

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	
	)	
v.	)	DOCKET NOS. UE-140762 and
	)	UE-140617 ( <i>consolidated</i> )
PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY,	)	
	)	
Respondent.	)	
_____	)	
	)	
In the Matter of the Petition of	)	
	)	
PACIFIC POWER & LIGHT COMPANY,	)	DOCKET NO. UE-131384
	)	( <i>consolidated</i> )
	)	
For an Order Approving Deferral of Costs Related to Colstrip Outage	)	
_____	)	
	)	
In the Matter of the Petition of	)	
	)	
PACIFIC POWER & LIGHT COMPANY,	)	DOCKET NO. UE-140094
	)	( <i>consolidated</i> )
	)	
For an Order Approving Deferral of Costs Related to Declining Hydro Generation	)	
_____	)	

**CROSS-ANSWERING TESTIMONY  
OF BRADLEY G. MULLINS**

**ON BEHALF OF**

**BOISE WHITE PAPER, L.L.C.**

**November 14, 2014**

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**EXHIBIT LIST**

Exhibit No.\_\_(BGM-9)—Updated Revenue Requirement Calculations

Exhibit No.\_\_(BGM-10)—Company Responses to Boise Data Requests

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Bradley G. Mullins, and my business address is 333 SW Taylor Street, Suite  
4 400, Portland, Oregon 97204.

5 **Q. ARE YOU THE SAME BRADLEY G. MULLINS WHO PREVIOUSLY FILED**  
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes. I filed Responsive Testimony on behalf of Boise White Paper, L.L.C. (“Boise”),  
8 which is served by Pacific Power & Light (“PacifiCorp” or the “Company”).

9 **Q. WHAT TOPICS WILL YOUR CROSS-ANSWERING TESTIMONY ADDRESS?**

10 A. My cross-answering testimony responds to several issues presented in the Responsive  
11 Testimony of Jason L. Ball, Betty L. Erdahl, David C. Gomez, and Jeremy B. Twitchell,  
12 filed on behalf of the Staff of the Washington Utilities and Transportation Commission  
13 (“Staff”). My cross-answering testimony also responds to several issues presented in the  
14 Responsive Testimony of Donna M. Ramas filed on behalf of Public Counsel.

15 Specifically, my cross-answering testimony is summarized as follows:

16 1. **Pro-forma Capital Additions.** I continue to generally oppose the Company’s  
17 proposed pro-forma capital additions, and I also disagree with both Staff and Public  
18 Counsel that the Washington Utilities of Transportation Commission (“WUTC” or  
19 the “Commission”) should accept a methodology that employs a “bright-line”  
20 standard to determine whether pro-forma capital additions are appropriately included  
21 in rate base. I continue to support the Commission’s existing policy, where post-test  
22 year capital additions are reviewed on a case-by-case basis.

23 2. **End of Period Rate Base.** I disagree with the position of both Staff and Public  
24 Counsel that the Company should be allowed to use end of period (“EOP”) rate base  
25 balances in revenue requirement. Neither party demonstrated that there is a need to  
26 deviate from the traditional Commission methodology using average of monthly  
27 average (“AMA”) rate base balances.

- 1           3. **Non-labor Operations and Maintenance Escalation.** I agree with both Staff and  
2           Public Counsel that the Commission should reject the Company’s proposal to escalate  
3           non-labor operations and maintenance (“O&M”) expenses using factors from IHS  
4           Global Insight.
- 5           4. **Pro-forma Energy Imbalance Market (“EIM”) Costs.** In response to a data  
6           request, the Company has provided updated capital cost information regarding its  
7           participation in the EIM. Incorporating this updated information reduces the revenue  
8           requirement impact associated with my EIM adjustment by \$22,358, resulting in an  
9           updated adjustment value of \$371,729.
- 10          5. **Network Integration Transmission (“NT”) Service.** I provide a brief discussion  
11          about an alternate way—accounting for the day of the week on which the historical  
12          transmission peaks have occurred—to calculate the load coincident to transmission  
13          peak for load pockets served by Bonneville Power Administration (“BPA”) NT  
14          service. This calculation reduces my net power cost (“NPC”) adjustment related to  
15          BPA NT service to \$1.28 million, with \$294,513 allocated to Washington.
- 16          6. **Power Cost Adjustment Mechanism.** While I agree with Staff that the Commission  
17          should reject the Company’s proposal for a renewable resource tracking mechanism  
18          (“RRTM”),<sup>1/</sup> I disagree that the Company should be awarded a power cost adjustment  
19          mechanism (“PCAM”) in this proceeding. The Company did not request a  
20          comprehensive PCAM in this proceeding, and it would be unfair to parties for the  
21          Commission to grant this form of rate relief, which was not requested in the  
22          Company’s initial application.
- 23          7. **Colstrip Outage Deferral.** I disagree with Staff that the Company should be allowed  
24          to defer costs associated with the outage at Colstrip Unit 4. Staff did not demonstrate  
25          that the outage was the result of prudent operations, nor what specific costs were  
26          incurred as a result of the outage.
- 27          8. **Hydro Deferral.** I agree with Staff and Public Counsel that above average 2014  
28          hydro conditions do not support the Company’s proposed hydro deferral.
- 29          9. **Merwin Fish Ladder Deferral.** I agree with Staff that the Company should not be  
30          allowed to defer return on rate base associated with the Merwin Fish Ladder, which is  
31          also proposed as a pro-forma capital addition in this proceeding. I disagree with  
32          Staff, however, that the Company should be allowed to defer depreciation expenses  
33          incurred between April 2015 and the rate period.

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<sup>1/</sup> Exh. No.\_\_(JBT-1T) at 14:3-4.

1 **Q. TO THE EXTENT THAT YOUR CROSS-ANSWERING TESTIMONY DOES**  
2 **NOT ADDRESS A PARTICULAR ISSUE, SHOULD THAT BE CONSTRUED AS**  
3 **YOUR ACCEPTANCE OF THAT ISSUE?**

4 A. No.

5 **Q. HAS BOISE UPDATED ITS REVENUE REQUIREMENT**  
6 **RECOMMENDATION?**

7 A. Yes. The following table provides an updated summary of Boise's recommended  
8 adjustments to the Company's revenue requirement in this proceeding. Detailed revenue  
9 requirement calculations for these adjustments are contained in Exhibit No.\_\_(BGM-9).

10 **TABLE 1**  
11 ***Boise Updated Integrated Washington Revenue Requirement Summary***  
12 ***Updated values in italics***

<b>Company Proposed Revenue Deficiency</b>	<b>\$ 27,201,266</b>
<b>Boise Adjustments:</b>	
Cost of Capital (Sponsored by Mr. Gorman)	(6,446,948)
Pro-forma Capital Additions	(3,796,702)
End of Period Rate Base	(1,844,255)
O&M Escalation	(1,511,448)
<i>Energy Imbalance Market Costs</i>	<i>371,729</i>
<i>Net Power Costs</i>	<i>(16,710,110)</i>
<b>Total Adjustments</b>	<b>(29,937,734)</b>
<b>Adjusted Revenue Deficiency (Sufficiency)</b>	<b><u><u>\$ (2,736,468)</u></u></b>

1 **II. PRO-FORMA CAPITAL ADDITIONS**

2 **Q. WHAT WAS STAFF’S POSITION REGARDING THE COMPANY’S**  
3 **PROPOSAL TO INCLUDE PRO-FORMA CAPITAL ADDITIONS IN RATE**  
4 **BASE?**

5 A. The responsive testimony of Ms. Erdahl stated that Staff would support the Company’s  
6 proposal, along with its proposed bright-line standard, to include capital expenditures in  
7 rate base related to 30 different pro-forma capital additions.<sup>2/</sup> It should be noted that Ms.  
8 Erdahl appears to misinterpret the Company’s bright-line proposal, suggesting that the  
9 Company proposed to include “plant additions ... scheduled to be in service by  
10 *December 2014.*”<sup>3/</sup> The Company, however, actually proposed to “add[] to rate base  
11 west control area plant additions greater than \$250,000 on a Washington-allocated basis  
12 that will be placed in service between January 1, 2014, through *March 31, 2015.*”<sup>4/</sup> Thus,  
13 the full extent to which Staff supports the Company’s bright-line proposal is not clear.

14 **Q. DO YOU AGREE WITH STAFF’S POSITION?**

15 A. No. The policy of the Commission has been to allow utilities to include in rate base  
16 major plant additions placed in service after the end of the test period, as a limited  
17 exception to its rule requiring the use of a historical rate period.<sup>5/</sup> It has not been the  
18 policy of this Commission to provide a uniform exemption to the use of historical test  
19 period, thereby allowing utilities to include in rate base any and all capital additions  
20 placed in service subsequent to the rate period.<sup>6/</sup> Rather, the Commission has reserved its

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<sup>2/</sup> Exh. No.\_\_\_\_ (BAE-1T) at 8:5-7.

<sup>3/</sup> Id. at 7:22-23 (emphasis added).

<sup>4/</sup> Exh. No.\_\_\_\_(NCS-1T) at 26:8-11 (emphasis added).

<sup>5/</sup> See, e.g., WUTC v. PacifiCorp, Docket No. UE-130043 (“2013 GRC”), Order 05 at ¶¶ 198-200.

<sup>6/</sup> Id.

1 ability to review each and every pro-forma capital project that has been proposed after the  
2 test period, on a case-by-case basis.<sup>7/</sup> The Commission has also rejected proposals to use  
3 a bright-line standard, such as that proposed by the Company, whereby an exception to  
4 the historical test period rule is guaranteed for any capital project that satisfies a  
5 particular criterion.<sup>8/</sup>

6 Both Staff and Public Counsel have asked this Commission to deviate from its  
7 current, case-by-case approach for reviewing major pro-forma capital additions and to  
8 adopt a bright-line standard that will be used in this proceeding—and, presumably, as a  
9 precedent for future proceedings—to determine which capital additions placed in service  
10 after the end of the test period should be included in rate base. I believe that adopting the  
11 proposals of Staff or Public Counsel would require the Commission to vacate its practice  
12 of performing a case-by-case review of major capital additions, converting what is now a  
13 limited exception to the use of a historical rate period into a new standard. I disagree that  
14 such an outcome is in the public interest and recommend that, just as in the Company’s  
15 2013 general rate case (“GRC”), the Commission should once more “reject the bright  
16 line” standard proposed by Staff and Public Counsel.<sup>9/</sup> Thus, I continue to recommend  
17 that the Commission reject the Company’s proposal to include 30 different, largely  
18 undocumented pro-forma capital additions in rate base, with the exception of the Merwin  
19 Fish Collector, for the reasons specified in my responsive testimony.

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<sup>7/</sup> Id. at ¶ 198.

<sup>8/</sup> Id. at ¶ 200.

<sup>9/</sup> Id. at ¶ 200.

1 **Q. WOULD THE USE OF A BRIGHT-LINE STANDARD SHIFT THE BURDEN OF**  
2 **PROOF AWAY FROM THE COMPANY?**

3 A. Yes. Under WAC § 480-07-540, “[p]ublic service companies bear the burden of proof in  
4 general rate proceedings that propose changes that would increase any rate....” If a  
5 bright-line standard is used, the burden of proof would likely fall to the other parties to  
6 demonstrate whether a project is known and measurable, used and useful, and a prudent  
7 investment in rate base. Such a result would be incompatible with the Commission’s  
8 consistent exercise of “the considerable discretion” that used and useful and known and  
9 measurable “standards allow in the context of individual cases.”<sup>10/</sup>

10 **Q. WHAT BASIS DID STAFF GIVE TO SUPPORT THE COMPANY’S PROPOSED**  
11 **BRIGHT-LINE STANDARD?**

12 A. Staff accepted the bright-line standard proposed by the Company, suggesting that it was  
13 consistent with the Commission’s Order 05 in the 2013 GRC.<sup>11/</sup>

14 **Q. DO YOU AGREE WITH STAFF THAT THE COMPANY’S PROPOSAL IS**  
15 **CONSISTENT WITH ORDER 05 IN THE 2013 GRC?**

16 A. No. In addition to the reasons discussed in my responsive testimony—in which I  
17 disagreed that the scope and breadth of the Company’s proposal conforms to Order 05 in  
18 the 2013 GRC—the proposal to rely on a bright-line standard is not consistent with  
19 Order 05 in the 2013 GRC. In that Order, the Commission explicitly rejected the  
20 application of such a bright-line standard:

21                   Staff’s idea that the Commission should have a ‘a consistent and  
22                   practical’ ‘bright line’ standard when evaluating what is ‘known  
23                   and measurable’ or ‘used and useful,’ though providing for some  
24                   certainty in future application, is too rigid an approach....

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<sup>10/</sup> Id. at ¶ 198.

<sup>11/</sup> Exh. No. \_\_\_ (BAE-1T) at 8:7-8.



1 In sum, we reject the bright line cutoff dates proposed respectively  
2 by Staff and Public Counsel....<sup>12/</sup>

3 **Q. DID STAFF PROVIDE ANY EVIDENCE SUGGESTING THAT THE \$250,000**  
4 **BRIGHT-LINE THRESHOLD WAS REASONABLE?**

5 A. No. To my knowledge, no party has provided any information to support the  
6 reasonableness of the \$250,000 threshold that the Company has proposed to use in this  
7 proceeding. Thus, there is no basis for the Commission to conclude that a \$250,000  
8 threshold is any more reasonable than a \$500,000 threshold or a \$10 million threshold.

9 On the contrary, the information presented in testimony seems to suggest that a  
10 \$250,000 threshold is too low. As evidence of this, the Company's testimony only  
11 provided detailed analysis of the five largest pro-forma capital projects. It can be inferred  
12 that the Company's position is that the remaining 25 small projects are not material  
13 enough to warrant a detailed analysis, which is traditionally required for the Commission  
14 to consider a pro-forma capital addition in rate base. Accordingly, the Company appears  
15 to agree that the small capital projects, despite meeting the \$250,000 threshold, are not  
16 material enough to warrant a detailed review by the Commission. This suggests that the  
17 \$250,000 threshold is too low to delineate the type of capital additions that the  
18 Commission would typically consider to be "major" for the purpose of being included in  
19 rate base, on a pro-forma basis.

20 **Q. DID STAFF PROVIDE ANY EVIDENCE TO SUGGEST THAT A MARCH 31,**  
21 **2015 BRIGHT-LINE CUTOFF DATE IS REASONABLE?**

22 A. No. On the contrary, the evidence in this case shows that that a March 31, 2015

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<sup>12/</sup> 2013 GRC, Order 05 at ¶¶ 199-200.

1 bright-line cutoff is not reasonable. The responsive testimony of Ms. Ramas  
2 demonstrated that “the actual amounts [of pro-forma capital additions] placed into service  
3 on a project-by-project basis have varied substantially from the amounts projected by the  
4 Company and included in the filing.”<sup>13/</sup> Ms. Ramas, who appears to support a bright-line  
5 cutoff date corresponding to the filing of her responsive testimony, demonstrates that  
6 March 31, 2015, is too far into the future for a project to be considered known and  
7 measurable.<sup>14/</sup>

8 **Q. WHAT WAS MS. RAMAS’ PROPOSAL?**

9 A. Ms. Ramas did not object to the use of a \$250,000 bright-line threshold, but argues that  
10 the Company’s proposal “should be limited only to the known and measurable amounts  
11 for projects that have actually been placed into service and are used and useful in  
12 providing service to customers.”<sup>15/</sup> My understanding is that Ms. Ramas would propose a  
13 cutoff date corresponding to the timing of her responsive testimony. As a result, Ms.  
14 Ramas proposes to allow in rate base pro-forma capital additions representing  
15 “\$76,276,135 of the \$129,210,776 proposed by the Company.”<sup>16/</sup>

16 **Q. DO YOU AGREE WITH MS. RAMAS?**

17 A. While I agree with many of the points made by Ms. Ramas, I disagree with her proposal  
18 to accept the Company’s bright-line threshold of \$250,000 and to demark a bright-line  
19 cutoff date corresponding to the filing of intervenor testimony. I am opposed to

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<sup>13/</sup> Exh. No.\_\_(DMR-1CT) at 15:18-20 (REVISED 10/17/14).

<sup>14/</sup> Id.

<sup>15/</sup> Id. at 15:21-16:1 (REVISED 10/17/14).

<sup>16/</sup> Id. at 16:20 (REVISED 10/17/14).

1 providing the Company with any bright-line rule that would limit parties' ability to apply  
2 a case-by-case analysis of major pro-forma capital additions in future proceedings.

3 **Q. PLEASE SUMMARIZE YOUR RESPONSE REGARDING PRO-FORMA**  
4 **CAPITAL ADDITIONS.**

5 A. Both proposals made by Staff and Public Counsel would require the Commission to  
6 adopt a new, bright-line standard for considering post-test year capital additions. I  
7 disagree that it would be appropriate for the Commission to vacate its practice of  
8 reviewing major pro-forma capital additions on a case-by-case basis and continue to  
9 support my original proposal to exclude the 30 pro-forma capital projects proposed by the  
10 Company, with the exception of the Merwin Fish Ladder.

11 **III. END OF PERIOD RATE BASE**

12 **Q. DO YOU AGREE WITH STAFF AND PUBLIC COUNSEL THAT THE**  
13 **COMPANY SHOULD BE ALLOWED TO USE END OF PERIOD RATE BASE**  
14 **BALANCES IN THIS PROCEEDING?**

15 A. No. Similar to pro-forma capital additions, the use of EOP balances is an exception to  
16 the Commission's rule requiring utilities to use a historical test period. It should not be  
17 the normal standard that is used by utilities in their rate filings. I continue to support the  
18 use of AMA rate base because it is conceptually consistent with how a utility accrues  
19 revenue over the test period. The Commission has stated that "in normal economic times  
20 average rate base is more realistic and projects more accurately the cost of plant that  
21 produces the revenue under investigation."<sup>17/</sup> Yet, in this proceeding, no party has

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<sup>17/</sup> WUTC v. Wash. Nat. Gas Co., Cause No. U-80-111, 1981 Wash. UTC LEXIS 7, \*10 (Sep. 24, 1981).

1 demonstrated that the current economic times are so abnormal as to warrant an exception  
2 to the use of AMA.

3 **Q. DO YOU AGREE WITH PUBLIC COUNSEL THAT THE USE OF EOP RATE**  
4 **BASE COULD MITIGATE THE CURRENT PATTERN OF ALMOST**  
5 **CONTINUOUS RATE CASES?<sup>18/</sup>**

6 A. No. No party has addressed why the Company, despite receiving extraordinary rate relief  
7 through the use of EOP rate base in the 2013 GRC, has perpetuated its current pattern of  
8 almost continuous rate cases. On the contrary, by continuously granting extraordinary  
9 rate relief through the use of EOP rate base, I believe it will encourage the Company to  
10 continually file rate cases. If it is not faced with the possibility of eventually returning to  
11 the traditional, AMA methodology, the Company will have no additional incentive to  
12 postpone filing new rate cases in the future.

13 **Q. WHEN SHOULD THE COMMISSION REQUIRE THE COMPANY TO RETURN**  
14 **TO THE TRADITIONAL AMA METHODOLOGY?**

15 A. I believe that the time for the Company to return to the traditional AMA methodology,  
16 based on normal economic conditions, is now. In Washington, the Company has been  
17 experiencing “greater economic activity related to fruit processing and refrigeration in the  
18 Washington commercial class,”<sup>19/</sup> leading to an increased load forecast in this case.  
19 Nationwide, economic conditions are also improving, demonstrated by an acceleration of  
20 growth in gross domestic product, which, in the second quarter of 2014, rose by 6.8

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<sup>18/</sup> Exh. No.\_\_(DMR-1CT) at 12:13.

<sup>19/</sup> Exh. No.\_\_(GND-1CT) at 17:1-2.

1 percent (annual rate).<sup>20/</sup> Thus, I continue to recommend that the Company use AMA rate  
2 base in this proceeding.

#### 3 IV. NON-LABOR O&M ESCALATION

4 **Q. DO YOU AGREE WITH STAFF AND PUBLIC COUNSEL THAT THE**  
5 **COMMISSION SHOULD REJECT THE USE OF IHS GLOBAL INSIGHT**  
6 **ESCALATION FACTORS?**

7 A. Yes. Both Staff and Public Counsel propose that that the Commission reject the  
8 Company's proposed use of IHS Global Insight escalation factors.<sup>21/</sup> As discussed in my  
9 responsive testimony, I agree with Staff and Public Counsel that the use of escalation  
10 factors would result in a forecast and should be rejected by the Commission in this  
11 proceeding.

#### 12 V. PRO-FORMA ENERGY IMBALANCE MARKET COSTS

13 **Q. DID STAFF OR PUBLIC COUNSEL PROPOSE TO INCLUDE PRO-FORMA**  
14 **EIM CAPITAL COSTS IN REVENUE REQUIREMENT?**

15 A. No. Despite meeting their respective bright-line standards, neither Staff nor Public  
16 Counsel identified the capital associated with the EIM to be included in rate base as a  
17 post-test year capital addition.

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<sup>20/</sup> Economic Indicators September 2014, Council of Economic Advisers for the Joint Economic Committee at 1 (Oct. 3, 2014). A copy of the report can be found at <http://www.gpo.gov/fdsys/pkg/ECONI-2014-09/pdf/ECONI-2014-09.pdf>.

<sup>21/</sup> E.g., Exh. No. \_\_\_(JLB-1T) at 15:24-16:4; Exh. No. \_\_\_(DMR-1CT) at 30:11-15.

1 **Q. DO YOU HAVE ANY UPDATES REGARDING ENERGY IMBALANCE**  
2 **MARKET COSTS?**

3 A. Yes. In response to Boise Data Request (“DR”) 13.2, the Company detailed the actual  
4 capital costs that it has incurred related to the EIM through the October 1, 2014 go-live  
5 date. The actual capital cost that the Company has incurred is \$13.4 million.<sup>22/</sup>

6 **Q. WHAT IS THE IMPACT OF UPDATING THE EIM COSTS, BASED ON THE**  
7 **COSTS ACTUALLY INCURRED?**

8 A. The impact of updating this component of my initial recommendation reduces the  
9 revenue requirement impact of the EIM costs by \$22,358. Accordingly, an updated  
10 revenue requirement adjustment of \$371,729 has been included in Table 1, above.

11 **VI. NETWORK INTEGRATION TRANSMISSION SERVICE**

12 **Q. WHAT ISSUE HAVE YOU IDENTIFIED RELATED TO THE CALCULATION**  
13 **OF BPA NT WHEELING COSTS?**

14 A. In my responsive testimony, I proposed to estimate the coincident peak load for the load  
15 pockets served by BPA NT service using the historical timing of BPA’s transmission  
16 peak. In several data requests issued by the Company, there was an implicit question of  
17 whether the historical data was appropriately applied because it did not correspond to the  
18 day of the week of the load included in the test period.

19 **Q. DO YOU BELIEVE THAT IT IS CORRECT TO LINE-UP THE HISTORICAL**  
20 **DATA WITH THE DAY OF THE WEEK IN THE TEST PERIOD?**

21 A. Many factors, in addition to loads, influence the utilization of transmission on BPA’s  
22 system. Factors such as wind output, hydro output, market prices, imports, and exports  
23 all independently impact the amount of transmission utilized on BPA’s system. Unlike

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<sup>22</sup> Exh. No.\_\_(BGM-10) (Company Response to Boise DR 13.2).

1 loads—which have different characteristics on weekdays than on weekends—the timing  
2 of BPA’s transmission peak is not entirely sensitive to the day of the week. For example,  
3 in the four-year period 2010 to 2013, transmission peaks have occurred on both Saturday  
4 and Sunday, and have often occurred as early as 7:00 a.m. More recently, in February  
5 2014, the transmission peak occurred at 6:00 a.m.

6 Notwithstanding, because loads are one of several factors influencing the timing  
7 of transmission peaks, I believe there may be some merit in lining up the historical data  
8 with the day of the week, in a particular month, to estimate load coincident to BPA’s  
9 transmission peak.

10 **Q. HAVE YOU RECALCULATED THE IMPACT OF YOUR ADJUSTMENT BY**  
11 **LINING UP THE HISTORICAL DATA WITH THE DAY OF WEEK IN THE**  
12 **TEST PERIOD?**

13 A. Yes. To calculate each load pocket’s load coincident to BPA’s transmission peak, I  
14 calculated the average of the four hourly loads within a given month in the test period  
15 corresponding to the week, weekday and the hour, on which the historical transmission  
16 peaks occurred in 2010-2013. Lining up to the historical day of week reduced the impact  
17 of my adjustment by \$20,994 on a Washington-allocated basis. The updated impact of  
18 this adjustment is a \$1.28 million reduction to NPC on a Western Control Area (“WCA”)  
19 basis, with \$294,513 allocated to Washington. This change has been reflected in the  
20 updated NPC revenue requirement adjustment detailed in Table 1, above.

1 **VII. POWER COST ADJUSTMENT MECHANISM**

2 **Q. WHAT HAS STAFF PROPOSED IN RESPONSE TO PACIFICORP'S**  
3 **PROPOSED RENEWABLE RESOURCE TRACKING MECHANISM?**

4 A. While it disagrees with the Company's proposed RRTM,<sup>23/</sup> Staff has proposed that the  
5 Commission adopt a comprehensive PCAM that, unlike the Company's proposal, is not  
6 limited solely to the market value of renewable resources.<sup>24/</sup>

7 **Q. DO YOU AGREE WITH STAFF'S PCAM PROPOSAL?**

8 A. While I conceptually agree with several of the design elements presented by Mr. Gomez,  
9 I question whether it is appropriate for the Commission to adopt a comprehensive PCAM  
10 in this proceeding, especially when the Company did not request one in its initial  
11 application. My concern is that, while a potential comprehensive PCAM underwent a  
12 thorough review in the 2013 GRC, the level of review that occurred in the 2013 GRC has  
13 not taken place in this proceeding and, at this point, probably cannot take place in the  
14 time remaining. It has not taken place because the Company made the decision not to  
15 request a comprehensive PCAM in its initial filing, despite the Commission's comment  
16 in the 2013 GRC that it is "open to consider a properly designed PCAM that incorporates  
17 the appropriate balance between the Company and ratepayers."<sup>25/</sup> As a result, I  
18 recommend that the Commission reject the proposed PCAM, as the full breadth of issues  
19 surrounding a comprehensive PCAM cannot be addressed at such a late stage in this  
20 proceeding.

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<sup>23/</sup> Exh. No.\_\_(JBT-1T) at 5:20-14:7.

<sup>24/</sup> Exh. No.\_\_(DCG-1CT) at 3:18-19.

<sup>25/</sup> 2013 GRC, Order 05 at ¶ 173.



1 **Q. WHAT SPECIFICALLY ABOUT A PCAM HAS NOT BEEN ADDRESSED IN**  
2 **THIS PROCEEDING?**

3 A. Namely, there has been no evidence presented in this proceeding, other than references to  
4 the information reviewed in the 2013 GRC, regarding the Company's need for a  
5 comprehensive PCAM. In the 2013 GRC, there was a detailed debate regarding whether  
6 such a mechanism was actually needed.<sup>26/</sup> Boise took the position that the Company did  
7 not need such a mechanism, citing the relatively modest variability in NPC in  
8 Washington during recent periods.<sup>27/</sup> That discussion has not occurred in this proceeding  
9 and, given the present late stage in the proceeding, cannot take place without unfair  
10 consequences to the parties.

11 **Q. WOULD IT BE APPROPRIATE FOR THE COMMISSION TO DETERMINE**  
12 **WHETHER THERE IS A NEED FOR A PCAM IN THIS PROCEEDING, BASED**  
13 **ON THE INFORMATION PRESENTED IN THE 2013 GRC?**

14 A. No. My understanding is that the information presented in the 2013 GRC is not part of  
15 the record in this proceeding. Lacking the ability to conduct discovery on, and cross  
16 examination of, the information from the 2013 GRC, I believe it would be unfair to the  
17 parties if the Commission relied on information presented in the 2013 GRC to make its  
18 decision in this proceeding.

19 **Q. HAS A COMPREHENSIVE PCAM TARIFF BEEN PRESENTED IN THIS**  
20 **PROCEEDING?**

21 A. No. Absent a proposed tariff, it is not possible to form a position on the terms, conditions  
22 and applicability of rates charged under such a comprehensive PCAM mechanism. This  
23 furthers my concerns as to whether it is appropriate for the Commission to approve a

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<sup>26/</sup> Id. at ¶¶ 157-161.

<sup>27/</sup> Id. at ¶ 160.

1 comprehensive PCAM tariff, when one was not included in the Company's initial  
2 application.

3 **Q. HAVE THE PARTIES DEMONSTRATED THAT IT IS POSSIBLE TO**  
4 **QUANTIFY ACTUAL NPC IN THIS PROCEEDING?**

5 A. No. I disagree that it is possible for the Company to quantify actual NPC on a WCA  
6 basis, and, as a result, the proposed PCAM should be rejected. For purposes of the  
7 financial results included in regulatory filings, the Company currently estimates actual  
8 NPC using computerized simulations from the Generation Regulation Initiative Decisions  
9 Tools ("GRID") model. The GRID model, which is populated with actual hourly  
10 information, simulates how the Company's system would have behaved if it were  
11 operated on a WCA basis. The GRID modeling includes seemingly innumerable  
12 assumptions, several of which were discussed in my responsive testimony, such as  
13 market caps, reserve levels, plant heat rates, outage rate modeling, plant ramping rates,  
14 commitment logic, etc., all of which contribute to the level of actual NPC estimated in the  
15 Company's financial results.

16 To the extent that these "simulated-actuals" are to be used in a PCAM, the  
17 modeling assumptions that are often controversial in rate cases would become a central  
18 focus of any amounts that the Company would defer under a comprehensive PCAM.  
19 System benefits and costs, such as those associated with the EIM or wind integration, will  
20 never be reflected in simulated-actuals, unless incorporated into the Company's  
21 modeling. Thus, any actual costs included in the simulated-actuals would be a reflection  
22 of how the Company forecasts power costs, not the actual costs incurred.

1 **Q. DO YOU AGREE THAT THE METHODOLOGY PROPOSED IN THE 2013 GRC**  
2 **ACCURATELY CALCULATES THE COMPANY'S ACTUAL NPC?**

3 A. No. While I understand that the Company made some effort in the 2013 GRC to analyze  
4 actual WCA NPC using accounting information, the record in this proceeding does not  
5 reflect this additional analysis. My understanding is, however, that the Company's  
6 approach will not accurately capture the costs associated with the WCA methodology.  
7 Relying on accounting data that is representative of the Company's entire system cannot  
8 accurately carve-out the costs attributable solely to the WCA method. The methodology  
9 makes no effort to demonstrate how WCA resources would have dispatched if limited  
10 solely to the WCA. If, for example, reserves from a western hydro resource were  
11 transferred to the eastern control area, the costs associated with those reserves would not  
12 be properly accounted for in the Company's methodology, based solely on accounting  
13 data.

14 **Q. DO YOU HAVE ANY CONCERNS WITH DESIGN ELEMENTS PROPOSED BY**  
15 **STAFF?**

16 A. While I do not believe that there has been any demonstration regarding the need or  
17 accuracy of such a mechanism, there are several aspects of Staff's proposal that I  
18 disagree with. I emphasize that my analysis of Staff's proposal is preliminary only, given  
19 that I have been unable to conduct the level of detailed analysis otherwise possible, had  
20 the proposal been filed by the Company at the beginning of the proceeding and  
21 accompanied by sufficient supporting documentation.

22 First, while I agree with the application of asymmetrical sharing percentages, I  
23 believe that it is necessary to apply asymmetric deadband thresholds as well. For

1 example, the deadband should be set at \$30 million in years when the Company has  
2 under-recovered NPC and \$15 million in years when the Company has over-recovered.  
3 Applying an asymmetrical deadband threshold would better recognize the asymmetric  
4 nature of power cost variability discussed in the responsive testimony of Mr. Gomez.<sup>28/</sup>

5 Second, an earnings test should be put in place, whereby the Company would not  
6 be allowed to recover additional funds from customers if the Company's earnings are  
7 within 150 basis points of its authorized return. Such an earnings test would prevent the  
8 Company from receiving a financial windfall and would protect customers from paying  
9 additional monies to the Company in years when the Company has achieved a reasonable  
10 return, despite under-recovering NPC.

11 Third, any balances in a PCAM account should accrue interest at the Company's  
12 interest on deposit rate offered to customers who advance funds to the Company.

13 Utilizing the interest on deposit rate, which is also used in the Company's Energy Cost  
14 Adjustment Mechanism in Idaho, would ensure fairness between the treatment the  
15 Company affords customers who advance funds to the Company and funds due from  
16 customers to the Company. To the extent that the Company accrues debt or expends  
17 capital as a result of a PCAM deferral, the resultant financing charges would already be  
18 reflected in the Company's overall rate of return.

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<sup>28/</sup> Exh. No.\_\_(DCG-1CT) at 22:20-22.

1 **Q. IF THE RECORD HAD BEEN MORE FULLY DEVELOPED, WOULD YOU**  
2 **HAVE ADDITIONAL RECOMMENDATIONS ON A COMPREHENSIVE**  
3 **PCAM?**

4 A. Yes. It would be worthwhile to fully review the rate spread implications of such a  
5 mechanism. For purposes of a mechanism such as this, the rate classes causing power  
6 costs to exceed the base should also be responsible for the cost. For example, it would  
7 violate the principles of cost causation if the deferral were caused primarily by an  
8 increase in the load associated with one rate class, but consequently spread to all other  
9 rate classes.

10 **Q. PLEASE SUMMARIZE YOUR RESPONSE REGARDING STAFF'S PROPOSED**  
11 **PCAM.**

12 A. As a threshold matter, I would be concerned if the Commission were to adopt an  
13 extraordinary form a rate relief that was not requested by the Company in its initial  
14 application. Doing so would foreclose the opportunity for parties to do a thorough  
15 analysis of the form of rate relief requested. Thus, I recommend that Staff's proposed  
16 PCAM be rejected.

17 **VIII. COLSTRIP OUTAGE DEFERRAL**

18 **Q. WHAT WAS STAFF'S POSITION REGARDING THE COMPANY'S**  
19 **PROPOSAL TO DEFER COSTS ASSOCIATED WITH THE MAJOR OUTAGE**  
20 **AT COLSTRIP UNIT 4?**

21 A. Without providing any explanation of why the Company's proposal is appropriate or  
22 whether the Colstrip Unit 4 outage was the result of prudent plant operations, Staff has

1 recommended that the Colstrip deferral be approved by the Commission and amortized in  
2 rates through expense.<sup>29/</sup>

3 **Q. DO YOU AGREE WITH STAFF'S POSITION?**

4 A. No. Staff has provided no substantive analysis to demonstrate why such a deferral is  
5 appropriate. This may be because the information presented in the Company's  
6 application was insufficient to conclude that a deferral related to the Colstrip Unit 4  
7 outage is warranted. No testimony was provided in this proceeding to discuss the nature  
8 of the outage at Colstrip Unit 4, nor to explain what actual costs were incurred as a result  
9 of the outage. The only evidence that has been provided in this proceeding was the  
10 Company's initial application in Docket No. UE-131384, where the Company devoted  
11 less than ten paragraphs to explain why the deferral was necessary. That application was  
12 submitted on July 26, 2013, and was based on high-level estimates of the costs associated  
13 with the Colstrip Unit 4 outage, which are different than the amounts that the Company  
14 has proposed to include in its filing.<sup>30/</sup>

15 **Q. WHAT DID THE COMPANY PROPOSE TO INCLUDE IN ITS INITIAL GRC**  
16 **FILING?**

17 A. The Company requested to include \$1.97 million in variable costs and \$6,850 in fixed  
18 costs related the Colstrip Unit 4 outage.<sup>31/</sup> The Company appears to suggest that the  
19 variable costs represent the replacement power, or opportunity costs, associated with the  
20 outage between July 2013 and February 2014, though no witness was presented to

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<sup>29/</sup> Exh. No.\_\_(BAE-1T) at 11:1-12:7.

<sup>30/</sup> Compare PacifiCorp's Petition for an Accounting Order, Docket No. UE-131384 at ¶ 4 (July 26, 2013) (estimating costs between \$3-4 million), with Exh. No.\_\_(NCS-9) at 5 (stating a total revenue requirement of under \$2 million).

<sup>31/</sup> Exh. No.\_\_(NCS-9) at 4-5.

1 demonstrate how these replacement power costs were calculated, nor what specific  
2 transactions were executed to replace the output of Colstrip Unit 4. The fixed costs  
3 consisted of depreciation expense related to \$250,000 in capital that the Company alleged  
4 to have spent as a result of the outage.

5 **Q. DID STAFF CONCLUDE THAT THE OUTAGE WAS THE RESULT OF**  
6 **PRUDENT OPERATIONS?**

7 A. No. This is probably due to the fact that the Company, itself, provided no description of  
8 the cause of the outage in its initial GRC filing or in its deferral application.

9 **Q. DID STAFF OR THE COMPANY IDENTIFY ANY ACTUAL TRANSACTIONS**  
10 **THAT THE COMPANY WAS REQUIRED TO MAKE AS A RESULT OF THE**  
11 **COLSTRIP OUTAGE?**

12 A. No. Absent such a demonstration, I disagree that the Colstrip outage represents actual  
13 costs, upon which the Company can be granted extraordinary rate relief.

14 **Q. DID STAFF REVIEW THE REASONABLENESS OF THE COMPANY'S**  
15 **CALCULATIONS?**

16 A. Staff did not represent that it reviewed these calculations, nor that they were reasonable.  
17 It should be noted, however, that these calculations contain numerous errors and  
18 inconsistencies. First, the Company calculated replacement power through February  
19 2014, yet Colstrip Unit 4 came back online in late January 2014.<sup>32/</sup> Second, the Company  
20 included replacement power costs for July 2013,<sup>33/</sup> yet it did not file a petition for  
21 deferred accounting until the end of that month, on July 26, 2013.

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<sup>32/</sup> Exh. No. \_\_\_(BGM-10) (Company Response to Boise DR 5.2).

<sup>33/</sup> Exh. No. \_\_\_(NCS-9) at 5.

1 **Q. IS STAFF’S RECOMMENDATION CONSISTENT WITH ITS PCAM**  
2 **PROPOSAL?**

3 A. No. Staff recommends a PCAM that includes a \$25 million deadband. Under such a  
4 mechanism, the Company would be granted no deferral associated with the proposed  
5 \$1.97 million of alleged replacement power costs, even if such costs could be determined  
6 with certainty. In addition, if the cost of the Colstrip Unit 4 outage had exceeded the  
7 deadband threshold, such costs would be subject to Staff’s proposed 50%/50% sharing  
8 band.

9 **Q. PLEASE SUMMARIZE WHY YOU DISAGREE WITH STAFF’S PROPOSAL**  
10 **FOR THE COMMISSION TO APPROVE THE COLSTRIP DEFERRAL**

11 A. Neither Staff nor the Company has provided any information to demonstrate that costs  
12 associated with the Colstrip Unit 4 outage should be deferred. Neither party provided a  
13 comprehensive explanation of the cause of the outage, nor the steps that were taken to  
14 restore plant operations. Neither party has demonstrated what specific transactions  
15 replaced the Colstrip Unit 4 output, nor that it is even possible to assess the actual the  
16 costs of the outage on a WCA basis. The Company has argued that deferred accounting  
17 is needed because it does not have a comprehensive PCAM in place to recover the costs  
18 associated with this outage.<sup>34/</sup> Notwithstanding, the Company, which did not request a  
19 comprehensive PCAM in this proceeding, would likely not have recovered any costs  
20 associated with this outage if it did have a comprehensive PCAM, including that  
21 proposed by Staff.

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<sup>34/</sup> PacifiCorp’s Petition for an Accounting Order, Docket No. UE-131384 at ¶ 6 (July 26, 2013).

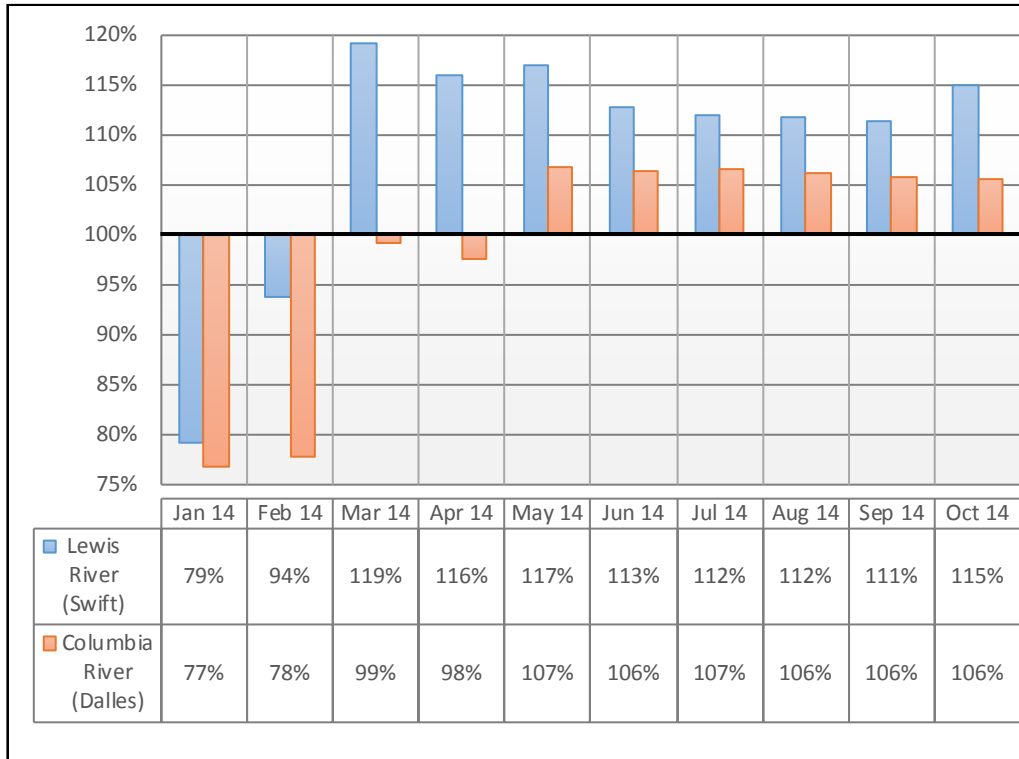


**IX. HYDRO DEFERRAL**

**Q. DO YOU AGREE WITH STAFF AND PUBLIC COUNSEL THAT THE COMPANY’S PROPOSED HYDRO DEFERRAL IS NOT APPROPRIATE?**

A. Yes. I agree with Staff and Public Counsel that the Company should not be allowed to defer costs associated with hydro conditions in 2014, which, as shown in Figure 1, below, have actually exceeded normal hydrological conditions.

**FIGURE 1**  
*Actual cumulative run-off as a percentage of 30-year normal (1981-2010)*  
 Source: National Oceanic and Atmospheric Administration,  
 Northwest River Forecast Center  
<http://www.nwrfc.noaa.gov/rfc/>



**Q. DOES FIGURE 1 CONFIRM THAT HYDRO CONDITIONS HAVE NOT BEEN ABNORMALLY LOW IN 2014?**

A. Yes. Figure 1 details the cumulative run-off in 2014 for the Lewis River and Columbia River as a percentage of normal run-off between 1981 and 2010. As can be seen in the

1 Figure, hydro conditions were initially below normal. Above average run-off in the  
2 spring of 2014, however, resulted in the cumulative level of run-off exceeding normal  
3 conditions by fifteen percent and six percent for the Lewis River and Columbia River,  
4 respectively. Accordingly, I agree with the positions of both Staff and Public Counsel,  
5 that a hydro deferral is not warranted for 2014.

6 **X. MERWIN FISH LADDER DEFERRAL**

7 **Q. WHAT WAS THE POSITION OF STAFF REGARDING THE MERWIN**  
8 **DEFERRAL?**

9 A. While Staff proposes to exclude accrued return on rate base, Staff recommends that the  
10 Company be allowed to amortize in rates amounts related to the Merwin Fish Collector,  
11 including O&M and depreciation expense, beginning from April 15, 2014, to the rate  
12 period.<sup>35/</sup>

13 **Q. DO YOU AGREE WITH STAFF THAT RETURN ON RATE BASE SHOULD BE**  
14 **EXCLUDED FROM THE DEFERRAL?**

15 A. Yes. Providing the Company the opportunity to earn a return on rate base associated with  
16 the Merwin Fish Collector would give it the opportunity to earn a second return on a rate  
17 base amount that is already included in the filing. To the extent that the Commission  
18 provides the Company the opportunity to include the Merwin Fish Collector in rate base  
19 as a pro-forma capital addition, the Company will include in rates a full year's worth of  
20 return associated with the Merwin Fish Collector. If the Company were also provided the  
21 opportunity to defer a return on rate base amount between April 15, 2014, and the rate

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<sup>35/</sup> Exh. No.\_\_(JLB-1T) at 26:4-13.

1 period, the rates established in this proceeding would allow the Company to earn twice  
2 on the same rate base amount.

3 **Q. DO YOU AGREE WITH STAFF THAT THE COMPANY SHOULD BE**  
4 **ALLOWED TO RECOVER DEPRECIATION ON THE DEFERRAL?**

5 A. No. The Merwin Fish Collector was placed in service after the test period. To the extent  
6 that it is included in the test period as a pro-forma capital addition, the Company has  
7 already included a full year of depreciation related to the Merwin Fish Collector in rates.  
8 If the Company were to include additional depreciation, it would result in approximately  
9 two years of depreciation being accounted for in a single test period. Therefore, I do not  
10 agree that such a result would fairly account for test period costs.

11 Moreover, I disagree with Mr. Ball that the Merwin Fish Collector costs should be  
12 treated as “unusual” or “unique,” thereby justifying special depreciation treatment  
13 associated with the extraordinary rate mechanism of deferred accounting.<sup>36/</sup> In the  
14 Northwest, there is nothing unusual about investments that are required for dam  
15 relicensing. Most, if not all hydroelectric facilities, require federal relicensing  
16 conditions—meaning that there is nothing exceptional or extraordinary about the Merwin  
17 Fish Collector that makes deferred accounting appropriate for such routine expenses.

18 **Q. DOES THIS CONCLUDE YOUR CROSS-ANSWERING TESTIMONY?**

19 A. Yes.

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<sup>36/</sup> Exh. No.\_\_(JLB-1T) at 28:1-7.