BEFORE THE WASHINGTON STATE

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFIC POWER & LIGHT COMPANY, Respondent.	DOCKET NOS. UE-140762 and UE-140617 (Consolidated)

HEARING - VOLUME IV

Pages 104 - 372

ADMINISTRATIVE LAW JUDGE DENNIS J. MOSS
COMMISSION CHAIRMAN DAVID DANNER
COMMISSIONER JEFFREY GOLTZ
COMMISSIONER PHILIP JONES

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idea behind DCF; that in fact, growth rates have to be sustainable over the long term to be realistic. And I believe this is the best way to get at that.

MR. FFITCH: Those are all my questions.

JUDGE MOSS: Anything further?

Mr. Hill, we appreciate your being here individually, and we'll see you later as part of our panel.

And in the meantime, Mr. Parcell can collect his goods and so forth.

DAVID C. PARCELL, witness herein, having been first duly sworn on oath, was examined and testified as follows:

DIRECTOR EXAMINATION

BY MS. CAMERON-RULKOWSKI:

Q Good afternoon.

A Good afternoon.

Q Would you please state your name for the record?

A Certainly. David C. Parcell, P-A-R-C-E-L-L.

Q Do you have any corrections to the testimony or exhibits that you filed?

A I do.

Q Would you please go ahead and go through those?

A Certainly. If you'll turn, please, to page 3,

CROSS-EXAMINATION

BY MS. MCDOWELL:

Q Good afternoon, Mr. Parcell.

A Good afternoon.

Q So can you turn to page 4 of your testimony in this case, DCP-1T?

A Sure. I have that.

Q And there at the top of page 4, just to get our bearings here, you're -- you testified that your common equity range for PacifiCorp is a range of 9 to 9.5.

Do you see that?

A Yes.

Q And you have a range for your ROR, your rate of return, 7.07 to 7.31.

Do you see that?

A Yes, ma'am.

Q In both cases you select the bottom of those ranges, so a 9 percent ROE and a 7.07 percent ROR, correct?

A For my point recommendation, that is correct.

Q Now, can you turn to page -- or to Cross Exhibit DCP-26 --

A 26, you said?

Q 26.

A Sure. That's the PSE case, right?

Q Yes. That's the case we were just discussing.

A Yes, I have that.

Q And this testimony was filed a couple of weeks ago in the PSE case; is that correct?

A Yes, December 3.

Q And you filed that testimony on behalf of the Commission Staff, correct?

A Also correct.

Q Now can you turn to the summary of your results on page 30 of this exhibit?

A 30?

Q That's correct. It's 30 of the exhibit, 27 of the testimony.

A Okay. Bear with me if you would because I just brought a copy of my testimony. I did not print out what you sent me. So I want to make sure we're on the same page. But I'm with you on the one now for sure.

Q I'll try to give you the alternative page numbers.

A I appreciate that.

Q Now on lines 22 -- 21 to 22, you recommend a return on equity range of 9.0 percent to 10.0 percent.

Do you see that?

A Yes, I do.

Q And your -- the top of your range in terms of the results you show there on page 27 would be the top of your CE range, your comparable earnings range; is that correct?

A That is correct.

Q Now, based on this range of 9.0 to 10.0 percent for PSE, you select a point estimate of 9.5 percent; is that correct?

A Yes. As of the early 2013 time frame, correct.

Q And then on the -- following on to the following page, lines 11 through 12, you also indicate that a 9.8 percent number, which is PSE's current ROE as I understand it, is within your recommended range.

Do you see that?

A Within it, that is correct.

Q Now can you turn to page 38 of your testimony in this case?

A Current case?

Q Current case.

A 38, you said?

Q Yes.

A Thank you. I have that.

Q Now, there you set out a summary table that looks similar. Do you see that line -- it's in between lines 16 and line 20?

A Yes, ma'am.

Q And there you have the exact same CE range for PacifiCorp that you have for PSE, correct, 9.0 to 10.0?

A For CE, correct.

Q But for PacifiCorp, you set your range as 9.0 percent to 9.5 percent, correct?

A No. In PacifiCorp the range was 9 to 10, but I put the midpoint of the range at 9.5. But I compared the midpoint of the DCF range of 9.0.

So I was using midpoints to determine a more narrow range for PacifiCorp than the broader range I took in the case of PSE because of the nature of this different proceeding, which I'll gladly explain if you'd like.

Q Well, let me just focus on your testimony here.

A Sure.

Q On lines 22 to 23, you say, "I recommend a return on equity range of 9.0 to 9.5 percent for PacifiCorp."

Do you see that?

A You said 9 to 9.5, correct?

Q Correct.

A That is correct, yes, ma'am.

Q And in basically the same part of the page in your PSE testimony, lines 21 to 22, you say you recommend a return on equity range of 9.0 percent to 10 percent for PSE?

A Right. For the early 2013 time period, that is correct, yes, ma'am.

Q And the basis for your top of the range 10 percent recommendation for PSE was your CE outcome, correct?

A Yes, ma'am, that's right.

Q And you have the same CE outcome in the PacifiCorp case, correct?

A Correct.

Q But yet you cut the range off at 9.5 percent, not at 10 percent, correct?

A Right. As I indicated before, in the PSE case I'm using the broader range based upon my understanding of the directives of that case; whereas in the PacifiCorp case, I'm using the midpoints of both my comparable earnings in DCF range to get a mid point of 9.25.

I might add if I had used the upper and lower end of my DCF and CE in this case, it would have been 8.6 for DCF, 10.0 for CAPM, for CE. That's a midpoint of 9.35, about the same as my 9.25.

So it's just about I did them differently because of the nature of that remand proceeding and my interpretation of what information was being requested and how to best respond to that request.

Q Well, you certainly don't include that explanation anywhere in the PSE testimony, do you?

A Well, that testimony stands on its own. My PSE testimony is not built upon incorporating my PacifiCorp testimony. My PSE testimony stands by itself.

It would not be appropriate, in my humble opinion, to be quoting PacifiCorp in my PSE testimony, especially since it took place two years earlier.

Q So can you turn to page 39 of your testimony in this case, please?

A Sorry. 39?

Q 39?

A Sure. I'm there. Thank you.

Q And on line 4 of that testimony?

A Yes.

Q You indicate that you selected the low end of the range, 9.0 percent, because your DCF and CE conclusions focus on the highest results, do you see that?

A Yes, ma'am.

Q But it's clear from what we just looked at that you don't use the highest results from your CE method for PacifiCorp, do you; you cut off your CE results at the midpoint, correct?

A That is correct. But I'm referring here to the fact that -- I think you also asked me a data request to this effect -- I did not use a formula approach to determine my CE results. So Mr. Hill, for example, does use a formula approach. And that would have been the more adjustment, if you will.

I focused just primarily on the actual earnings and the resulting market to book ratios. So from my perspective, if 9.5 -- 9 .495, which is a common CE result for the industry, and proxy groups have been accompanied by market book ratios of above 100 percent, that is adequate. And that is, to my way of thinking, high end results.

Q Well, I'd like to go through your CE results a little bit.

A Sure.

Q On page 37, you summarize the cost of equity indicated by your CE results. And there you indicate recent returns of 9.4 percent to 10.3 percent for your historical CE analysis, correct?

A Correct.

Q And prospective returns of 9.5 percent to 11.1 percent; do you see that?

A Yes.

Q And in neither case is the bottom of your range of results 9.0 percent, correct?

A Right. But you didn't mention -- you left out the part where I referred to 133 percent market book ratio for the historic and over 150 percent market book ratio for prospective. Those are relevant considerations to determining the CE results. And those are in the same sentence as you quoted.

Q But you don't adjust the results anywhere in your testimony, do you?

A I'm sorry. Could you repeat that.

Q Your ranges that you state are bottomed out at 9.4 and 9.5 respectively, correct?

They aren't bottomed out. They reflect the investor expectation that a return of no more than 9.5 percent is adequate to produce market book ratios well above 100 percent. That's not bottoming out, no.

Q Let's turn to your CE discussion.

A My what?

Q The discussion of your CE analysis?

A Sure.

Q I believe it's on page 36. Now, there you list 16 different results for the proxy group and this front group.

Do you see that?

A Those are actually ranges. There's more results of that embedded within those. But those are the high and low for each of those categories, yes.

Q And again, there's nowhere in these ranges that you state is there a result as low as 9.0 percent?

A That's correct. But the 9.4 to 9.5 are accompanied by market book ratios of over 135 percent.

Q Well, let's turn to the data request I think you referred to, which is DCP-25CX?

A Yes, thank you. Sure. I have that one.

You said 25, didn't you?

Q I did.

A Yes, thank you.

Q And there PacifiCorp asks you to reconcile the fact that you were recommending a bottom of the range that was not indicated by any of your results?

A Right.

Q And the Company specifically asked you did you make an adjustment for market to book ratios.

And nowhere in that data request response do you say the words "yes," correct?

A That's correct, because the adjustment for the ratios would be as the so-called market to book approach like Mr. Hill uses, where you actually have a formula that throws in market to book retention growth, internal growth, external growth. And that to me is an adjustment in this context.

And I don't use that. I've seen Mr. Hill use it, but I don't use that adjustment.

Q You don't demonstrate that anywhere in your work papers or even in this response to the data request, do you?

A No, because I don't do it. I don't say what I don't do.

Q But you showed the result --

A I've never -- I apologize.

Q And I apologize to you. I don't mean to talk over you.

A Just be nice.

Q I will if you will.

A So let me just ask you another question, then, about your Data Request 55. Your response is that in response to the question why you set a range of 9 to 10 in light of the results that were higher than that, you indicate that six of the eight period averages are 10.1 percent or less, and four of the eight are 9.8 percent or less.

Do you see that?

A I do.

Q But doesn't that still mean that half of your period averages are greater than 9.8 percent?

A That is correct.

But again, the accompanying book ratios are well over 130 percent.

Q So in your testimony on page 38, lines 8 through 10, just to clarify this, you confirm that you do not incorporate any market to book adjustment, correct?

A Not in a formulistic sense; that is correct.

Q But just in kind of a general way you reduce the returns for market to book ratios?

A I don't reduce the returns. I just point out that it's not the required return. The required return is less than the indicated return.

Q And that's true for PacifiCorp, where you set a range of 9 to 9.5, but less true for PSE where you set a range of 9 to 10; is that correct?

A Well, again, PacifiCorp was in the context of 2013 -- actually, early 2013 time frame. And my interpretation of what was being requested in PacifiCorp was a more broad or even a wider analysis of what the potential returns could be. At least that's the approach I took to PSE -- PacifiCorp instead of PSE in that prior sentence.

Let me recap. In PSE I accepted my assignment as focusing on the early 2013 time period. All my analyses were as of that time period.

And also, I interpreted the Commission's agreement and order to indicate that -- show us what were reasonable returns at that point in time. Therefore, as opposed to focusing just on the midpoints, I went to the lower band of the lowest return and the highest band of the highest to get a broader range.

Again, the midpoint would likely be the same using and averaging two midpoints. But I took the broader range approach in that case because that was my interpretation of what was being desired.

Q And wouldn't you agree that that kind of broader range look would be fairly applied to PacifiCorp, given the fact that the cases are pending concurrently and the

Commission is looking at this issue at the same time?

A Not really, because again, PSE is in time frame of early 2013. That's almost two years ago now. And I think the latest data that I used was March 31 of 2013 in that case.

And I'm using data through September of 2014 in this case. So it's 18 months apart.

It's true the Commission is hearing them more or less back to back, but one is a remand. And the Commission's order specifically stated early 2013, which is what I did.

Q Let me just ask you about your CAPM results in the case.

A Sure.

Q Can you turn to page 39 of your testimony in this case?

A Yes. 39?

Q Yes.

A Yes, I'm there.

Q And there you testify that while your CAPM results are less than your DCF or CE results, the Commission should use them to support your recommendation for a low end of the range outcome; is that a fair summary of your testimony?

A Roughly speaking.

What I'm really saying here is the same thing that

Mr. Gorman and Mr. Hill have already told you, which is we've been waiting for interest rates for go up for four years now. And by George, if we keep predicting, one year we're going to be right. We haven't been right yet.

And if an investor had thought in 2010 they're going up and you bet the farm on it, you wouldn't have the farm today.

And the longer they stay low, the more it becomes a norm. My 93-year-old father can't get a CD over 1 percent before two years. And that's normal for him. And people who used to get 5 percent CD's have all but forgotten that they were. That's an opportunity cost for your ratepayers. And that's the way people are reacting to this long-term low interest rate environment. It's not a novelty anymore. It's the norm now.

Q So Mr. Parcell, can you turn to page 30 of your PSE testimony, DCP-26CX, please?

A Yes.

JUDGE MOSS: And that's page 30 of the exhibit?

MS. MCDOWELL: That's correct.

THE WITNESS: It will be 28 of the testimony?

Q (By Ms. McDowell) 27 of the testimony.

JUDGE MOSS: It's page 27 of the testimony.

THE WITNESS: Thank you.

Q (By Ms. McDowell) Now, it's true, isn't it, that your CAPM results in the PSE case are much lower than they are in the Pacific Power case?

A The PSE case, they were a midpoint of 6.7.

At the current time it's 7.3. So the CAPM has gone up.

Q So I have the ranges here. Your PSE results, 6.5 to 6.8, and your Pacific Power results 7.2 to 7.4.

Do you see that?

A Yes.

Q And in your PSE testimony you don't have a similar comment about the Commission considering the low CAPM results to justify a lower range outcome, correct?

A Correct.

Q So even though PSE's CAPM results are lower, you don't advocate for the Commission to consider those, correct?

A Right, because I'm talking two years ago in PSE.

And when I came across that question and answer, I determined it would be more confusing in a historic sense that it would be as opposed to being clear in a present sense. Therefore, I made the executive decision to take that out of that PSE case because it was two years ago.

Q Doesn't the fact that the CAPM results are

increasing in the PacifiCorp case suggest that the costs of capital are increasing and not declining, as your narrower range for PacifiCorp suggests?

A Well, the DCF costs are lower in the PacifiCorp vs. PSE.

Q But the CAPM results are higher?

A That's correct.

Q And the CE results are the same, correct?

A They are the same, yes.

Q And you ultimately rely on the CE results to justify your recommendation in the PSE case, correct?

A In part, yes.

Q That's how you get to 9.5 and to justify a 9.8 as a part of a reasonable range, correct?

A That's correct. If I just did DCF and CAPM I'd be below 9 percent.

Q So Mr. Parcell, can you turn to DCP-27, please?

A Sure.

Q And do you recognize this as the testimony of Tom Schooley filed concurrently with your testimony in the PSE case?

A I do.

Q And I just have one question to ask you on this testimony. I wanted to direct your attention to page -- the top of page 7. And --

A I have that.

Q And this question actually begins -- there's a question that leads up to it at the bottom of page 6. The bottom of page 6 reports on PSE's earnings?

A Yes.

Q And the top of page 7 the question is: "Of what importance is this data?"

And the answer is, "This data implies that, since PSE is not achieving its authorized return of 7.77 percent, it is unnecessary to reduce the authorized return."

Do you see that testimony?

A Yes, ma'am, I do.

Q So based on this testimony, wouldn't you agree that if PacifiCorp is not achieving its authorized return, it would be unnecessary to reduce its authorized return from 9.5 percent to 9.0 percent?

A I do disagree with that. And I'll gladly tell you why if you want to know.

Q So can you turn to page 23CX, please?

A Page 23 of what?

Q I'm sorry. Exhibit 23CX.

A Oh, sure. Yes. I have that.

Q Now this is your data request response to PacifiCorp's Data Request No. 50. And this data request response referred to a survey of electric utility rate

decisions in 2014.

Do you recall responding to this data request?

A Yes, I do.

Q And in your response, you confirm that the survey found that the average ROE for the electric utility rate case decisions in 2014 was 9.9 percent?

A That is correct.

Q Do you recall that?

A And I'm glad you brought this schedule up, because the same information shows the prior authorized returns from the prior year, and that average was 10.14. So over that one-year period, the average return on equity for electric utilities dropped 26 basis points.

So that does indicate a decline in cost of equity as shown by regulators.

Q But it also indicates an average ROE that's 90 basis points higher than your recommendation --

A That's right, but 26 base points lower than the year before.

Q So on page 2 of this cross-examination exhibit, in the article entitled "Risk Holds Sway," it quotes -- are you with me?

MS. WALLACE: 23CX.

Q (By Ms. McDowell) Sorry if I misspoke. 23CX on page 2.

And there's a discussion of the ISO New England decision at FERC.

Do you see that, in the first part of the article?

And I want to ask you about one quote which is at the midcolumn on the third column over. It said that, "As FERC explained, if ROE's were tied too closely to current interest rates, investors would simply choose to put their money elsewhere."

Now, your recommended ROE of 9.0 percent in this case does not account for this risk of investor disinterest, correct?

A Investor what?

Q The loss of investment interest in utility investment if ROE's were tied too closely to current interest rates.

A I'm sorry. I must have misunderstood your question, because I don't see the connection between this page and your question. So maybe I'm missing something.

Q Let me rephrase my question.

A Sure. Thank you.

Q In this article, there's a quote saying, "As FERC explained, if ROE's were tied too closely to current interest rates, investors would simply choose to put their money elsewhere."

Do you see that quote?

A Yes, ma'am.

Q And I'm asking you, did your recommendation in this case consider whether investors would continue to invest in PacifiCorp at that 9 percent?

A Again, interest rates are lower today than they were a year ago when the Commission gave PacifiCorp 9.5 percent.

So -- and that part was on appeal at that time. So if 9.5 was appropriate based upon the context of your question a year ago, and interest rates are lower today, that logic would indicate on its own less than 9.5 percent.

Q Can you turn to page 39 of your testimony, please?

A You said 39?

Q Yes.

A Yes. I'm there. Thank you.

Q Again, lines 1 through 5. As another reason for justifying the bottom end of your range recommendation, you refer to the possible implementation of a PCAM mechanism in this case.

Do you see that?

A Yes, ma'am.

Q You agree that PacifiCorp currently does not have any PCAM mechanism, right?

A Right, as Mr. Williams points out in his testimony.

Q And even if the Commission adopted one in this case, wouldn't it be premature to make any risk adjustment for a PCAM at this time before there's any demonstration of an actual reduction in risk?

A It's not a risk adjustment.

What it's saying is it's something new for the company. And I'm not going outside my range. I'm just saying it's a factor to tell us where to go within the range.

And this company's been asking for a PCAM for years, according to my information. And the Staff is recommending one in this case.

So it's a new factor potentially for the company, and it's a positive factor.

I mean, Mr. Williams said that the rating agents have commented on the Company's lack of PCAM in Washington. It's the only state that does not have one for PacifiCorp.

So it's a new factor. So it's a factor to help determine where within the range to set PacifiCorp's cost of equity.

But I don't go beyond the range. I'm not making an adjustment per se. I'm just going within the range.

Q So Mr. Parcell, can you turn to DCP-28CX?

A Sure. I have that.

Q And do you recognize this as testimony previously filed in a Cascade Natural Gas case in this jurisdiction?

A At least the first four pages of it, yes.

Q And on page 5 of this exhibit, which is page 3 of the testimony, you recommend that if -- that Cascade's ROE should be 25 basis points higher if it does not have a decoupling mechanism; isn't that correct?

A As of 2006, yes, for a gas company.

Q So since PacifiCorp does not have a decoupling mechanism, is it your position --

MS. CAMERON-RULKOWSKI: I'm going to object. Mr. Parcell has not testified to making any adjustments whatsoever based on decoupling. And so I think that this question would be outside the scope of his testimony.

JUDGE MOSS: I'm going to overrule the objection.

Go ahead with the question.

Q (By Ms. Wallace) So since PacifiCorp does not have a decoupling mechanism, is it your position that PacifiCorp's ROE should be 25 basis points higher than a utility that has a decoupling mechanism?

A I have not addressed decoupling in the context of electric utilities such as PacifiCorp, or actually any electric company in two or three years now. So I have not run those numbers lately.

Certainly in 2006 it was a big factor for a gas company like Cascade.

But the analysis I make is the cost of capital for a broad spectrum of publicly traded companies. Maybe some of those companies may have a subsidiary with decoupling, but other subsidiaries do not. But whatever is there is built in, and it's not a factor that I would be comfortable either adding to or subtracting from based upon the information that I've done lately and what I've done in either this or the PSE case prior testimonies.

So I'm sorry. I just can't help you on that. I haven't studied it.

Q At least since the time you filed this testimony in 2006; is that your testimony?

A I'm sorry?

Q You haven't looked at this since 2006 when you filed this testimony previously?

A No. I said I have not looked at the decoupling impact on an electric utility in two or three years, is what I said.

What I did say in '06 is that I had an indicator of the impact for a gas utility in 2006, but that was eight years ago. That may be the same today; it may not be the same. I just don't know.

Q Well, you know, I was just wondering about it

because you recommend a higher ROE for PSE than you did for PacifiCorp, notwithstanding the fact that PSE has a decoupling mechanism.

A PSE has lower bond ratings than PacifiCorp.

And also PSE's return on equity was as of early 2013, whereas PacifiCorp's is in the second -- the fourth quarter of 2014. It's a different time period, different proxy companies.

And most of my recommendations are lower today than they were two years ago because the cost of equity has declined over the last two years, as indicated by the lower authorized returns by utility commissions.

Q And isn't that true, Mr. Parcell, that every one of the utilities in your proxy group in this case is also in one of the proxy groups in the PSE case?

A Repeat that, please?

Q Isn't it true that every one of the utilities in your proxy group in this case is in one of the proxy groups you use in the PSE case?

A It's probably true because in the PSE case I have my own proxy group.

I also do analyses of Mr. Gorman's proxy group from 2013.

And PSE was in Dr. Morin's proxy group as of 2013.

So I'm using three different proxy groups, which probably includes 75 to 90 percent of all electric utilities between the three of them. You'd almost have to follow.

Q So can you turn to page 46 of your testimony, please?

A I'm sorry; 46?

Q Yes, please, in this case.

A Sure. I'm there. Thank you.

Q So there you point to an Exhibit DCP-16, which you indicate states that -- or demonstrates that electric utilities had equity ratios of less than 50 percent and had singe A ratings.

Do you see that?

A Yes.

Q Now, would you agree that in that exhibit there are 21 decisions where the utility was single A rated?

A I'll accept that.

Q And as of those 21 decisions, only one involved a utility with a single A rating that had a common equity ratio of less than 50 percent, correct?

A I'll accept that. But that still shows that 49 percent is enough to maintain an A rating.

Q But it's certainly well below the average for that single A rated utility?

A But you don't have to be the average. You're in the game, so to speak. Companies with lower equity ratios have had A ratings and maintained A ratings.

Q So can you turn to page 40 of your testimony?

A Sure. I have that.

Q And I wanted to ask you about your testimony about the financial integrity test that you conducted on your recommendation. And that's contained here on lines 14 through 19; is that correct?

A Yes.

Q Now you did just a single test to determine whether your recommendation would maintain PacifiCorp's financial integrity, correct?

A I'm sorry. I didn't hear all that.

Q I'm sorry. You just did a single test to verify that your recommendation would maintain PacifiCorp's financial integrity?

A There are two tests. There's coverage and the debt to total capital calculation. There's two tests there.

Q Now when we asked you about the source of your tests that you ran, you provided the information in DCP-22CX. Can you turn to that please?

A Sure. I have that.

Q And that information was provided in response to Data Request No. 49?

A Yes, ma'am.

Q And you basically provided these as the source

documents for your financial analysis of your recommendation in this case; is that correct?

A The information in the -- DCP-15, the benchmark ratios came from DCP-22CX.

But the analyses were done by me. The calculations for PacifiCorp is where it shows. I think that's what you asked me.

Q Yes. That's a fine clarification in your response. That is what I was asking, whether this was basically the source of the framework for your analysis.

A That is correct, yes.

Q And the document that you provided on page 3 of DCP-22, that document is dated 2004, correct?

A Yes, ma'am.

Q And it's true, isn't it, that S&P no longer uses this approach to reviewing credit metrics, correct?

A No, not this exact metric, that is correct.

Q And to do this metric it requires a business profile score from Standard & Poor's, correct?

A Yes.

Q And Standard & Poor's no longer provides business profile scores, do they?

A Not to my knowledge.

Q So how is it that one can conduct this analysis when a critical input to the analysis is no longer provided

by Standard & Poor's?

A I used the business position of 4, which is the middle business position of electric utilities. I should say was.

Q As of 2004?

A And -- well, thereafter. They didn't discontinue it in 2004, but it was published in 2004.

Q But it hasn't been used in some time?

A For some time, yes.

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

JUDGE MOSS: Thank you. Any redirect?

MS. CAMERON-RULKOWSKI: Yes, your Honor.

RE-DIRECT EXAMINATION

BY MS. CAMERON-RULKOWSKI:

Q Mr. Parcell, Ms. McDowell had asked you about various questions about the range that you propose in this case, the PacifiCorp case. And now the basis for the low end of your range, which analysis is that?

I can give you a little more context. On page 38 you summarize the results of your three types of analyses?

A Yes.

Q And the low end of your range, does that come from one of those particular analyses?

A It does. That is the midpoint of my DCF analysis. My DCF analysis is a range of 8.75 to 9.25. The midpoint of that is 9.0. So the 9.0 DCF midpoint forms the lower end of my cost of capital range.

MS. CAMERON-RULKOWSKI: Thank you very much. That's all I have for Mr. Parcell

JUDGE MOSS: You may as well stay where you are.

THE WITNESS: Keep my chair?

JUDGE MOSS: It's probably the most comfortable one anybody's going to have.

Why don't we take a break while we get organized here, because I'm going to ask you to give up your chairs to the witnesses.

(Recess.)

JUDGE MOSS: Let's be back on the record. We have our panel seated now. And this is the opportunity to questions from the bench, so I'll ask if you have any preferences as to order.

QUESTIONS TO THE PANEL FROM THE BENCH

CHAIRMAN DANNER: I want to thank you all of you for being here today. It's been a very interesting day so far.

I guess I'll start with Mr. Parcell. There was a discussion earlier of Mr. Schooley's testimony in the other case which we are not litigating today. And he said that PSE continues to earn less than its authorized rate of return but it's getting closer, and said that that date implies since they're not achieving their authorized rate of return it's unnecessary to reduce the authorize the rate of return.

And I remember Ms. McDowell asked you about that, and you said no, there's a difference. And you invited her to ask to you explain the difference, and she didn't take you up on it.

I wanted to know why in this case that is not a factor. If they're not achieving their authorized rate of return, is it unnecessary to reduce that?

And then I'd ask others to weigh in.

MR. PARCELL: All right. I will not put words in Mr. Schooley's mouth, and I haven't discussed this with him.

However, my reading of the rules of conduct, so to speak, in a case is such that when you had that hearing in 2013, it was, for lack of a better term that comes to mind, an expedited rate case with no cost of capital testimony. In the remand there was no cost of capital.

And I think -- and it's just me thinking; I've not talked to Schooley about this -- but I think what he was saying is that in the absence of the company not earning its authorized return, maybe the cost of capital had less importance in that context. But again, that's my words, not his.

CHAIRMAN DANNER: So as a general matter, to say that if you're not achieving your authorized rate of return it's not necessary to reduce it? That's not --

MR. PARCELL: Or vice versa. The fact that you do or do not earn your authorized rate of return is not by itself justification for an increase or decrease in the cost of equity.

CHAIRMAN DANNER: Thank you.

Anyone else want to respond to that?

All right. Thank you.

And then I wanted to also get others' views on the effect of the PCAM, having a PCAM or not having a PCAM, what should be its effect on ROE.

And I'll just throw that out there to whoever wants to take it.

MR. STRUNK: I can take a first shot at that.

The companies in my proxy group use PCAMs. It's very standard practice for the industry. 42 states in the U.S. use dollar for dollar PCAM recovery. And so the effect of a PCAM is really already baked into the ROE estimates or baked into the ROE estimates for any of the proxy groups that are on the record in this case.