 and I understand some of the reasoning for specific fuel
9 sources or types of companies, but can you just go through that
10 reasoning again in terms of, in your opinion, does it
11 constitute a fair and statistically significant proxy group?

12 THE WITNESS: Well, first off, let me answer the last
13 part of your question first.

14 COMMISSIONER JONES: Sure.

15 THE WITNESS: I don't believe a statistical study to
16 the group is an appropriate analysis and, indeed, Dr. Hadaway
17 did not perform any statistical analysis either. So, we're
18 both consistent. It's just something that you can't do.
19 Having said that, down to the proxy group, in my mind, it's
20 much more important to capture a few companies and look at an
21 in-depth portrayal of the critical financial information and
22 look at that and then say, you know, as an investor between
23 competing investments of similar risk consistent -- like my
24 testimony describes -- consistent with the Hope and Bluefield
25 standard, it's an electric company fully integrated, no

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1 unregulated operations, low rates, geographically disbursed,
2 so, to me those are much more important, and look at what the
3 market and how these companies are performing financially and
4 the judgments about them. So, if I look at what Dr. Hadaway
5 did and look at analyst growth estimates and just do broad
6 averages, I'm not comfortable with that kind of DCF analysis.

7 I might add that, when I was given this new assignment
8 a little over a year ago when I went back and looked at the
9 legacy of the kinds of studies and things when we had a lot of
10 rate cases in the old days, it wasn't unusual to see proxy
11 groups of six and seven, maybe eight companies. In fact, for
12 telephone utilities, the old PNB cases, there are very few
13 comparable companies or some of the independent companies. If
14 you look back, DCF analysis using small proxy groups with the
15 kind of study that I performed in this case it's much more,
16 kind of, a throw back to that kind of analysis and the way
17 experts for the Commission in prior cases performed the
18 studies. That's what you have before you in my testimony.

19 COMMISSIONER JONES: You don't think both from a
20 common sense and statistical standpoint that 22 makes more
21 sense than six or seven?

22 THE WITNESS: No. In fact, Dr. Hadaway testified
23 yesterday, what he does is he just averages everything, so he
24 gets a broad group, but since you're doing averages it kind of
25 all gets in the wash. In my perspective it's much better to

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1 look at why you have an anomalous result, what's the rational
2 result of the data and then make a judgment about how to
3 assimilate that in terms of an investment decision.

4 COMMISSIONER JONES: You were in the room when I had
5 an exchange with Dr. Hadaway on the first day, were you not?

6 THE WITNESS: Yes, sir.

7 COMMISSIONER JONES: PacifiCorp is not a publicly
8 traded common equity, correct?

9 THE WITNESS: Correct.

10 COMMISSIONER JONES: It does haven't a price for its
11 equity in the public markets, correct?

12 THE WITNESS: No.

13 COMMISSIONER JONES: Doesn't it make sense to you that
14 when you're dealing with a company that's not publicly traded
15 that the proxy group should be larger rather than smaller?

16 THE WITNESS: No. It does not.

17 COMMISSIONER JONES: If that's your answer, I accept
18 it.

19 Just one more question on that: Avista is a BBB minus
20 rated company by S&P, correct?

21 THE WITNESS: Yes. It's corporate credit rating is
22 triple B minus.

23 COMMISSIONER JONES: I understand what you're saying,
24 it's in the northwest, it's predominantly electric. It does
25 have a significant gas portion to its operations, does it not?

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1 THE WITNESS: The customer-wise, yes, but for terms of
2 rate base and cost of service, it's still considered an
3 electric company, although it is classified for value line as a
4 combination company.

5 COMMISSIONER JONES: The corporate credit rating of
6 PacifiCorp is A minus, correct?

7 THE WITNESS: Yes.

8 COMMISSIONER JONES: Explain to me your reasoning on
9 adding Avista other than what you stated in your testimony
10 because it seems to me that adding a BBB minus one notch above
11 junk, just one notch above investment grade to an A-rated
12 company, that seems a little unusual to me.

13 THE WITNESS: Well, if you were comparing, again --
14 the first point I would make, Commissioner, that is for the
15 perspective of a fixed income investor. As Dr. Hadaway
16 testified yesterday, and I agree, is that for equity investors,
17 whether you're a triple B company or an A company, for cost of
18 equity purposes I don't think it really matters much because
19 investors look at the universe of an equity investment. There
20 is a difference, but in terms of the real impact in cost of
21 equity we both agree that it doesn't make much difference, and,
22 if anything, adding Avista because it's higher rated -- I mean,
23 excuse me -- because it's lower rated, would have higher cost
24 of equity. So in my mind those three factors seem to suggest
25 that. The salient features I discussed are much more important

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1 for an equity investor considering the similarity of Avista to
2 PacifiCorp in the proxy group selection.

3 COMMISSIONER JONES: Okay.

4 Next questions will be on the equity ratio and the
5 capital structure on pages 50, 51 of your testimony.

6 Your recommendation is 46 -- what is it again --
7 46 percent equity layer?

8 THE WITNESS: It's 46.5.

9 COMMISSIONER JONES: Did you hear the exchange with
10 Dr. Gorman yesterday where in response to a question of your
11 under 50 percent he added preferred stock to the equity ratio
12 49.1 and he added that in. Do you agree with that, first of
13 all, he got 49.4?

14 THE WITNESS: Yes. I didn't do that because the
15 preferred ratio is so small in my mind it's immaterial for
16 purposes of calculating the capital ratio. It's a legacy
17 security that's there. It's so small it has no material
18 impact.

19 COMMISSIONER JONES: And then the company is at
20 52.1 percent, correct?

21 THE WITNESS: Yes.

22 COMMISSIONER JONES: So you go on at pages 50 and 51
23 and, specifically, on 51, lines one through ten, you state
24 that, "It is the norm in the electric power industry today to
25 have a big cap 'X' budget, environmental compliance, every

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1 utility company is expending a lot of capital these days,"
2 correct?

3 THE WITNESS: Yes.

4 COMMISSIONER JONES: But then you go on to say your
5 recommended capital structure would be sufficient to achieve a
6 corporate rating of triple B.

7 THE WITNESS: What I'm saying is, these metrics that
8 I'm proposing meet the standards, the benchmarks and -- but,
9 again, as I said, the rating process is not transparent, so I'm
10 comfortable with the 46.5 because it meets those minimum triple
11 B standards and, prospectively, if the company were to be
12 capitalized like that, what S&P or Moody's or Fitch would do is
13 uncertain to me, but I would say that those are just the only
14 objective benchmarks that I have.

15 COMMISSIONER JONES: I know the ratings agency are
16 black box and you cannot control, the Commission certainly
17 cannot control what they do with their eventual decision, but
18 you appear to be saying here that with your capital structure
19 recommendation that it would produce a credit rating of BBB and
20 that would be adequate for PacifiCorp which would mean a
21 two-notch downgrade in its corporate credit rating, would it
22 not?

23 THE WITNESS: Well, yeah. I understand that my
24 testimony gives that impression. But one of the things that I
25 looked at, though, if you would turn to an exhibit of

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1 Mr. Williams. It would be BNW-23, sir.

2 COMMISSIONER JONES: Twenty-three?

3 THE WITNESS: Yes.

4 MR. TROTTER: Page number?

5 THE WITNESS: It would be page 10.

6 COMMISSIONER JONES: This a labeled, just for the
7 record, this is a first mortgage bond offering in the aggregate
8 principle amount of \$1,000,000,000, correct?

9 THE WITNESS: That is correct. This is the
10 prospectus.

11 So, in January of 2009 we had some discussion with Mr.
12 Williams about this financing at the height of the financial
13 crisis. This is their prospectus to sell the bonds. If you go
14 to page ten --

15 COMMISSIONER JONES: I'm there.

16 THE WITNESS: -- in the second paragraph it says
17 "capitalization" and it shows the capital structures of the
18 company, September 30th, 2008, the actual -- do you see that?

19 Q. Yes.

20 A. -- just to the right it says "as adjusted," which
21 sometimes we also call the "pro forma," in other words, if you
22 put \$1,000,000,000 of debt into the capital structure what do
23 the capital ratios do? And you'll see the common equity ratio
24 goes to 46.6 at the pro forma level after they issue this. So,
25 what this is telling me, is that while my testimony says these

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1 metrics support triple B, and I'm comfortable with that, it
2 also is telling me that Pacific issued \$1,000,000,000 at the
3 pro forma level, as soon as they sell it, this is what happens
4 to the equity ratio, Standard and Poor's did not put them on
5 credit watch, although they have said that their financial
6 profile is aggressive, and the thing is successfully priced,
7 it's sold. It seems to me that it's saying 46.6 is a solid
8 equity ratio for this company. This is as objective evidence
9 as you can get about the propriety of my recommendation, sir.

10 COMMISSIONER JONES: Thank you for that.

11 I'm looking for another S&P report. I can't find it.
12 Maybe the company could help me with the reference. It's an
13 S&P report.

14 THE WITNESS: I might be able to help you, too, if
15 have you a title.

16 COMMISSIONER JONES: It's one of their corporate
17 credit ratings, not the one dated October 7, 2010. That's
18 BNW-12. I think there are several corporate credit ratings in
19 Mr. Williams' testimony, is there not?

20 JUDGE CLARK: There's a February 17, 2010, in BNW --
21 Standard and Poor's rating, correct?

22 COMMISSIONER JONES: Yes.

23 JUDGE CLARK: It's BMW-3. Is that what you're looking
24 for, Commissioner?

25 COMMISSIONER JONES: No.

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1 I will not cite any specific reference.

2 Mr. Elgin, my question was, the S&P, I think, has
3 opined on the issue of its corporate credit rating and the
4 difference, and because of the fact that MidAmerican Holding
5 Company and Berkshire Hathaway stand above PacifiCorp that if
6 they just reviewed the financial metrics of PacifiCorp on a
7 standalone basis it might be a BBB -- could be a BBB -- but,
8 because of the financial strength of the parent companies, the
9 holding companies, that that is one of the factors they take
10 into consideration when they assign it an "A minus" rating.

11 Is that your understanding of what S&P is written
12 about the corporate organization?

13 THE WITNESS: Yes. What they're writing about is MEHC
14 and the fact that it wholly owns PacifiCorp. So the question
15 becomes, "Is there any collateral impact of the parents lower
16 rating down to the utility?" What they're asserting is that
17 Berkshire is standing with the equity commitment in the case of
18 an adverse situation that would cause MEHC to need additional
19 equity infusion because of the amount of leverage at MEHC at
20 the holding company level. What they're talking about is,
21 should there be any impacts from MEHC running into trouble and
22 that flowing down to PacifiCorp, the operating company. That's
23 my understanding of the analysis.

24 COMMISSIONER JONES: Do you dispute the fact that MEHC
25 has injected, approximately, \$990,000,000 of equity into

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1 PacifiCorp in the past three years?

2 THE WITNESS: No. That's precisely why the equity
3 ratio, the actual, has ballooned to 52.1 percent, is that there
4 is no, like a traditional publicly held company, no dividend
5 being paid and no new equity being issued and the traditional
6 kind of financing cycle that you would see with a publicly
7 traded company.

8 COMMISSIONER JONES: That's 46 percent number that you
9 just referred me to in that first mortgage bond venture
10 46 percent, that has been increased by subsequent equity
11 infusions from MEHC, correct?

12 THE WITNESS: Would you turn to an Exhibit for
13 Mr. Williams? To answer your question precisely, if you look
14 at the consolidated statements of cash flows --

15 MR. TROTTER: Can we have the exhibit number?

16 THE WITNESS: BMW-22.

17 COMMISSIONER JONES: Okay.

18 THE WITNESS: In 2009 -- this would not have it. So,
19 I do not have information of the equity infusions from the
20 parent for 2010 to PacifiCorp.

21 COMMISSIONER JONES: Did you have a chance to review,
22 I think, Dr. Hadaway and Dr. Gorman's testimony on the amount
23 of equity infusions in the past three years?

24 THE WITNESS: Yes.

25 COMMISSIONER JONES: It was \$990,000,000,000. My

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1 question is, do you agree with that or not?

2 THE WITNESS: Yes.

3 COMMISSIONER JONES: Would that impact the capital,
4 the equity ratio?

5 THE WITNESS: I understood your question to be, would
6 it impact the equity ratio as a result of the financing from
7 the prospectus we talked about, and that happened in 2009, and,
8 so, I would look it here and see that proceeds from equity
9 contributions in 2009 was \$125,000,000, so, to the extent that
10 would impact the equity ratio in that year in that calculation.

11 COMMISSIONER JONES: My question was: How would the
12 990 million of equity infusions from MEHC affect this same --
13 it would be listed on a same line item, proceeds from equity
14 contributions, correct?

15 THE WITNESS: Yes. And, so, if you look at
16 Exhibit BMW-22, it's 200,000,000 in 2007, 450, so that's 650
17 million and another 125, plus whatever to get you -- it's over
18 a period of time that 900 million. It's not just in any one
19 year, I think, is where I'm confused by your question.

20 COMMISSIONER JONES: Well, I'm sorry I'm confusing
21 you.

22 My question is: Is the actual equity ratio of
23 52.1 percent, have the equity infusions from MECH affected the
24 equity ratio that you quoted in the prospectus of 46 percent?

25 THE WITNESS: Yes.

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1 COMMISSIONER JONES: Has it had the consequence of
2 increasing that to 52 percent?

3 THE WITNESS: Yes.

4 COMMISSIONER JONES: That was my question.

5 THE WITNESS: I understand now.

6 COMMISSIONER JONES: My point is: I think you agreed
7 with the point as you stated earlier that depending on the
8 policy of MEHC and the parent company, the capital structure of
9 PacifiCorp can change.

10 THE WITNESS: Right. That's right. MEHC controls the
11 equity ratio through its equity infusions and its decision
12 regarding the dividend policy of the operating company.

13 COMMISSIONER JONES: I'll finish up with this line of
14 questioning with Mr. Gorman's testimony: Were you in the room
15 yesterday when we were discussing the equity, the capital
16 structure with Mr. Gorman and his recommendation of
17 49.1 percent?

18 THE WITNESS: Yes, I was.

19 COMMISSIONER JONES: He made adjustments, three or
20 four adjustments, the acquisition adjustment, short-term
21 investments, et cetera, he excluded about \$360,000,000 from the
22 equity of the capital structure. Correct?

23 THE WITNESS: That's correct.

24 COMMISSIONER JONES: Do you think those are reasonable
25 adjustments to make?

1 THE WITNESS: Well, it's one way to approach it. I
2 mean, his theory is that the excess cash that's in the business
3 and these investments that are not related to utility are
4 supported by equity and, so, he's saying, his position is
5 actual equity ratio that supports utility operations. So, with
6 that perspective that's how he calculated the actual equity
7 ratio. That is one way to adjust it, but, in my mind, it does
8 not go far enough with respect to properly capitalizing the
9 utility operations of this company. But that's what Mr. Gorman
10 did. I understand it. It's rational but he's, for all
11 intensive purposes, accepting the actual equity ratio of the
12 utility which I disagree with.

13 COMMISSIONER JONES: What you did for those short-term
14 investments and the excess cash that come in from the equity
15 infusion from the MEHC, what you did, as I understand it,
16 Mr. Elgin, is you impute a three percent short-term debt ratio
17 to the capital structure, I mean, that's approximating your
18 recommendation, but don't many of the earnings and the interest
19 earned from short-term investments go into that short-term debt
20 ratio that you recommend?

21 THE WITNESS: No. The short-term debt ratio that I
22 recommend should be capital used by the company to fund its
23 operations, for whatever reasons, including its construction
24 cycle and also be used to time when it goes to the market. So,
25 it's broader than that. It's not just using it for funding

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1 unregulated and non-utility operations, just having extra cash
2 on the books. My position is that that borrowing capacity
3 should be used for the benefit of customers and keeping the
4 cost of capital low, consistent with traditional modern
5 financial theory so that you use that short-term borrowing to
6 fund the operations, time your equity and time your debt
7 issuances and manage the capital structure accordingly.

8 COMMISSIONER JONES: But you're the only capital
9 witness who recommends including a short-term debt ratio in the
10 capital structure, correct?

11 THE WITNESS: Yes.

12 COMMISSIONER JONES: That's all I have. Thank you.

13 JUDGE CLARK: Commissioner Jones, were you looking for
14 the October 7, 2010, Moody's Report?

15 COMMISSIONER JONES: Standard and Poor's.

16 JUDGE CLARK: I think the Chairman has located that
17 for you. It's BMW-12.

18 COMMISSIONER JONES: That's fine. I think I finished
19 with my questions. Thank you.

20 JUDGE CLARK: All right.

21 Commissioner Oshie?

22 COMMISSIONER OSHIE: No questions.

23 JUDGE CLARK: Chairman Goltz?

24 CHAIRMAN GOLTZ: I have a short series of questions
25 referring to Exhibit KLE-7.

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1 THE WITNESS: I numbered mine wrong.

2 CHAIRMAN GOLTZ: This is the regulatory research
3 associates, regulatory focus, major rate case decisions,
4 calendar year 2010.

5 THE WITNESS: I have it.

6 CHAIRMAN GOLTZ: It has sort of a summary of ROE for
7 electric and gas utilities approved by commissions starting in
8 1999 and then by quarter from 2003 through 2010.

9 Do you have that?

10 THE WITNESS: Yes.

11 CHAIRMAN GOLTZ: I believe this was a Cross
12 Examination exhibit, in other words, this wasn't part -- you
13 did not reference this in your testimony, did you? This was a
14 Cross Examination exhibit.

15 THE WITNESS: Yes.

16 CHAIRMAN GOLTZ: My question, really, comes to, if we
17 were to accept your recollection of 9.5, or something close to
18 it, that would be 80 basis points below the mean of all the
19 decisions by other commissions, and I gather probably a couple
20 from our Commission in 2010. So, what do we make of that? Is
21 that evidence for us not accepting your adjustment or is there
22 some argument why that isn't evidence for rejecting your
23 adjustment?

24 THE WITNESS: Well, I mean, it is what it is. These
25 are the decisions and how they get to calculating the average.

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1 I would say this, since the past five, six years
2 there's been this kind of threshold about the number ten, a
3 double digit number for ROE. In my history I've seen those
4 thresholds over time there's this reluctance to look beyond,
5 and at some point I think ratepayers are entitled to the
6 benefits of these lower cost to capital that, at least -- you
7 have more than one witness telling you that the numbers below
8 is ten. I guess if the exercise were, what is the average --
9 and, quite frankly, I've struggled with this because the whole
10 Bluefield says commensurate return with commensurate risk and
11 when public utility Commissions seem to be reluctant to go
12 below ten. For example, if you look at that chart you have
13 second quarter of '09, 10.08.

14 CHAIRMAN GOLTZ: Must have been several below --

15 THE WITNESS: There must have been several below ten.

16 And then you also have in third quarter 2005, 10.06,
17 and second quarter, 10.05. And, so, my recommendation is that
18 in these past five, six years I think the cost of capital has
19 come down and, particularly, after the financial crisis and
20 with this steadying and, in my mind, the opportunity costs
21 which is -- you heard testimony about this in the PSE case. I
22 believe all shifts have dropped. My recollection to you is
23 that, based on the evidence, a strong order regarding your
24 findings about the growth and the dividend yields and these
25 economic circumstances, at some point some Commission will have

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1 to go there. And my recommendation to you is that this is the
2 time and these are the circumstances to make a finding that
3 nine-and-a-half truly is sufficient compensation for the equity
4 owners of PacifiCorp. That's how I would characterize it to
5 you.

6 CHAIRMAN GOLTZ: Thank you.

7 JUDGE CLARK: Redirect, Mr. Trotter?

8 MR. TROTTER: Thank you, Your Honor.

9 REDIRECT EXAMINATION

10 BY MR. TROTTER:

11 Q. I'd like to start with some topics that were addressed
12 to you by Commissioner Jones. He questioned you about your use
13 of Avista given that Avista has some gas operations. Did
14 Dr. Hadaway include a company called "Blackhills Corp." In his
15 sampler?

16 A. Yes, he did.

17 Q. Were you here when I cross-examined him?

18 A. Yes, I was.

19 Q. I asked him to accept, subject to check, whether
20 Blackhills serves 202,000 electric customers and 557,000 gas
21 customers. He accepted that subject to check. Can you accept
22 those figures based on your view of the value line reports?

23 A. I can do that right now.

24 In the value line report describing the Blackhills
25 Corporation business it says that specifically it's a holding

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1 company for utilities that serve 202,000 electric companies in
2 Colorado, South Dakota, Wyoming and Montana and 557,000 gas
3 customers in Nebraska, Iowa, Kansas, Colorado and Wyoming. The
4 basis is that is truly a distribution company and that was
5 included in Dr. Hataway's group of 22.

6 Q. At the beginning of your Cross-Examination by company
7 counsel you were asked about some data from Mr. Parcell's
8 testimony, some interest rates and rate of return information
9 comparing two periods. Do you recall that?

10 A. Yes, I do.

11 Q. Showed the Commission a sale of one-to-one
12 correspondence between changes in cost of debt and changes in
13 cost of equity.

14 A. No. While they move -- they are correlated. They
15 don't move in tandem. And, generally speaking, as my testimony
16 states, the cost of equity, the changes move much slower and
17 are much more stable over periods of time, so they don't move
18 in tandem. One cannot simply take a change in interest rates
19 and then infer a one-for-one change in the cost of equity.

20 Q. Or no change in --

21 A. Or no change, for that matter.

22 Q. You were asked questions from PSE Docket 090704 what
23 equity ratio did the Commission approve in that docket?

24 A. Forty-six percent.

25 Q. Did that capital structure approved by the Commission

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1 include short-term debt?

2 A. Yes.

3 Q. That was a litigated case, not a settlement, right?

4 A. That's correct.

5 Q. You were asked some questions about the proxy group,
6 company counsel. Would you turn to Exhibit KLE-5, the Parcell
7 testimony, page four of the exhibit?

8 A. (Witness complies.)

9 Q. Do you see on line two you say, quote, "It's my
10 intention that, by using both my own proxy group and
11 Dr. Morin's proxy groups, the proxy group selection does not
12 form a major controversy in the cost of equity estimation and
13 process."

14 Do you see that?

15 A. Yes.

16 Q. Then I'd like you to turn to KLE-6, Mr. Rothschild's
17 testimony.

18 A. (Witness complies.)

19 Q. Page three of the exhibit?

20 A. I have that.

21 Q. On line seven when asked about how he selected his
22 group you said, quote, "To reduce controversy, I used the same
23 group of 17 electric companies selected by company cost of
24 witness Dr. Hadaway."

25 Do you see that?

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1 A. Correct.

2 Q. I take it you are placing into controversy the proxy
3 selection group process?

4 A. Yes.

5 Q. Dr. Hadaway's testimony, he has a quote where he says,
6 quote, "Estimating the cost of equity is fundamentally a matter
7 of informed judgment," unquote.

8 Do you recall that?

9 A. Yes.

10 Q. Do you agree?

11 A. Yes, I do. In fact, throughout Dr. Hadaway's
12 testimony he uses judgment and applies selective criteria when
13 things he looks at and it does not meet his criteria and
14 judgment, he eliminates them. For example, we heard testimony
15 that he did not use cap M because it produces too low of
16 results and he discards it, that is a question of judgment.

17 Q. The judgments that you used with regard to calculating
18 the DCF return on equity for each of your proxy group
19 companies, did you provide all of the judgments you made in
20 your testimony?

21 A. Yes, I did. In fact, all the data I used were taken
22 directly from value line. The process is extremely
23 transparent. You can see precisely which data I used. I
24 explained precisely what my judgments were and the rationale
25 for them. They are designed to inform the Commission and give

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1 the Commission a good foundation for what significant financial
2 parameters go to making judgments about dividend yield and long
3 term growth under the DCF methodology.

4 Q. Dr. Hadaway took analysts' estimates for growth,
5 didn't he?

6 A. Yes.

7 Q. At least in part of his -- one of the three parts of
8 his analysis?

9 A. Yes. His constant growth DCF used exclusively analyst
10 results.

11 Q. That's fine.

12 Did he provide a basis for each of those analysts'
13 estimates in the same manner you provided the basis for your
14 estimate?

15 A. No, he did not.

16 Q. Would a rational investor take a dividend growth
17 estimate off of value line or some other analyst publication
18 without also examining the dividend policy of the company
19 underlying that dividend growth rate?

20 A. No, he would not. In fact, dividend policy is one of
21 the critical elements of an investor evaluating a common equity
22 in determining whether to make an investment decision or not.
23 So, a change in dividend policy would have a material affect on
24 his valuation of the stock.

25 Q. Did Dr. Hadaway adjust any of the analysts' growth

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1 rates for dividend payout policy of the company?

2 A. Dr. Hadaway did not consider it at all.

3 Q. You were asked a question in your testimony, I believe
4 there was -- I don't have the page -- but there was a growth
5 estimate from certain publications in the seven percent to
6 eight percent growth range which you rejected as too high. Do
7 you recall that question?

8 A. Yes, I do.

9 Q. What is Dr. Hadaway's growth rate?

10 A. The foundation for his DCF recommendation in the
11 multi-stage analysis is six percent and that's based on GDP
12 growth.

13 Q. Implicitly, Dr. Hadaway rejected a seven to
14 eight percent growth rate, too, didn't he?

15 A. Yes, he did. If you look at what the foundation for
16 ROE estimate and what drives his result from that multi-stage
17 model, that's correct.

18 Q. You were asked a number of questions about use of
19 pre-tax coverage data and you were cited to some testimony in
20 the prior case involving your design of a power-cost mechanism.
21 Are you aware of any objective evidence in the record that the
22 Commission should have taken into account in analyzing that
23 particular situation?

24 A. Well, I first pointed out to the prospectus but I
25 would also note that value line considers pre-tax interest

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1 coverage as the most critical financial metric for that service
2 and an evaluation of financial performance of a utility. So,
3 to the extent that our analysis and the foundation for ROE
4 estimate rely on value line data, it's there.

5 Q. When you mention the prospectus, that was your
6 discussion of BNW-23?

7 A. That's correct.

8 Q. You were asked a question from company counsel that
9 shouldn't Avista's ROE be four percent less because it has a
10 PCAM and you said "No."

11 Do you recall that?

12 A. Yes.

13 Q. Can you explain your answer?

14 A. Yes. The circumstance between when I prepared that
15 testimony in 2006 and now has changed. There's been
16 significant changes in the industry regarding the need for PCAM
17 and how they operate. One of the principle things is that the
18 legislature's passing of the statute that provides for deferred
19 cost recovery of certain qualifying resources, the statutory
20 reference is "8080," and, indeed, PacifiCorp was able to defer
21 the Chehalis generating station under that statute.

22 The second thing is that the PCA mechanism's now have
23 dead bands, and our experience with the deferral process under
24 those PCAM mechanisms is that there's very little deferring
25 going on outside of the bands, so, for all intensive purposes,

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1 the PCAM's are the [unintelligible] of Avista and PCA of PSE
2 are really there for emergency power situations. That's the
3 real benefit of them.

4 The third thing is that I have to look at what the
5 Commission said in that Order and it said it wanted a PCAM that
6 was symmetrical, so it didn't view a cost to capital reduction
7 was mandatory. So, a perfectly symmetrical on the plus and
8 minus side is what it wanted and its Order said it did not
9 necessarily infer that there was a risk reduction necessary for
10 that.

11 The final observation I would make, if you look at
12 this record and the recent discussion we had about updates, the
13 process of updating the record to get most recent information
14 is also a risk reducing mechanism. In this circumstance the
15 situation is changed dramatically, so whether my position would
16 change with respect to the need for an adjustment to the equity
17 ratio to offset, to compensate ratepayers for the fact that a
18 utility has a PCA PCAM or ERM mechanism.

19 Q. Are prudent companies currently managing certain risks
20 through hedging transactions?

21 A. Yes.

22 Q. And is PacifiCorp doing that?

23 A. I'm not as familiar with the hedging activities of
24 Pacific for their fuel supply. I don't know.

25 Q. For a company that does not have a PCAM but is able to

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1 take advantage of the greenhouse gas statute, hedging, updated
2 power supply costs and so on, but if they do have an
3 extraordinary adverse event that affects their ability to
4 operate, what options would a prudent utility take advantage
5 of?

6 A. In an adverse power situation without a PCAM I would
7 expect to see a deferred accounting petition. For Pacific I
8 would expect to see, also, similar deferred accounting
9 petitions or petitions for rate relief under -- there are
10 mechanisms they have in other jurisdictions, and we would
11 evaluate the merits. If the situation became extreme there is
12 the interim rate relief mechanism available to the company so
13 we provide error rates and then process a rate case, as well.

14 Q. Commissioner Jones asked you a question about the lack
15 of short-term debt component in the company's capital
16 structure.

17 Do you recall that?

18 A. Yes.

19 Q. Does the lack of a short-term debt layer in the
20 company's capital structure reduce its financial flexibility,
21 all other things equal?

22 A. If it did not have a credit arrangement, is your
23 question?

24 Q. Yes.

25 A. Yes. But, no prudent utility would not have lines of

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1 credit to manage its cash flow and cash balances and its needs
2 for external financing.

3 Q. And PacificCorp, in fact, has almost 1.5 billion in
4 short-term credit lines?

5 A. That's correct.

6 Q. It's not proposing to include any short-term debt in
7 the capital structure for eight million?

8 A. That's correct.

9 Q. Finally, with respect to Dr. Hadaway's group of
10 22 utilities, what was the range of ROE's he came up under his
11 constant growth analysis.

12 Do you recall that?

13 A. Yes. If the Commission would turn to SCH-6, the first
14 page of that exhibit. The first column is the list of the
15 22 companies and then the second column is Dr. Hadaway's
16 constant growth CDF model using exclusively analyst growth
17 rates. If you look at the DCF results it ranges almost
18 five percent, 500 basis points. So, the low of seven point
19 four for Anderson International to a high of 12.3 percent for
20 Wisconsin Energy. In my mind, this was the first indication
21 that, not only is analyst growth rates -- this is one of the
22 reasons why I don't use them -- and the second reason why, it
23 makes me wonder on its face whether or not this really is a
24 comparable set of companies. These results are just, in my
25 mind, simply too variable and not credible, and this is exactly

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1 why he had to then go to use the multi-stage and then get to
2 his six percent growth rate in GDP to get a more narrow range
3 of DCF results.

4 MR. TROTTE: I have nothing further. Thank you.

5 JUDGE CLARK: Thank you for your testimony, Mr. Elgin.

6 Is there any objection to this witness being excused?

7 Hearing none, you're excused.

8 We'll take this moment for the next witness to take
9 the stand.

10 We'll go off the record.

11 (Short break was taken in the proceedings.)

12 JUDGE CLARK: Back on the record.

13 Mr. Trotter, would you call your next witness.

14 MR. TROTTER: Ms. Kathryn Breda.

15 KATHRYN H. BREDA, having been duly sworn to tell the
16 truth, the whole truth and nothing but the truth, testified on
17 her oath as follows:

18 JUDGE CLARK: Please be seated and state your full
19 name for the record and spell your last.

20 THE WITNESS: Kathryn H. Breda, B-R-E-D-A.

21 JUDGE CLARK: Mr. Trotter.

22 MR. TROTTER: Yes, Your Honor. We tender the witness
23 for Cross.

24 JUDGE CLARK: All right. Ms. McDowell is the only
25 party indicating Cross Examination.

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1 MS. MCDOWELL: Thank you, Judge Clark.

2 CROSS EXAMINATION

3 BY MS. MCDOWELL:

4 Q. Good afternoon, Ms. Breda.

5 A. Hello.

6 Q. I wanted to ask you some questions about the
7 two adjustments you make in this case. Just to get clear on
8 what your general position is with respect to normalization,
9 can you turn to your, it would be your testimony, and I think
10 it was the latest comprehensive revision was December 6, 2010,
11 KHB-1T.

12 Do you have that?

13 A. I do.

14 Q. Can you turn to pages seven and eight, please?

15 A. (Witness complies.)

16 Okay.

17 Q. Now, there you indicate on page seven that your
18 interpretation of the Commission's policy on normalization is
19 that it uses flow-through accounting when lawful to do so.

20 Do you see that?

21 A. Correct.

22 Q. Turning to page eight there on line six you indicate
23 on case by case the Commission has authorized normalization and
24 specific instances.

25 Do you see that?

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1 A. That's correct.

2 Q. And there you provided three examples where the
3 Commission has authorized normalization. Is that right?

4 A. Just as examples, correct.

5 Q. And each of those cases, I take it, have specific
6 language talking about tax normalization; is that right?

7 A. Yes.

8 Q. Do you recall the staff response to PacifiCorp data
9 request 1.27 which has been --

10 A. Yes. I have that.

11 Q. It's included in Exhibit RF-9.

12 Do you see that?

13 A. Yes.

14 Q. There you provided, when asked in a data request to
15 provide a comprehensive list of the instances where the
16 Commission has authorized normalization you provide an
17 additional 14 examples.

18 Does that sound right?

19 A. Correct.

20 Q. I wanted to ask you about your proposed adjustment to
21 eliminate the company's proposal to fully normalize its book
22 tax differences in this case, so, I think that's described in
23 your supplemental testimony dated December 6, 2010.

24 Do you have that?

25 A. Yes, I do.

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1 MR. TROTTER: Is that KHB-5T.

2 MS. MCDOWELL: Yes. Thank you.

3 Q. Now, based on your supplemental testimony, and I think
4 if you turn to page five of that testimony, you talk about your
5 adjustment for removing full normalization from this case.

6 Do you see that?

7 A. I do.

8 Q. You refer to Mr. Foisy for the revenue requirement
9 impact of that adjustment but does it sound like -- will you
10 accept it's approximately 1.9 million, the impact of your
11 adjustment on revenue requirement?

12 A. That sounds approximately right. Actually, what this
13 is doing is it's removing those things that the company -- the
14 5.4 million represents the underlying tax timing book tax
15 differences for which are normalized in the books of PacifiCorp
16 which, to get back to flow through, are being removed. The
17 reason why it increases the revenue requirement is because
18 these items are related to primarily accrued liabilities and,
19 so, they have the affect of increasing the rate base. And
20 they're related to items like bad debt allowance, vacation
21 accrual, deferred comp, and all the detail of the list of those
22 items are in my Exhibit No. 6 which basically start from the
23 company's books which list those adjustments. What I'm doing
24 in my adjustment is removing that which the company is wishing
25 to put back. And, so, those have an impact of increasing the

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1 revenue requirement.

2 The other interesting thing about it is that they're
3 related to liabilities and those liabilities aren't even
4 reflected in the rate base there because their accrued
5 liabilities. I have a list. It's bad debt, injuries and
6 damages accrual, vacation accruals, bonus, Bridger Mine
7 liabilities, stock incentive plans, all those items that are
8 ongoing accruals and ongoing book tax differences because
9 they're not paid. They have to be expensed but they're not
10 paid so they're not recognized for tax purposes. So those
11 items the company is requesting to approve the accumulated
12 deferred income tax but the related liability is not directly
13 in the rate base. So there's a miss-match from that
14 standpoint. That is my adjustment. I'm putting those back in
15 to reflect flow through.

16 Q. Let me just make sure I'm following you here.

17 You agree that your proposal to eliminate
18 normalization does have a revenue requirement impact of,
19 approximately, 1.9 million, correct?

20 A. I'm not proposing to eliminate normalization. I'm
21 proposing to reflect the books on the Commission basis,
22 basically. I'm suggesting that the Commissioners reject the
23 company's proposal to move to full normalization for those
24 items that I was discussing.

25 Q. Just to be clear, the company's position is that

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1 removing full normalization from this case would increase
2 revenue requirement by, approximately, \$6,000.

3 Do you understand that?

4 A. They're not providing the full impact, because what
5 they're offsetting, they're saying the items -- what they're --
6 what Mr. Fuller is stating is that the items that he has listed
7 in his Exhibit No. 15 which reconcile the difference between
8 what I am saying is commission basis and what the company is
9 saying is commission basis are specific regulatory assets, the
10 primary asset being Chehalis. It's sort of ironic to me that
11 the company is asking for full normalization but then they're
12 interpreting a regulatory asset not to be normalized. But the
13 issue is, and why Mr. Fuller gets back down to a very small
14 amount is because they offset each other. So, when we're
15 talking about the regulatory assets, even if they -- I guess I
16 should back up and say, also, in Mr. Fuller's --

17 Q. I'm so sorry to interrupt. We're way off my record
18 here and the record won't be clear so if I could ask my next
19 question.

20 The question, I wanted to follow-up on, then, is: You
21 agree that RTF-15 does reconcile the difference between your
22 position and Mr. Fuller's position with respect to the impact
23 of backing out full normalization in this case?

24 A. No. What it reconciles or what it's reflecting is the
25 difference in how we are determining those particular

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1 regulatory assets.

2 Q. So it is -- he normalizes the particular -- excuse
3 me -- he flows through those particular items listed on RF-15
4 and you normalize them; is that correct?

5 A. Well, they're regulatory assets and regulatory assets
6 usually are cost revenue or expenses or other costs set aside
7 by the Commission to be deferred and amortized and/or you would
8 say "normalized" over a particular time period. The Commission
9 usually would then normalize any other associated costs,
10 including taxes. The largest one of that group is Chehalis and
11 that's -- it's under the 8080060, the greenhouse gas laws or
12 the new laws. It states in there that taxes are deferred and
13 it's just common practice that that's done and that's why
14 there's the difference.

15 Q. Your position is that implicit in any deferral
16 authorized by the Commission is also the authorization to
17 normalize that deferral for income tax purposes?

18 A. What my position is is that it's difficult to find an
19 order that speaks specifically to tax normalization because the
20 work papers underlying -- for instance, a rate case. If we
21 have an adjustment that's not contested, that adjustment could
22 have taxes as normalized and it's not specifically stated in
23 the order or in a stipulation or anything, but because of the
24 circumstances it may be normalized.

25 Q. Your position is that normally the Commission flows

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1 through items that are lawful to be flowed through unless
2 there's an order expressly authorizing normalizing, correct?
3 That was the position that you stated on page seven and eight
4 of your testimony, correct?

5 A. Well, I think you're getting into some legal terms
6 about it because, really, what I'm saying is that an order may
7 allow normalization whether it states it specifically or not.

8 Q. You're saying that within that exception to the normal
9 flow through policy are orders that implicitly allow
10 normalization?

11 A. Yes.

12 Q. With respect to the items on RF-15 your position is
13 that the Commission has implicitly allowed normalization of all
14 of these items?

15 A. No. I don't know that I've said anything specifically
16 about those items but I can go over those now.

17 Basically, if it's an accounting order that's being
18 referred to, there's usually a caveat in that accounting order
19 that states that the revenue requirement impact was not
20 determined until a rate proceeding. And of all the items that
21 are included in there, the largest being Chehalis -- even in
22 the last PacifiCorp settlement I think that it just
23 specifically states that it's deferring it pursuant to 8080.
24 It doesn't state the specifics. So, I think it also is before
25 the Commission in this rate case as far as how that is being

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1 handled.

2 Q. Just to be clear, there's no specific language
3 authorizing income tax normalization for the Chehalis deferral.
4 You're not claiming that, are you?

5 A. Well, what I was trying to state initially is,
6 regardless of how these regulatory assets are being treated
7 it's the underlying book tax differences that arise from
8 accrued liabilities that have been expensed but no cash paid
9 out that are long-lived items for things that will exist over
10 time versus a regulatory asset that has a set amortization
11 period that really is the affect of the change from the current
12 to what Mr. Fuller is asking for flow through -- I'm sorry --
13 full normalization. If you look at those items -- first of
14 all, the point of my whole testimony is that Mr. Fuller hasn't
15 demonstrated that those are in the ratepayer's interest. When
16 I look at the underlying results I'm not seeing that either.

17 Q. I'm just trying to understand your position on whether
18 or not there is an Order that allows the Chehalis deferral to
19 to be normalized for tax purposes.

20 A. I am referring to the law itself, 8080060.

21 Q. You're saying that law authorizes that item to be
22 normalized?

23 A. It says "the deferral of taxes," and then, also, I
24 don't recall if it's the stipulation or if it's the actual
25 Order that restates that language from 8080060.

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1 Q. Now, isn't there a difference between authorizing the
2 deferral of the taxes associated with the revenue requirement
3 item and then authorizing normalization for the book tax
4 difference associated with the creation of the deferral?

5 A. Could you repeat your question? I'm sorry.

6 Q. I said: Isn't there a difference between authorizing
7 deferral of taxes associated with the revenue requirement item
8 being deferred, in this case the Chehalis asset, and allowing
9 normalization for the book tax difference that's created by the
10 allowance of the deferral?

11 A. If there's deferred taxes present you're authorizing a
12 form of normalization.

13 Q. Your view is any time the Commission authorizes a
14 deferral they're allowing tax normalization of that item?

15 A. I'm saying most of the time that is the case. There
16 are some specific instances where they've dealt with it
17 differently and that's all I'm aware of.

18 Q. When the company asked you to list instances in which
19 the Commission had authorized normalization on a case-by-case
20 basis in response to its data request 1.27 -- that's RF-9 --
21 you did not list the Chehalis deferral, did you?

22 A. There's not an Order -- what I was listing and
23 whether -- I'm sorry if it wasn't clear. I think we stated as
24 a caveat in that list, is that it's often times not
25 specifically listed.

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1 These are cases where there was a specific reference
2 to tax deferral. That's why it's so difficult to come up with
3 a list because it's not always discussed.

4 Q. In fact, none of the items on RF-15 which form the
5 difference between your adjustment for backing out full
6 normalization, none of those were listed in response to staff
7 data request 1.27, correct?

8 A. Yes, because it doesn't specifically state it.

9 Q. In each case your position is there's an implicit
10 authorization of tax normalization?

11 A. What I'm saying is that when the Commission authorizes
12 a deferral they're deferring an expense of revenue, some sort
13 of cost. They're talking that cost in a different time period
14 from when it was actually booked and normalizing or that
15 specific cost.

16 Q. For revenue requirement purposes?

17 A. And most of the time the associated tax gets the same
18 treatment as the item that it's related to.

19 Q. How do you know whether it's getting that treatment or
20 not if it's not expressly stated in the Order?

21 A. Well, earlier I gave the example, for instance, if
22 there's a rate case and an item is brought before -- or a
23 company brings up an item and it includes a normalization of a
24 cost over a certain period of time, they include the related
25 tax, and it's agreed upon and it's not a contested item, that

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1 becomes part of the order and it's not specifically stated.

2 Q. I want to ask you on RF-15 there is an item "book tax
3 difference Medicare deferred tax expense."

4 Do you see that item?

5 A. I know which one you're referring to.

6 Q. There's no Commission Order that's ever addressed that
7 particular item, is there?

8 A. And that's a good example. I'm glad you brought that
9 up. That's in this case and it's an uncontested item. The
10 company provided it on a normalized basis, so that would be a
11 good example of what I was just trying to explain, where the
12 company presented something on a normalized basis and staff
13 accepted it and no one contested it and it becomes part of the
14 revenue requirement on a normalized basis.

15 Q. So, Ms. Breda, I wanted to ask you about your second
16 adjustment and that is with respect to your proposal to
17 annualize the impact of normalizing the repairs deduction. So,
18 you discuss that, I believe, at your testimony KHB-1T at 25.

19 A. Yes.

20 Q. There you indicate -- lines eight to nine -- that
21 you're portraying the repairs adjustment for the entire year to
22 restate the test year balance for the prior year adjustment.

23 Do you see that?

24 A. I do.

25 Q. So, can you turn to your Exhibit No. 3T, please?

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1 A. (Witness complies.)

2 Q. KHB-3.

3 A. That's correct.

4 Q. Now, on page two of that exhibit -- do you have that?

5 A. I do.

6 Q. Based on this exhibit you agree, don't you, that
7 PacifiCorp's actual accumulated deferred income tax balances
8 did not reflect repairs deduction until September of 2009.

9 A. That's correct, but this is an accounting change.
10 This is something that the company requested and they're going
11 to be doing this on an ongoing basis. So, for any restating or
12 pro forma adjustment for which there's a change that's going
13 forward it would be reflected in the test period for the entire
14 period.

15 Q. Staff has not proposed to annualize any other major
16 rate based item in this case, has it?

17 A. I didn't analyze any other of the items so I can't
18 speak to that.

19 Q. It's clear here that PacifiCorp actually accumulated
20 deferred income tax balances from January through August did
21 not reflect the repairs deduction, correct?

22 A. No, but Mr. Fuller's testimony explains that this is a
23 change. You requested a change in tax. It was booked when --
24 booked in September but it reflects past periods and it
25 reflects -- it reflects what you plan on doing for the future.

0759

1 In fact, the Commission rules in 480100203 of the accounting
2 rules require companies to bring forth any changes in
3 accounting like this. I guess what I'm trying -- I don't know
4 why I brought that up.

5 Anyway, the whole thing should -- just going back to
6 the principle -- what you're reflecting in a restating or pro
7 forma adjustment and if it's an ongoing change. For instance,
8 you do a salary increase year to year and you reflect it for
9 the entire period as if it's going forward.

10 Q. Just to be clear, this is a rate base change, correct?
11 It's an adjustment to rate base.

12 A. Maybe that wasn't a good example.

13 But what this rate base adjustment does it accumulates
14 a change from 1999 forward and then if you're reflecting a
15 change on a going-forward basis it should be in for the entire
16 period. That's my position.

17 Q. So, the affect of that is really measuring this rate
18 base adjustment from the end of the year, isn't it? So,
19 basically, you're looking at the end of the year balance for
20 this adjustment and saying we're going to treat it as if that's
21 the rate base going forward, correct?

22 A. No.

23 Q. Well, it would be you're basically looking at the
24 three months and assuming that that's the full amount for the
25 year --

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1 A. What I'm saying is on a going-forward basis, those are
2 the figures that I have for what would be in place for an
3 entire year. If the company would have provided actuals
4 through 2009, whatever period was available, then I would have
5 increased that or adjusted it by whatever amount was available
6 during that time period.

7 Q. Is your position that this is a prior year adjustment
8 and that's the justification for annualizing it?

9 A. I think I just stated that -- well, it is related to a
10 prior year but it should be reflective of the entire year
11 because it's -- we're restating the test year to reflect the
12 change, the accounting change that was done.

13 Q. Are you familiar with Commission's Order in the Puget
14 Sound Energy 2009 rate case UE-090704?

15 A. I am.

16 Q. You were a witness in this case, correct?

17 A. Yes.

18 Q. In that case the exact same repairs deduction was an
19 issue, correct? The exact same timing, in terms of when the
20 utility filed a request to become eligible for this deduction
21 and when the deduction was actually booked on the utility's
22 books, correct?

23 A. No.

24 Q. Can you explain to me your understanding of the
25 difference between the Puget case and this case in terms of the

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1 positions of the utilities?

2 A. Yes. Well, I can explain an overview, what I
3 understand from the Order.

4 Basically, the test year for PSE was 2008, and the
5 test year for this case is 2009. Both companies received
6 authorization to make this change at the same time,
7 approximately the same time, within a month or so. I have it
8 in my testimony, I believe. That was September, I think, of
9 2009. One of the issues with the PSE case is the remoteness of
10 the adjustment.

11 Q. In fact, the Commission rejected the proposal to
12 include the repairs deduction in that case because it said that
13 the tax impact was for a subsequent tax year, the 2009 tax
14 year, correct?

15 A. That's not my understanding.

16 MS. MCDOWELL: That's all I have. Thank you.

17 JUDGE CLARK: All right.

18 Commissioner inquiry.

19 Commissioner Jones?

20 COMMISSIONER JONES: No questions.

21 CHAIRMAN GOLTZ: No questions.

22 COMMISSIONER OSHIE: No questions.

23 JUDGE CLARK: Any Redirect, Mr. Trotter?

24 MR. TROTTER: Just one moment, please.

25 Just one question, Your Honor.

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REDIRECT EXAMINATION

1

2 BY MR. TROTTER:

3 Q. Ms. Breda, you were asked about the PSE case and the
4 repairs deductions. Did you address that in your testimony on
5 that docket in the PSE matter on pages 14 through 17 of your
6 testimony, your Direct?

7 A. I did.

8 MR. TROTTER: That's all I have. Thanks.

9 JUDGE CLARK: Thank you for your testimony, Ms. Breda.

10 Is there any objection to this witness being excused?

11 Hearing none, you are excused.

12 We'll take a moment off record for the changing of the
13 guard.

14 (Short break was taken in the proceedings.)

15 JUDGE CLARK: Back on the record.

16 MR. TROTTER: Staff calls Ms. Novak.

17 THE COURT: Thank you.

18 VANDA NOVAK, having been duly sworn to tell the truth,
19 the whole truth and nothing but the truth, testified on her
20 oath as follows:

21 JUDGE CLARK: Thank you. Please be seated.

22 Please state your full name for the record and spell
23 your last name.

24 THE WITNESS: Vonda Novak, N-O-V-A-K.

25 JUDGE CLARK: Mr. Trotter.

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1 MR. TROTTER: Thank you, Your Honor. The witness is
2 available for Cross.

3 JUDGE CLARK: No questions?

4 MR. TROTTER: That's correct.

5 JUDGE CLARK: None of the parties have indicated
6 Cross-Examination for this witness.

7 I'll turn immediately to Commissioner inquiry.
8 Commissioner Jones?

9 COMMISSIONER JONES: No.

10 JUDGE CLARK: Commissioner Oshie?

11 COMMISSIONER OSHIE: Thank you, Your Honor.

12 I would like to ask you questions, Ms. Novak, in
13 two areas. The first area is in, I want to explore your
14 opinion of the commercial class as it's defined by PacifiCorp
15 and the affect of their -- well, I guess the affect of their
16 coefficient that's used in your analysis, and I would also like
17 to ask you about using the 20-year moving average of
18 temperature from the Portland Airport Weather Station, which is
19 in the normalization study done by the company, and why that is
20 sufficient given that the weather in Yakima and Walla Walla
21 predominantly in the service territory of PacifiCorp I would
22 say is much different, or at least I would judge that, but I
23 don't know if that is true, and I'm sure staff has looked at
24 that.

25 So, let me start with the first question which has to

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1 do with the coefficient that is used by the company in their
2 weather normalization study with regard to the commercial
3 class. I'm sure you recall your testimony in that regard. And
4 to, perhaps, help your memory, if would you like it, I'm
5 referring to your exhibit which has been marked as VN-1TC. I'm
6 on page eight.

7 THE WITNESS: I'm there.

8 COMMISSIONER OSHIE: On your line ten -- and I believe
9 that the actual number here, for some reason, is confidential,
10 which I don't know why but let's --

11 MR. TROTTER: I apologize for interrupting. I think
12 the company included its number in its non-confidential
13 testimony and we should have taken care of this.

14 Am I correct, Counsel, that that point XXX is no
15 longer?

16 MS. MCDOWELL: Yes.

17 MR. TROTTER: We'll re-file these pages without the
18 yellow in shading. It's appropriate to go ahead to refer to
19 these numbers.

20 JUDGE CLARK: These are not confidential numbers.

21 Thank you.

22 COMMISSIONER OSHIE: Thank you.

23 So, in there on your line seven you state, "PacifiCorp
24 came up with an R squared of 0.644 for the commercial class of
25 customers." You then asked a question, "Does that number

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1 demonstrate a good statistical fit?" You answered the
2 question, "No." Then you elaborate a bit and you say that
3 R square, that coefficient, does not show a sufficiently
4 approximated relationship between temperature and electricity
5 consumption.

6 Perhaps you can explain what you mean by that, it
7 would be helpful to me. Could you also explain in staff's
8 opinion whether because of its heterogeneous nature the
9 commercial class would be better to be broken up rather than --
10 which I believe was the point of your testimony, or at least
11 implied, that it would be -- because this coefficient is not
12 representative of an approximated relationship between
13 temperature and energy consumption there may be ways to break
14 up the class so that the coefficient would be higher perhaps
15 similar to the residential class.

16 THE WITNESS: I believe that was my point.

17 COMMISSIONER OSHIE: Does staff have an opinion as to
18 what should be done with the commercial class?

19 THE WITNESS: Well, I believe that heterogeneous data
20 isn't a unique problem and it's possible to find a more
21 representative fit.

22 COMMISSIONER OSHIE: I don't remember staff -- perhaps
23 you did and I don't recall -- whether staff recommends that
24 PacifiCorp actually present to the Commission, perhaps, some
25 type of class structure that might better represent or have a

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1 higher coefficient. Is that what staff is asking us to order
2 the company to do?

3 THE WITNESS: That would be one method to solve the
4 problem.

5 COMMISSIONER OSHIE: Is there another method?

6 THE WITNESS: We can look into different technical
7 techniques to deal with the nature of their data.

8 COMMISSIONER OSHIE: Which do you believe would,
9 perhaps, be more accurate?

10 THE WITNESS: Well, I can't say off the top of my
11 head, I mean, this would require collaborative process to
12 establish with the company the best method if we're going
13 forward.

14 COMMISSIONER OSHIE: That would take place after the
15 rate case, I mean, shortly? Is that what staff is thinking,
16 that the best idea would be to get together after the Order is
17 out and people had a chance to settle and read it and
18 understand it and then have a collaborative on that issue?

19 THE WITNESS: That would work.

20 COMMISSIONER OSHIE: Thank you.

21 Now, I think, for me, at least, perhaps -- this might
22 be a little tougher question for you -- it goes back to using
23 the temperature data taken at the Portland Airport to reach a
24 conclusion as to whether in the Yakima and Walla Walla valleys,
25 does staff accept that, correct?

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1 THE WITNESS: Yes.

2 COMMISSIONER OSHIE: Does staff have any concerns over
3 whether that temperature data actually reflects the weather
4 conditions in the Yakima and Walla Walla valleys?

5 THE WITNESS: Well, if you have a weather station in
6 that actual area you're going to get probably weather more
7 representative of that area. It's pretty intuitive. But the
8 problem has been with PSE's, as well. I think
9 Ms. [Unintelligible] has done a study like this with a very
10 similar problem with Puget Sound Energy using Sea-Tac Airport
11 weather data where they do most of the entire Washington State,
12 but those smaller weather stations, the data isn't as reliable
13 so that is a big issue. So they would rather use a more
14 reliable consistent data that's more cleaned up for
15 normalization purposes.

16 MS. MCDOWELL: I'm so sorry to interrupt. I know this
17 is out of order, but I just feel like I need to interject here
18 that we did not respond to this point as we should in our
19 rebuttal testimony. It is not a factually accurate statement.
20 I feel like we need to correct the record. This is, really, a
21 point of order, however, we need to do it. I want to make sure
22 we don't have an inaccurate data on the record. As I
23 understand it, we do, in fact, measure weather in Yakima. I'm
24 not sure quite how to manage getting that on the record and
25 correct that. Again, I apologize for not having done it in the

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1 normal course through our rebuttal testimony.

2 JUDGE CLARK: Well, I think that would be probably up
3 to Commissioner Oshie whether he would like to have that point
4 directed, I'm assuming, to an individual in the company or
5 issue a Bench request or accept the representation of
6 Counsel --

7 MR. TROTTER: Your Honor, I know Ms. Novak has been
8 involved in a lot of discussions on this issue over time. She
9 might have a recollection refreshed on this subject. I don't
10 know, but it might be pointed questions directed to her, does
11 the company use Yakima data, or just say is that her testimony,
12 it might jog her memory, it might not. If it does not, as she
13 just doesn't know one way or the other, we can try alternative
14 things.

15 JUDGE CLARK: We do have Mr. Duvall which is in charge
16 of our forecasting so he would be able to address those issues.

17 CHAIRMAN OSHIE: Maybe it's just simpler that we can
18 develop some kind of Bench request on this. If I were the
19 witness my memory, I think, just based on the representations
20 of what's in the testimony and also PacifiCorp, I probably
21 wouldn't trust my memory whether it was recollected or not.

22 MS. MCDOWELL: I want to apologize for the fact this
23 was not corrected earlier. Thank you.

24 COMMISSIONER OSHIE: Well, then, I have no other
25 questions. Thank you.

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1 JUDGE CLARK: Chairman Goltz?

2 CHAIRMAN GOLTZ: I have no questions.

3 MR. TROTTER: One question.

4 REDIRECT EXAMINATION

5 BY MR. TROTTER:

6 Q. Ms. Novak, would you turn to page 11 of your
7 testimony?

8 A. (Witness complies.)

9 Q. Question and answer, question starting on line 16:
10 "Is this where you identify some ways where the company may
11 address the heterogeneous nature of the status for the
12 commercial class if, in fact, that class is heterogeneous?"

13 A. I'm there.

14 What was your question?

15 Q. The question was: Is this where you provide testimony
16 on things that the company could do to address the
17 heterogeneous nature of the commercial class if, in fact, the
18 class is heterogeneous?

19 A. Yes.

20 Q. Does that necessarily include creating another rate
21 classification in the tariff?

22 A. No. I don't believe so.

23 Q. In general, the tariffs describe the nature of the
24 service and the characteristics of the customer that are
25 eligible for service. Is that your understanding?

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1 A. That's my understanding.

2 MR. TROTTER: I have nothing else. Thank you.

3 JUDGE CLARK: Thank you for your testimony, Ms. Novak.

4 Any objection to this witness being excused?

5 Hearing none, you are excused.

6 We have two more witnesses this afternoon. I'm
7 thinking it would be a good idea to take a short break.
8 Chairman Goltz is trying to go for five minutes and I'm
9 inclined to go for ten because I know what I need to do in the
10 recess, so we're in recess for ten minutes.

11 (Short break was taken in the proceedings.)

12 JUDGE CLARK: Mr. Trotter, call your next witness.

13 MR. TROTTER. Michael Foisy.

14 MICHAEL FOISY, having been duly sworn to tell the
15 truth, the whole truth and nothing but the truth, testified on
16 his oath as follows:

17 JUDGE CLARK: Please be seated and state your full
18 name for the record spelling your last.

19 THE WITNESS: Michael Foisy, F-O-I-S-Y.

20 JUDGE CLARK: Thank you.

21 Mr. Trotter.

22 MR. TROTTER: The witness is available for Cross,
23 Your Honor.

24 JUDGE CLARK: No party has indicated Cross-Examination
25 for Mr. Foisy so I'm going to turn to the Bench. I think there

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1 is some limited inquiry.

2 Chairman Goltz.

3 CHAIRMAN GOLTZ: Mr. Foisy, thank you. This should be
4 very brief.

5 On your proposal on how we should deal with renewal
6 energy credit proceeds, or "REC," you suggest that a certain
7 amount of REC revenue be included in determining rates going
8 forward, correct?

9 THE WITNESS: Yes, I do.

10 CHAIRMAN GOLTZ: And then in addition to that you also
11 suggest a tracking account of some sort?

12 THE WITNESS: Correct.

13 CHAIRMAN GOLTZ: So, tell me, how would that work?
14 Forgive me. I forget the amount of REC revenue you suggest
15 going into rates for this case, but, subsequently, would that
16 be true up and down as you go on or is it a one-way street?

17 THE WITNESS: You know, what we expected to do was
18 with the volatility of the REC market and all the
19 uncertainties, was going forward from the test year we wanted
20 to capture any revenues as part of the PSE case so that we
21 could true it up or at the next rate case look at it and make a
22 decision from there as to what should happen in the situation.

23 CHAIRMAN GOLTZ: So, is it you would, then, embed a
24 certain amount of REC revenue inter-rates going forward and
25 then true it up or down from there?

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1 THE WITNESS: Yes, whatever we needed to do to make it
2 right to be able to return the appropriate revenue back to the
3 ratepayer.

4 CHAIRMAN GOLTZ: That's one way of doing it. Is
5 another way, though, to basically not embed it in the rates and
6 then track it going forward and then return it as it comes in.
7 So it wouldn't be an up-and-down mechanism, it would only be
8 sending revenues back to the ratepayers in the form of some
9 bill credit?

10 THE WITNESS: I don't think when we were working on
11 this that it was really looking at providing any type of
12 credit, per se, for the ratepayer but more so just using it to
13 adjust rates in the future period based on the revenue.

14 CHAIRMAN GOLTZ: So, if, hypothetically, PacificCorp
15 didn't come in for rates for four more years your mechanism
16 wouldn't work, as well?

17 THE WITNESS: Perhaps not, no.

18 CHAIRMAN GOLTZ: You're almost assuming coming in
19 every year?

20 THE WITNESS: Yes.

21 CHAIRMAN GOLTZ: Let's not make that assumption.

22 THE WITNESS: Certainly not.

23 CHAIRMAN GOLTZ: I have no further questions.

24 JUDGE CLARK: Mr. Trotter, does that inquiry prompt
25 any Redirect?

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1 MR. TROTTER: It may.

2 REDIRECT EXAMINATION

3 BY MR. TROTTER:

4 Q. Following up on the last question from the Bench,
5 staff's proposal is that the company defer REC revenue from
6 January 1st, 2010, forward?

7 A. Correct.

8 Q. If it defers those and does not come in -- assume it
9 defers those pursuant to the staff's recommendation -- and the
10 company is not in for rates for three years, at the end of that
11 three-year period files a rate case --

12 A. Correct.

13 Q. -- will there be deferred REC in the deferral account?

14 A. It would be.

15 Q. Those would be available for treatment by the
16 Commission at that time?

17 A. Correct.

18 MR. TROTTER: Thank you.

19 JUDGE CLARK: Thank you for your testimony, Mr. Foisy.

20 Any objection to the witness being excused?

21 Hearing none, you're excused. Thank you.

22 MR. TROTTER: Staff calls Thomas Schooley. He does
23 have a couple of corrections.

24 JUDGE CLARK: Thank you, Mr. Trotter.

25 ///

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1 A. Yes.

2 MR. TROTTER: Thank you, Your Honor. The witness is
3 available for Cross.

4 JUDGE CLARK: All right.

5 Ms. McDowell?

6 MS. MCDOWELL: Judge Clark, we have no questions for
7 Mr. Schooley.

8 JUDGE CLARK: All right.

9 Ms. Shifley?

10 MS. SHIFLEY: Thank you, Your Honor.

11 CROSS EXAMINATION

12 BY MS. SHIFLEY:

13 Q. Good afternoon, Mr. Schooley. I think this should be
14 relatively brief.

15 A. Good afternoon.

16 Q. You're recommending a rate spread in this case that's
17 different than the rate spread proposal that was included in
18 the company's original filing; is that correct?

19 A. Yes.

20 Q. Could you please turn to page 13 of your Cross
21 answering testimony which has been marked as exhibit TES-4T?

22 A. Page 13?

23 Q. That's correct.

24 A. Yes.

25 Q. Have you got that?

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1 A. Yes.

2 Q. Here you state that your proposal, if accepted, would
3 result in rate schedules that will all be within a range of
4 1.05 and .97 of parity, so 105 percent and 97 percent of parity
5 with the exception of lighting?

6 A. Yes.

7 Q. Could you just confirm for me that according to
8 PacifiCorp's cost of service study residential customers are
9 currently at 97.4 percent of parity?

10 A. I believe that's in one of my charts, yes.

11 Q. And just turning back to page 11 of your Cross
12 answering testimony -- again, that's exhibit number TES-4T.

13 A. Okay.

14 Q. -- here you have a chart. I believe it's table two.

15 A. Yes.

16 Q. And this shows the parity ratios in the as-filed cases
17 for the last five PacifiCorp Washington rate cases, does it
18 not?

19 A. Yes.

20 Q. And this shows that in two of those cases the
21 company's cost of service study has shown the residential
22 customers at or above parity; is that correct?

23 A. You're speaking of the 080220 and the 09 case?

24 Q. Yes.

25 A. Yes.

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1 Q. The residential class has never been more than
2 three percent from parity in these cases; is that correct?

3 A. Yes. This table shows that. In the current case it
4 moves down to .97 due to the change in the allocation of
5 generation costs to peak from the way it had been previously
6 calculated.

7 Q. Just, again, for my clarification, all the numbers in
8 this chart come from the company's cost of service study, is
9 that correct, and not cost for service studies offered by any
10 other party?

11 A. True.

12 MS. SHIFLEY: That's all, Your Honor. Thank you.

13 JUDGE CLARK: Mr. Purdy?

14 MR. PURDY: Thank you.

15 CROSS EXAMINATION

16 BY MR. PURDY:

17 Q. Mr. Schooley, I pared my Cross down substantially so
18 if you'll bear with me as I navigate through all these chicken
19 scratches, I'd appreciate it.

20 You testified, I believe, that you tempered your rate
21 spread proposal based on the fact that the company's rate
22 increases is 21 percent and you find that shocking; is that
23 correct?

24 A. I don't know if I used the word "shocking," but I said
25 it was sufficient enough that any further tailoring of the rate

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1 spread would be unnecessary.

2 Q. The company did adopt your rate spread proposal and
3 now is asking for a 20.2 percent increase to the residential
4 class?

5 A. That number has been mentioned. I haven't looked to
6 see specifically what their adoption of my revenue allocation
7 percentages were to their case. It's probably about right.

8 Q. So, logically, you would find that, whether it's
9 shocking or concerning; is that right?

10 A. It is a substantial increase, but given the changes
11 that have been going on, it's understandable from the company's
12 point of view why that would be. Our own case has a
13 significantly lower total increase.

14 A. I'm going to ask you about your basic chart proposal,
15 and you define basic charges as those designed to recover costs
16 that vary with the addition or subtraction of customers. Am I
17 right?

18 A. Yes.

19 Q. Those costs that vary, do you characterize them as
20 "fixed" or "variable?"

21 A. They're variable in the sense that they do reflect the
22 cost that the customers put on the system, not the cost that
23 the customers use puts on the system. So, the addition of
24 customers with new distribution lines as new meters are put
25 in -- I don't think distribution lines themselves are but

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1 service drops and the meter reading costs, line transformers,
2 those vary with the addition of new customers.

3 Q. To cut right to the point, isn't it true that one, in
4 theory, could argue that almost all costs utility incurs are
5 necessary to serve customers and that company's customers, of
6 course, vary from month to month, year to year? Every single
7 cost incurred by the utility is necessary to serve its
8 customers.

9 A. Yes, that's true. There's certain costs, many of
10 which are not recovered on fixed charges that are, basically,
11 fixed. The cost of a generation plant is highly fixed with
12 small relative amounts of variable costs to it, but those costs
13 are not recovered as a direct flat charge to the customers.
14 So, question is one of, I mean, in the long run, yes, all costs
15 are variable and will be charged to the customers.

16 Q. Isn't it with some considerable degree of subjectivity
17 that you limit basic charge to cover just the four or five
18 select components that you've mentioned, meters, meter reading,
19 service drops and billing costs?

20 A. Yes. I believe I've introduced Exhibit TES-5 that
21 shows the calculation of the costs that are recovered by the
22 basic charge.

23 Q. My question is: Isn't that somewhat subjective?
24 Couldn't one argue there could be any number of other costs
25 that could be included in a basic charge?

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1 A. It is subjective. I think that this depiction is
2 probably on the low end of what could be recovered through
3 customer charges and would be validly considered as a charge
4 that the customers incur and should be directly recovering.

5 Q. Is it your perception that we are seeing an increasing
6 trend on the part of utilities to seek higher and higher fixed
7 costs for rate cases?

8 A. Yes, that's been so and I think that's a trend that is
9 providing useful pricing to the customers.

10 Q. Do you agree that if higher fixed charge, such as the
11 basic charge, the higher that it is set the greater it reduces
12 the utility's risk that it will not recover its revenue
13 requirement?

14 A. Yes. That's a trend that, I think, is a necessary
15 one. If costs are imposed to a greater and greater degree on
16 volumetric charges there is greater risk of recovery from
17 various methods to the company. So, I think the risk of
18 mitigation is something that will help hold overall rates down.

19 Q. Should that reduce risk be factored into the
20 authorized return for the company?

21 A. Yes. I believe it should.

22 Q. We've talked quite a bit about sending conservation
23 price signals throughout this case. Would one appropriate
24 method of doing that be to alter the company's existing
25 inverted block rate design? I'll give you an example, if you

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1 like.

2 A. Yes. Please do.

3 Q. The first block consumption is currently set at
4 600 kilowatts hours; is that right?

5 A. Yes.

6 Q. I believe you testified the average residential
7 customer uses about 1,300 kilowatt hours a month?

8 A. Yes.

9 Q. More than double the first block consumption?

10 A. True.

11 Q. Might there be an increase perception on the part of
12 customers who pay attention to their bills that if you bring
13 the first block consumption closer to their actual average
14 consumption that they have a chance to substantially affect
15 their bill?

16 A. You mean by reducing their --

17 Q. By reducing their consumption.

18 A. They would have more of an impact on it?

19 Q. Yes.

20 A. Yes. And, actually, I thought about what changes
21 might be necessary to the total rate structure that might
22 provide better price signals than the current structure. I
23 think the reason for the 600 kilowatt hour block has probably
24 diminished over time. It had to originally do with the amount
25 of hydro power that was embedded in rates versus other types of

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1 power and it was trying to give most customers some benefit for
2 the lower cost hydro power and hydro is now a much smaller
3 percentage than it was in the 1970's or '80's when that began.

4 Q. Now, you rebut Mr. Eberdt's testimony in your
5 contention that low income customers tend to be relatively
6 higher residential users; is that right?

7 A. I simply said there were, perhaps, many low income
8 customers with high use and that those customers are harmed by
9 having low basic charges.

10 Q. The word "many," is that based on some type of
11 empirical evidence that you provided in this case?

12 A. No. I was just creating a circumstance.

13 Q. So, aside from creating a circumstance, I guess in
14 your own mind, is there anything in the record that establishes
15 that you have relied upon that low income customers are
16 necessarily higher users, relatively speaking, to the rest of
17 the residential class?

18 A. I did not have information at hand when I made that
19 statement but there has since been information provided in
20 exhibits you've introduced as RME-2 and RME-3 which I think
21 bears out that observation.

22 Q. Were you here yesterday when I cross-examined
23 Mr. Griffith?

24 A. Yes.

25 Q. Do you recall the discussion that we had as to whether

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1 the data that the company maintains tracking the consumption of
2 customers receiving bill assistance compared to just straight
3 residential might be a little skewed in that there might be any
4 number of low income customers who are eligible for LIBA but
5 don't take advantage of it who are actually rolled into the
6 straight residential rate?

7 MS. MCDOWELL: Objection. That's miss-characterizing
8 the testimony of Mr. Griffith.

9 JUDGE CLARK: I'm sorry. I couldn't hear the last
10 part.

11 MS. MCDOWELL: The testimony of Mr. Griffith.

12 JUDGE CLARK: Thank you.

13 Response, Mr. Purdy?

14 MR. PURDY: It was an awkward question. I'll
15 rephrase, if that's all right.

16 THE COURT: Thank you.

17 BY MR. PURDY:

18 Q. Mr. Schooley, is it fair to assume that there is any
19 number of low income customers who do not take advantage of the
20 company's bill assistance program?

21 A. Yes, there probably are. The low income agencies that
22 administer this, as I've understood, claim that they do not
23 provide benefits to the numbers of people they would like to
24 serve and they -- perhaps I'm mischaracterizing it myself --
25 but they seem to run out of money before they serve everybody

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1 and that's a whole other question. I think -- to get to where
2 I believe you're going -- I think the data here is biased in
3 that the customers that are taking advantage of it are probably
4 those with higher use versus those with lower use.

5 Q. I appreciate that. That was my point. Thank you.

6 A couple of questions about the proposal to certified
7 low income customers for bill assistance every other year. You
8 testified that some of the concerns that Mr. Eberdt articulated
9 in his testimony have some merit. Is that a fair
10 characterization of your testimony?

11 A. Could you point me specifically in my testimony where
12 I address this? I know what you're talking about. I want to
13 make sure I say the same thing.

14 Q. I'm looking at your Exhibit 4T, page 17, line five.

15 A. Yes. I think that his complaint was if you just flash
16 cut to and every other year certification there will be the
17 next year afterwards a very low number of people and then the
18 following year everybody has to be done again, and I offered
19 the compromise of just re-certifying half the participants in
20 the first year and the half of them in a two year and that
21 would spread out the workload.

22 Q. Thank you.

23 You characterize that as a potential for disruptive
24 work flow for the agencies; is that right?

25 A. My suggestion is trying to solve the problem of the

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1 potential work flow issues.

2 Q. I was asking you if that's how you characterize
3 Mr. Eberdt's concern.

4 A. Yes.

5 Q. Now, under your, I guess we could call it, compromise
6 proposal, aren't you essentially serving one half the normal
7 amount of customers each year that are currently served under
8 LIBA?

9 A. No, because the people in the first year are certified
10 for two years still receive the benefits. It's just half the
11 workload to achieve the same number of customers being
12 certified.

13 Q. What about in the following years?

14 A. Then you'd have, the first year's half would then
15 get -- the first year that got one year's worth of
16 recertification would then get two years in the second year and
17 maintain the pattern. So, by the end of two years everybody
18 will be on a two-year cycle.

19 Q. All right.

20 Half of them each year?

21 Q. So, at that point, then, you're effectively extending
22 the period of time between certifications?

23 A. Yes.

24 Q. Were you here yesterday, then, and do you recall the
25 discussions about the consequences of extending that time-out

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1 and the fact that circumstances change?

2 A. Yes, and probably circumstances change in both
3 directions, so people that may not have qualified one year and
4 do qualify the next year. I had not -- I have not delved into
5 the ways other states handle that problem, if they do have
6 two-year certifications, but, seems like that may be a small
7 price to pay for having a more efficient way of operating.

8 Q. But you've not quantified that price in any way, have
9 you?

10 A. No.

11 Q. Rather than asking the Commission to order a revision
12 to the LIBA program right now in this case, wouldn't it be a
13 wiser course of action to, perhaps, conduct a workshop, a
14 separate docket, to fully examine that small price to pay, as
15 you characterize it, and to quantify the potential downside to
16 every other year certification?

17 A. I don't know how you would actually accomplish that.
18 I think people that may move out of qualifying probably aren't
19 moving very far out of it. It's not like someone goes from
20 zero to \$100,000 a year. I would think that we could move in
21 the direction of having a greater efficiency in the operations
22 of the agencies sooner, rather than later, if the Commission
23 weighs in on its opinion with its opinion and on the programs
24 and they would be free to establish timelines on their own
25 accord given the testimonies.

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1 Q. Well, you don't know how we could do it but, at the
2 same time, it seems to me you're testifying and suggesting that
3 we just look at one side of the equation and that is the
4 perceived cost savings from going to every other year and just
5 dismissing the downside without any attempt to quantify it.

6 A. Well, you won't be able to quantify that until you try
7 it and find out the data it takes to do it.

8 Q. Exactly. Thank you.

9 Concerning the proposal to serve additional customers
10 under LIBA, you concede, if I understand your testimony
11 correctly, that conditioning 30 percent of the proposed LIBA
12 funding increase in this case on the requirement that it be
13 used to serve additional customers rather than deepening the
14 existing discount level will reduce the agency's compensation
15 for the cost that they incur to administer LIBA; is that right?

16 A. No. I don't believe I testified to that. I think if
17 you're serving more people the agencies would be getting more
18 money for each of the customers that they serve, that they want
19 to quality, I guess.

20 Q. Didn't you offer a solution to a perceived problem and
21 that was that the community action agencies simply consider
22 significantly increasing the number of participants that they
23 certify under LIBA?

24 A. Yes. If they're serving half as many people each year
25 then they would probably have the capacity to serve a great

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1 deal more people and I also observed that that would take more
2 monies to do so and the agencies and their advocates have the
3 legal right to approach the Commission and to file with the
4 Commission changes to accomplish that. So I think it
5 doesn't -- it is not incumbent on the company to propose such
6 things when the agencies themselves may come forth with a
7 program to substantially increase their operations.

8 Q. Right. You testified, if I'm not mistaken, that your
9 proposal would necessitate a substantial increase in the LIBA
10 funding surcharge, right?

11 A. Yes. That is a direct consequence.

12 Q. Given that we are already in this case currently
13 debating the appropriate level of LIBA funding, why implement a
14 program to design change in this case that will require
15 additional LIBA funding for the agencies to be able to
16 administer the program in the manner that you propose but then
17 require the agencies sometime down the road to hopefully obtain
18 that additional funding? Why not take care of it all at once?
19 Aren't you just buying yourself a problem down the road?

20 A. I thought I was producing a solution, not an
21 additional problem. I think the agencies need to take control
22 of their own destinies and provide the rate of relief to their
23 constituents that they would like to do so. The Commission has
24 been given the authority to impose the necessary rates to
25 accomplish that, so, it's up to the agencies to come forth and

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1 give proposals on how they can serve their constituents.

2 Q. Well, obviously, the agencies are represented in this
3 proceeding and they're responding to changes that the company
4 proposes to make to its LIBA program, correct?

5 A. They have, and I think my testimony was to grant them
6 greater monies than what the staff increase would be providing,
7 so it seems like that's a start.

8 Q. Greater money -- what are you referring to?

9 A. I'm referring to staff's proposal in the company's
10 acceptance of increase in the LIBA charged customers by
11 21 percent when staff is only proposing a ten or 11 percent
12 increase overall.

13 Q. But you're not proposing that the administrative fee
14 paid to the agencies to administer to the program be increased,
15 are you?

16 A. No.

17 Q. In fact, you don't want it to be increased, do you?

18 A. I said the data did not support the increase that
19 Mr. Eberdt is proposing.

20 Q. If one were to assume, hypothetically, that the
21 community action agencies currently are not covering their
22 costs that they incurred to administer LIBA your solution that
23 they simply serve more customers doesn't make sense
24 economically, does it?

25 MR. TROTTER: I'll object. It assumes facts not in

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1 evidence. As Mr. Schooley's testimony clearly states,
2 Mr. Eberdt's proposed offered insufficient facts to justify an
3 increase in the administrative fee.

4 JUDGE CLARK: Response, Mr. Purdy?

5 MR. PURDY: Mr. Schooley testifies that the concerns
6 that Mr. Eberdt's expressed in his testimony can simply be
7 cured if the agency serve more customers, and I'm asking to the
8 witness whether or not that's feasible if they're not currently
9 covering their costs.

10 JUDGE CLARK: The objection is sustained.

11 BY MR. PURDY:

12 Q. Regarding the Mr. Eberdt's proposal to increase low
13 income weatherization you argue that that issue cannot be
14 addressed in this case because the company did not propose it
15 and the appropriate or the related tariff has not been
16 suspended; is that right?

17 A. Yes.

18 Q. Is there a rule or Commission Order of policy that you
19 can cite to that prohibits a party from raising an issue such
20 as increased weatherization funding unless the company first
21 proposes it?

22 A. I suppose that calls for a legal interpretation that
23 I'm not able to give.

24 Q. I don't want to legal interpretation. I want the
25 basis for your position that it is not allowed for the energy

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1 project to bring up weather winterization because the company
2 did not propose it.

3 A. There is a debate in general as to whether when a
4 company files tariffs in a general rate case if that means all
5 tariff sheets are open the Commission may take actions on your
6 proposals regardless of what other peoples' opinions are.

7 Q. One more question on the administrative fee currently
8 paid to the agencies for LIBA: You reject the proposal that
9 that fee be increased on the basis that data from only one
10 agency was presented and you call for a more thorough review of
11 all the agencies expenses and operations; is that right?

12 A. Yes. Not only was it from one agency, it was only for
13 one short period of time, so it seemed to me like it did not
14 reflect an annual amount of money.

15 Q. Did staff or any other party to this proceeding file
16 any testimony or exhibits challenging the data contained in
17 Mr. Eberdt's Exhibit CME-4?

18 A. Yes, I believe I did.

19 Q. Did you provide quantitative or empirical evidence to
20 challenge Mr. Eberdt's exhibit?

21 A. I did not provide alternative data but I did, I
22 believe, discredit his information as being complete.

23 Q. Did you provide any type of a cost calculation of your
24 own as to what the agency's LIBA costs actually are?

25 A. I'm not aware of what their costs actually are.

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1 MR. PURDY: That's all I have. Thank you.

2 JUDGE CLARK: Any inquiry from the Bench?

3 Commissioner Jones?

4 COMMISSIONER JONES: Just a few questions,

5 Mr. Schooley.

6 THE WITNESS: Yes, sir.

7 COMMISSIONER JONES: It's getting late.

8 Turn to page 15 of your Direct on cash working

9 capital.

10 THE WITNESS: (Witness complies.)

11 I thought I was going to get off on that.

12 Page 15?

13 COMMISSIONER JONES: Yes.

14 THE WITNESS: Yes.

15 COMMISSIONER JONES: Were you in the room yesterday
16 when I had an exchange with Mr. Gorman on his way of treating
17 special deposits and things like this in the capital structure?

18 THE WITNESS: No, I believe not.

19 COMMISSIONER JONES: You're not aware of his testimony
20 on these issues --

21 THE WITNESS: No.

22 COMMISSIONER JONES: But I just want to get clear in
23 my own mind about why you're treating, on lines seven through
24 nine, you say you treat temporary cash investments as an
25 investment, not a current asset.

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1 THE WITNESS: Yes.

2 COMMISSIONER JONES: This is the same classification
3 you provide for special deposits and notes receivable, correct?

4 THE WITNESS: Yes.

5 COMMISSIONER JONES: What's your rationale for that
6 rather than not treating them as a current asset?

7 THE WITNESS: My rationale is that these are monies
8 that have been invested and are earning their own rate of
9 return, however meager as I state in my testimony. So, the
10 company has the choice of whether to invest these monies or to
11 put them into higher rates of return. It's an investment.
12 It's not simply providing working capital.

13 COMMISSIONER JONES: Okay.

14 And then on pages 14 through 16 you talk about
15 derivative assets and liabilities.

16 Do you see where I am?

17 THE WITNESS: Yes.

18 COMMISSIONER JONES: How are these current assets or
19 current liabilities if they represent changes in contract
20 prices? I assume that in a derivative contract prices go up
21 and down and they fluctuate, do they not?

22 THE WITNESS: Yes. It's not a function of anything
23 other than market prices. I do find it difficult that FASB has
24 considered these things as worthy of putting on the balance
25 sheet, so it is a confusing item. It's not an investment.

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1 It's not earning a return.

2 COMMISSIONER JONES: But current assets on the balance
3 sheet are usually available to pay operating costs as payables
4 as they come due, correct?

5 THE WITNESS: Well, they're on the balance sheet in
6 the current asset account because they will either be turned
7 into cash or used in one form or the other within the next 12
8 months and the derivative instruments will have price changes
9 over the 12 months and are likely used in that they'll mature
10 in a fairly short period of time. So I think there's turnover
11 in those and they do either provide or use up cash during that
12 time.

13 COMMISSIONER JONES: Could you turn to your TES-4T,
14 just one last question on your favorite subject of lead lag
15 versus investor supply working capital?

16 THE WITNESS: Yes.

17 COMMISSIONER JONES: I'll refer to page three there.
18 I think this is your summary of your arguments on cash working
19 capital, is it not, and you describe the other parties'
20 proposals, specifically public counsel and ICNU propose that
21 the Commission require a lead lag study, correct?

22 THE WITNESS: Yes.

23 COMMISSIONER JONES: On line nine you do say that a
24 lead lag study may be more precise than the result from the
25 45-day method, correct?

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1 THE WITNESS: True.

2 COMMISSIONER JONES: But you still come out supporting
3 an investor supplied working capital methodology?

4 THE WITNESS: Yes.

5 COMMISSIONER JONES: So, explain that to me why you
6 think it's more precise, and I think the company said earlier
7 in testimony that they perform a lead lag study every
8 three years, and it's presented to the Commission, correct?

9 THE WITNESS: It's not presented to us because we have
10 denied its use.

11 COMMISSIONER JONES: Okay.

12 THE WITNESS: I did not say that the lead lag study
13 was more precise than the investors supplied working capital
14 balance sheet method is, perhaps, more precise than a 45-day
15 method. The lead lag study is based on a great deal of
16 assumptions and sampling of the accounts that they use to
17 calculate both the leads and the lags so -- and both the
18 lead lag study and the 45-day method have no determination of
19 who is providing the working capital like the investors applied
20 capital calculation does.

21 COMMISSIONER JONES: So, if I can summarize your
22 arguments, then, of the three methods, lead lag, 45-day and
23 investor supply of working capital. Lead lag is more precise
24 than the 45-day method but you object to both of those methods
25 because you believe that the Commission should adopt a method

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1 on working capital that focuses on what the investor's supply
2 to useful plan that provides benefit to ratepayers.

3 THE WITNESS: Overall, but I do say the lead lag study
4 may be more precise, not that it is more precise. In general,
5 I think my primary objection to those two is that there's no
6 determination of who is providing the working capital, and, as
7 I've calculated, this investor supplied working capital amount
8 shows that there is no working capital provided by the
9 investors.

10 COMMISSIONER JONES: It's essentially zero is your
11 testimony?

12 THE WITNESS: Or below, yes.

13 COMMISSIONER JONES: Finally, on lines 20 through 23
14 of page three you discourage the Commission from requiring
15 PacifiCorp to perform a lead lag study in our Order, correct?

16 THE WITNESS: Yes.

17 COMMISSIONER JONES: The reason you do that, you
18 suggest that is because you think that would pre-determine or
19 it would indicate that the Commission favors a lead lag study
20 compared to these other two methods?

21 THE WITNESS: It may presume some acceptance of it,
22 yes.

23 COMMISSIONER JONES: That's all I have, Judge. Thank
24 you.

25 JUDGE CLARK: Commissioner Oshie?

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1 COMMISSIONER OSHIE: Mr. Schooley, I would like to ask
2 you a few questions about witness Meyers' proposed adjustment
3 to the, not just average use per customer, but I suppose that's
4 reflected, then, in the actual number of kilowatt hours that
5 are sold by the company, at least those projected to be sold
6 from collection in rates. If you can turn to your TES-6T, I
7 believe you take Mr. Meyers --

8 MR. TROTTER: Fourteen, Your Honor?

9 COMMISSIONER OSHIE: I'm looking at 6T --

10 MR. TROTTER: I'm sorry. Okay. Thank you.

11 THE WITNESS: Okay.

12 COMMISSIONER OSHIE: There I believe you take
13 Mr. Meyers' adjustment head-on, if you will, from line seven to
14 line 16.

15 THE WITNESS: Okay.

16 COMMISSIONER OSHIE: My question has to do with the --
17 maybe I can start -- excuse me -- is the companies coefficient
18 for the residential class, is that still confidential?

19 THE WITNESS: Pardon? What's confidential?

20 COMMISSIONER OSHIE: The residential class. The
21 coefficient.

22 I'm not asking you, Mr. Schooley. I'm asking Counsel.

23 MS. MCDOWELL: No, it's not.

24 COMMISSIONER OSHIE: Thank you.

25 Are you familiar with the coefficient for the

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1 residential class as used whether to normalize the actual usage
2 data that became the basis of Mr. Meyers' testimony?

3 THE WITNESS: I don't know if Mr. Meyers' presents
4 that information. Perhaps he does. I think Ms. Novak in her
5 testimony stated it was somewhere around point nine, something
6 like that.

7 COMMISSIONER OSHIE: I believe that's correct. I
8 believe it's like .97 -- .976, if I remember correctly the
9 three digits there.

10 Does that mean to you that the margin for error is
11 approximately two-and-a-half percent.

12 THE WITNESS: Not being a statistician I may have my
13 concepts somewhat unrefined, but I sort of look at it as there
14 is an exact number that the result might be, it would require
15 massive amounts of data in order to determine what it is and
16 through sampling you pick some of those points and the results
17 will be within that two-and-a-half percent plus or minus range
18 and you have a fairly certain -- and there's a way to determine
19 how certain you are that it's within that range. So, given how
20 much leeway on how certain you want to be it would determine
21 how many points you choose to determine that, but, yes, in the
22 end that confidence level is that we're fairly certain it'll be
23 within two-and-a-half percent up and down of the actual number
24 if you could sample everybody.

25 COMMISSIONER OSHIE: All right. That was my

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1 understanding. You were a little bit more longwinded than I
2 would have been to explain it.

3 But I looked at Mr. Meyer's adjustment. He takes the,
4 as far as I understand it, he takes the actual usage per
5 customer and he does an average of the past five years to come
6 up with a number of 15,671.

7 Do you agree?

8 THE WITNESS: I think that's what the data shows.

9 If you have the site --

10 COMMISSIONER OSHIE: Sure.

11 I apologize for not putting that into the record.

12 This is, I believe, GRM-1ZT, page 17, table three.

13 THE WITNESS: Okay.

14 COMMISSIONER OSHIE: In that table, which is easy to
15 refer to, the companies test year weather normalized would be
16 15,128 kilowatt hours per year.

17 THE WITNESS: Right.

18 COMMISSIONER OSHIE: And staff has accepted that in
19 its determination of the projected use by the residential class
20 for the rate year.

21 THE WITNESS: Yes.

22 COMMISSIONER OSHIE: I want to tie those two concepts
23 together, what Mr. Meyers' adjustment, although how inefficient
24 it may be or how incorrect it may be, when I do the lawyer math
25 which is the difference between his adjustment, the foundation

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1 for his adjustment, 15,671 kilowatt hours, and the weather
2 normalized amount, 15,128 kilowatt hours, that difference is
3 somewhere in the three percent plus range.

4 THE WITNESS: That sounds about right.

5 COMMISSIONER OSHIE: Roughly 450 kilowatt hours
6 difference between the two, so -- or 550. Excuse me.

7 So my question, then, if I look at the coefficient for
8 the residential class, understanding that its margin for error
9 is two-and-a-half percent plus or minus, when I look at
10 Mr. Meyers' adjustment and think of that numerically, I'm
11 thinking, "Well, that's similar in the mid three percent
12 adjustment that he makes upward." So, I'm just wondering if
13 staff considered that. In other words, is that an adjustment,
14 if you think of it that way, that what Mr. Meyers does -- and
15 he didn't explain this in his testimony in this way -- but if
16 you look at the margin for error for the residential class and
17 you look at his adjustment they're relatively closely aligned,
18 and if I think of it that way is that Mr. Meyers' adjustment
19 falls nearly within the margin for error, and if that's the
20 case, would staff be more comfortable with accepting
21 Mr. Meyers' adjustment on just the numerical value alone? I
22 understand your testimony is to some other reasons why the
23 staff would not accept it.

24 THE WITNESS: I think one of the important factors in
25 the temperature normalization is to develop rates that are

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1 based on what will be normal. And, using a five-year average
2 of actual use will have a great deal more variability than a
3 20-year temperature normalization or even than a 20-year
4 average of actual normalization. You'd have to be willing to
5 accept those five-year periods when average use is lower, as
6 well as when the average use is higher, in order to develop a
7 fair, ongoing method of smoothing out the year-to-year
8 variations. So, I think, overall, establishing the 20-year
9 method is setting base lines around which the risk of each
10 year's temperature changes falls on the company rather than
11 coming closer and closer such as five years and even two-year
12 averages would then be shifting that risk to the customers for
13 taking the highs and the lows and establishing rates on a
14 five year. So there is an issue of how do you use this
15 information on a long-term basis and not just pick the one
16 that's favorable each time a rate case comes up.

17 COMMISSIONER OSHIE: Not only do I agree but I
18 understand.

19 But didn't Mr. Meyer really testify as well that when
20 you looked -- I agree. I think what we intend to do and strive
21 to do and inspire to do as a Commission is to get to be as
22 accurate as we can when we look forward at something like
23 actual use per customer. And if I understand his testimony, he
24 said, well, he didn't believe that the 15,128 as the weather
25 normalized number was accurate, and not because it wasn't

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1 accurate statistically or using the methodology, but that it
2 wasn't really accurate when you reflected the last five years
3 of use in which 15,128 is lower than any of those five years.
4 As a matter of fact, usage is almost year for year going up for
5 those five years. For whatever reason, I don't remember that
6 being in the testimony. But usage is increasing. Would that
7 be enough of a factor, do you believe staff would think maybe
8 we should, not necessarily vary from the methodology of whether
9 normalization, but maybe an adjustment would be acceptable
10 under that circumstance? We haven't really seen variable usage
11 going up year after year.

12 THE WITNESS: I have looked at the average use per
13 customer over a much longer period of time. We have the data
14 in-house that goes back to the 1930's. There was a steep
15 increase in average customer use up until about the 1980's from
16 the 1930's as more and more electrification occurred. It's
17 somewhat leveled off from there and bounces around a lot in the
18 15,000 range. There is an upward trend over the last several
19 years but there have been times when the five-year average is
20 less than the 20-year average. I don't know if that's
21 answering your question but I do think it would be biased in
22 order just to take this level at this time. I'm not really
23 sure what the causes of what appears to be the trends above
24 average right now are.

25 COMMISSIONER OSHIE: Would you accept, subject to

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1 check, that -- and this is based on information that I have
2 received from our policy staff -- that Mr. Meyer does not -- he
3 doesn't adjust for every four, the five year -- he does -- his
4 adjustment does not capture all of the potential sales that
5 could be made should this trend upward continue but is just a
6 percentage of that?

7 THE WITNESS: I guess I don't understand. I can't
8 picture what it is you're saying.

9 COMMISSIONER OSHIE: Well, as far as I understand it,
10 when you take the company's actual usage kilowatt hour and then
11 if you look at the number of -- and then you adjust it down,
12 then what Mr. Meyers' adjustment does, he doesn't stay at the
13 top number and he doesn't go all the way down to the company's
14 adjustment. His number falls in-between.

15 THE WITNESS: The top number being the most usage in
16 the past five years?

17 COMMISSIONER OSHIE: Yes. The actual usage, yes.
18 This is by class now, residential class.

19 THE WITNESS: Right.

20 I'm sorry. I'm not understanding what you mean by the
21 "top usage on an average basis." His five years has a 16,000
22 number.

23 COMMISSIONER OSHIE: It would be the number that the
24 company then adjusted for weather. So you have "X" which is
25 the gross number, then you have the company's adjustment, which

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1 is "Y," and his adjustment falls between "X" and "Y." That's
2 all I'm asking, if you understand that.

3 THE WITNESS: Maybe I'm getting denser as the day goes
4 on. I'm not understanding it.

5 COMMISSIONER OSHIE: Well, it does depend somewhat how
6 well formed my question is and I will admit that it's, perhaps,
7 a bit unclear.

8 So --

9 THE WITNESS: Let me ask data request as the
10 Commission?

11 COMMISSIONER OSHIE: You can try.

12 My next question is: Let's just assume -- this isn't
13 leading anywhere -- assume that we agree with Mr. Meyer and we
14 adjust so the kilowatt hours are upward, so what you say in
15 your testimony on page two is that -- I'll just read this --
16 "Public counsel and ICNU should have taken into account the
17 impacts of the additional revenue on inter-jurisdictional
18 allocation factors and the production factors."

19 My question, then: Is that fatal in itself or can we
20 derive those modifications and adjustments once we -- if we
21 agreed on Mr. Meyers' adjustment, then can this be done, can we
22 then account for the additional revenue inter-jurisdiction
23 factors and the production factors?

24 THE WITNESS: We tried to do that for the commercial
25 class adjustment that we made, and it's difficult to determine

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1 numbers of places that those adjustments touch. We did ask a
2 data request of the company to make that calculation for us in
3 order to arrive at a comprehensive impact of changing that
4 class. I think it would be most representative if the company
5 made that impact or you could look at, perhaps, commercial
6 class adjustment and see if there's a way to make, maybe,
7 representative changes to the total.

8 COMMISSIONER OSHIE: All right. I think maybe stated
9 in, maybe, a broader, more hypothetical way. Between the time
10 that our Order comes out, hypothetically, and rates need to go
11 into effect, could those adjustments be made and be realized in
12 a way that affect the rates?

13 THE WITNESS: Yes. Probably so.

14 COMMISSIONER OSHIE: Thank you. I have no other
15 questions.

16 JUDGE CLARK: Chairman Goltz.

17 CHAIRMAN GOLTZ: Just a couple of questions following
18 up on the questions that Mr. Purdy asked you about low income
19 assistance.

20 THE WITNESS: Yes.

21 CHAIRMAN GOLTZ: This is probably in the record
22 somewhere but I don't recall.

23 Currently, there's an annual certification
24 requirement?

25 THE WITNESS: Yes.

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1 CHAIRMAN GOLTZ: Where is that? Is that in the
2 tariff? Where is that?

3 THE WITNESS: I think that's just in the practices of
4 the agencies that administer the qualification process. It's
5 just their operating practice.

6 CHAIRMAN GOLTZ: Why would it take action by the
7 Commission for them to change those?

8 THE WITNESS: It probably doesn't require the action
9 of the Commission. If they wanted to do it on their own
10 volition they could probably bring that out, unless I'm wrong
11 about how the tariff is structured.

12 CHAIRMAN GOLTZ: Do you know if it's the same practice
13 for certification for eligibility for low income
14 weatherization?

15 THE WITNESS: I believe that's true that they
16 recertify them every year.

17 CHAIRMAN GOLTZ: I have no further questions. I would
18 have a request, though, that -- I would be among those that
19 would have thought the low income weatherization issue tariff
20 was at issue in the case or could be at issue in the case, but
21 that's not the position that you took in your testimony, so I
22 would request that at least Commission staff and maybe
23 Mr. Trotter and others if they want to explain why it could not
24 be an issue.

25 THE WITNESS: All I looked to see if that tariff had

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1 been suspended with the others and it was not.

2 CHAIRMAN GOLTZ: Thank you.

3 JUDGE CLARK: Redirect, Mr. Trotter?

4 MR. TROTTER: Just a few. Thank you.

5 REDIRECT EXAMINATION

6 BY MR. TROTTER:

7 Q. Mr. Schooley, you were asked some questions from
8 Commissioner Oshie regarding usage data and he asked you some
9 questions about a sensitivity there was a
10 two-and-a-half percent plus or minus. Is that right?

11 A. Residential class.

12 Q. Do you recall that?

13 A. Yes.

14 Q. If there's a plus or minus two-and-a-half percent
15 range does that mean there's an equal chance it could be plus
16 two-and-a-half and equal chance it could be minus
17 two-and-a-half?

18 A. Yes.

19 Q. We don't know what that chance is but at least they're
20 equal?

21 A. Right.

22 Q. If the Commission picked the plus two-and-a-half would
23 that imply that there was 100 percent chance that it's plus
24 two-and-a-half?

25 A. I don't think it means there's 100 percent chance --

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1 Q. It would reflect that the plus two-and-a-half was
2 actually occurring.

3 A. I think if they choose something beyond the
4 two-and-a-half percent there's 100 percent chance they're
5 wrong.

6 Q. Did Mr. Meyer refer to the temperature normalization
7 adjustment in his testimony?

8 A. Say that again.

9 Q. Did Mr. Meyer refer to the temperature normalization
10 adjustment in his testimony?

11 A. I don't believe so.

12 Q. Did he do any analysis to explain changes in actual
13 usage?

14 A. No.

15 Q. Would you turn to page five of your --

16 MR. SANGER: Objection, Your Honor. I would like to
17 object to --

18 MR. TROTTER: It's too late.

19 JUDGE CLARK: The question has already been asked and
20 answered, Mr. Sanger.

21 MR. SANGER: I think it's improper for Mr. Schooley to
22 testify to what Mr. Meyers' analysis was without any
23 foundation.

24 JUDGE CLARK: Well, again, it's too late. The
25 question was asked and the question was answered.

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1 BY MR. TROTTER:

2 Q. Would you turn to page five of Exhibit TES-4T?

3 A. Yes.

4 Q. Your Cross answering testimony.

5 A. Yes. I'm there.

6 Q. Beginning on line one you're responding to Mr. Meyers'
7 analysis and you examined two periods actually usage, the
8 12 months ended June of 2008 and 12 months ended December of
9 2009; is that correct?

10 A. Right.

11 Q. What was the increase in usage between those
12 two periods?

13 A. The increase in residential usage was 32 million
14 kilowatt hours.

15 Q. On line seven what percent increase was that?

16 A. Two percent increase.

17 Q. Were you able to explain that?

18 A. I explained that through looking at the temperature
19 normalized numbers for those same periods, and on that basis
20 alone, there was only about a three million [unintelligible]
21 basis. If you took into consideration the increase in the
22 number of customers the usage per visit has actually declined.

23 Q. You were asked questions from Mr. Purdy on residential
24 rate design. Is any party in this proceeding proposed a change
25 to residential rate design?

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1 A. We did and the company agreed with it.

2 Q. Let me start over.

3 I meant the initial block in the tail block design?

4 A. No. Nobody has suggested that.

5 Q. Thank you.

6 Turn to page 36 of your Direct, Exhibit TES-1T, on the
7 issue of the basic line, refer you to line 20.

8 A. (Witness complies.)

9 Yes.

10 Q. Page 36.

11 You were asked some questions by Mr. Purdy about
12 whether certain costs were fixed or variable and so on. Do you
13 recall that?

14 A. Yes.

15 Q. You list on line 22 the costs that were evaluated for
16 purposes of the basic charge.

17 A. Yes. That's probably a more accurate description than
18 my memory.

19 Q. I want you to assume a customer, PacifiCorp, in the
20 summertime decides to take a vacation for a month, goes to its
21 circuit breaker and turns off the power. Does the meter stay
22 there?

23 A. Yep.

24 Q. Does the service drop stay there?

25 A. Yes.

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1 Q. Does the company come out and read the meter?

2 A. Yes.

3 Q. Do they render a bill?

4 A. Yes.

5 Q. Turn to the next page.

6 A. Page 37?

7 Q. Yes.

8 On line one you show the cost of the total of these
9 costs per month is \$10.38 based on the company's study?

10 A. Yes.

11 Q. What basic charge is staff recommending?

12 A. Staff is recommending basic charge of \$7.50.

13 MR. TROTTER: I have nothing further. Thank you.

14 JUDGE CLARK: Is there any objection to this witness
15 being excused?

16 Thank you for your testimony, Mr. Schooley. You're
17 excused.

18 Mr. Trotter, does that complete staff's case?

19 MR. TROTTER: Yes. Thank you.

20 JUDGE CLARK: Is there anything further to be heard on
21 the record this evening?

22 I would like to remind everyone initial briefs are due
23 February 11th and PacificCorp's reply brief, if one is to be
24 filed, would be February 18th.

25 During the recess Ms. Shifley kindly reminded me that

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1 we have not submitted the public comment exhibit. It has yet
2 to be filed. She's agreed to file that by February 4th, 2011.

3 Nothing further?

4 We're adjourned.

5 (Conclusion of proceedings.)

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