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BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
Complainant,)
vs.) DOCKET UE-130043
PACIFICORP d/b/a PACIFIC)
POWER & LIGHT COMPANY,)
Respondent.)

VOLUME IV

Pages 84 - 353

EVIDENTIARY HEARING BEFORE
ADMINISTRATIVE LAW JUDGE DENNIS L. MOSS

9:33 a.m. - 5:00 p.m.

August 26, 2013

Washington Utilities and Transportation Commission
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4 PANEL DISCUSSION: Hadaway, Williams, Gorman 217
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EXHIBITS

8 EXHIBIT OF AD DESCRIPTION

9 Bench 91 Pacific Power General
10 Exhibit Business update August 13,
2013

11 SCH-18CX 146 PacifiCorp's Response to WUTC
Data Request No. 79 (6 pages)

12 BNW-18CX 159 PacifiCorp's response to WUTC
13 Data Request No. 288 (7
pages)

14 BNW-17CX 173 Excerpted pages 75-83 from
15 Order 04, Docket UE-050684:
16 Order Rejecting Tariffs, as
17 filed; Rejecting Stipulation
on Net Power Costs;
18 Rejecting, in Part, and
Accepting, in Part,
19 Stipulation on Temperature
Normalization Adjustment;
Determining Cost of Capital
(10 pages)

20 BNX-19CX 173 Long Term Debt Workpaper (1
21 page)

22 BNW-20CX 173 PacifiCorp's response to WUTC
Data Request No. 275 (1 page)

23 MPG-24CX 200 Excerpt of Boise's Response
24 to PacifiCorp Data Request
1.2

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1	MPG-25CX	200	Excerpt of Prefiled Direct
2			Testimony and Exhibits of
3			Michael P. Gorman in Docket
4			No. 11-035-200 (Public
5			Service Commission of Utah)
6			(5/31/2012)
7	MPG-26CX	200	Excerpt of Prefiled Rebuttal
8			Testimony of Bruce N.
9			Williams in Docket No.
10			11-035-200 (Public Service
11			Commission of Utah) (6/27/12)
12	MPG-27CX	200	Excerpt of Prefiled
13			Surrebuttal Testimony and
14			Exhibit of Michael P. Gorman
15			in Docket No. 11-035-200
16			(Public Service Commission of
17			Utah) (7/18/12)
18	MPG-28CX	200	Excerpt of Prefiled
19			Surrebuttal Testimony and
20			Exhibit of Michael P. Gorman
21			in Docket No. 11-035-200
22			(Public Service Commission of
23			Utah) (7/18/12)
24	MPG-29CX	200	Excerpt of Prefiled
25			Responsive Testimony of
			Michael P. Gorman in
			Consolidated Dockets
	MPG-30CX	200	Excerpt of Transcript of
			Hearing in Consolidated
			Dockets UE-121697 and
			UG-121705 (5/16/13)
	MPG-31CX	200	Boise White Paper's Response
			to PacifiCorp's Data Request
			2.4
	KLE-5CX	215	Excerpt of Prefiled Testimony
			of Kenneth L. Elgin in
			Consolidated Dockets
			UE-111048 and UE-111049
			(12/7/11)

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1	KLE-6CX	215	Excerpt of Prefiled Testimony of Kenneth L. Elgin in Consolidated Dockets UE-120436 et al. (09/19/12)
2			
3	CLE-7X	215	Excerpt of Prefiled Rebuttal Testimony of Kenneth L. Elgin in Consolidated Dockets UE-120436 et al. (11/19/12)
4			
5			
6	RBD-5CX	287	PacifiCorp's response to WUTC Data Request No. 240 (2 pages)
7			
8	RBD-6CX	287	PacifiCorp's response to WUTC Data Request No. 240 (2 pages)
9			
10	RBD-8CX	287	Derivation of the Control Area Generation West Allocation Factor, PacifiCorp versus Staff for the Twelve Months Ended June 30, 2013 (1 page)
11			
12			
13	GND-14CCX	298	PacifiCorp's Response to Public Counsel Data Request 117 and Confidential Attachment PC-117-1
14			
15	GND-15CX	298	
16	MRT-5C CX	335	PacifiCorp's 1st Revised Response to Public Counsel Data Request 14 and Attachment PC 14 1st Revised
17			
18			
19	MRT-6C CX	335	PacifiCorp's Response to Public Counsel Data Request 70 and Confidential Attachment PC 70-2
20			

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1 JUDGE MOSS: Let's be on the record.

2 Good morning, everybody. My name is Dennis
3 Moss. I'm an administrative law judge with the
4 Washington Utilities and Transportation Commission. We
5 are convening this morning in an evidentiary hearing in
6 the matter styled WUTC against PacifiCorp, doing
7 business as Pacific Power and Light Company, Docket
8 UE-130043.

9 We'll get to our agenda here in a moment, taking
10 appearances and so forth, but before we do that, a
11 couple of housekeeping matters. We have predistributed
12 the hearing version of the exhibit list. You all should
13 have that now.

14 I think the only significant change, and perhaps
15 it's not all that significant, we have decided, at the
16 bench, to include as an exhibit in the record this
17 Pacific Power General Business update, August 13, 2013.
18 This is a presentation that was made to the commission
19 in a duly noticed open public meeting. I don't know
20 exactly when. But in any event, out of an abundance of
21 caution, for lack of a better word, we decided to put
22 this in the record. So if anyone wishes to respond to
23 it, they may.

24 (The Bench Exhibit was admitted.)

25 I wanted to express my appreciation to the

0092

1 company for providing me with this updated, contested --
2 issues list, I should say. Not all are contested. That
3 was a helpful piece to have in that it sort of verifies
4 our thinking on a few points as to where things stood.
5 Of course, after the rebuttal, we're never sure of where
6 the other parties are when the company has conceded to
7 this or that small matter. So we have that. For that I
8 am appreciative.

9 MS. McDOWELL: Judge Moss, can I just say that
10 all of the parties worked with us on that.

11 JUDGE MOSS: My appreciation then to all of you.

12 MS. McDOWELL: I don't want to take sole credit
13 for it, since all of the parties were very helpful in
14 trying to put that together.

15 JUDGE MOSS: Thank you very much. I should have
16 anticipated that that would be the case.

17 So let's go ahead and take appearances and get
18 that procedural matter out of way.

19 We'll start with the company.

20 MS. McDOWELL: Short form appearances?

21 JUDGE MOSS: Yes.

22 MS. McDOWELL: Katherine McDowell, here on
23 behalf of PacifiCorp.

24 MS. WALLACE: Sarah Wallace, on behalf of
25 PacifiCorp.

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1 MS. DAVISON: Melinda Davison, on behalf of
2 Boise White Paper, and also with me is Jesse Cowell from
3 Davison Van Cleve.

4 JUDGE MOSS: All right. You have the space
5 occupied with books, poor Mr. Cowell has to sit behind.

6 MR. PURDY: Brad Purdy, on behalf of The Energy
7 Project.

8 MS. GAFKEN: Lisa Gafken, assistant attorney
9 general, on behalf of public counsel.

10 MR. CEDARBAUM: Robert Cedarbaum, for commission
11 staff.

12 JUDGE MOSS: Mr. Cedarbaum.

13 All right. Our order of business today, I will
14 ask you whether there are any motions or requests or
15 preliminary matters to discuss, and then we will begin
16 with our witnesses.

17 As I understand things, we have a little bit of
18 cross for Mr. Griffith. Does that remain true?

19 MS. GAFKEN: (Nods head.)

20 JUDGE MOSS: So Mr. Griffith will be our first
21 witness. If he'd like to go ahead and take a seat up
22 here while I'm talking, that would be fine. And then
23 we'll have Mr. Hadaway, Mr. Williams, and then
24 Mr. Elgin, individually.

25 And this will be the opportunities for parties

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1 who have indicated cross-examination for any of these
2 witnesses to conduct that cross, and I think there is
3 cross, yes, indicated for each of them. Once that
4 cross-examination and any redirect is complete, the four
5 of them will sit as a panel, and the commissioners will
6 engage in colloquy with the panel, and I'll give an
7 opportunity for redirect of individual witnesses by the
8 sponsoring parties at the appropriate moment in time.

9 Once we finish that, hopefully the timing will
10 be just perfect, and we'll take our morning break. That
11 probably won't happen, but we'll see. And then
12 Mr. Dalley will be the next witness for PacifiCorp after
13 that.

14 Very well. Let's see. Are there any motions,
15 preliminary matters, requests, gratuitous comments?

16 Nothing.

17 Yes?

18 MS. McDOWELL: So on the prefiled testimony, is
19 it your --

20 JUDGE MOSS: Ah. Stipulations.

21 MS. McDOWELL: Well, I don't believe anybody is
22 going to object to anybody else's prefiled testimony. I
23 don't know that. I think the exhibits are another
24 matter.

25 JUDGE MOSS: I'm absolutely with you there. I

0095

1 take it there may be some objections with respect to the
2 cross-examination exhibits. I'm fully expecting that
3 there will be.

4 But as to the prefiled testimony and exhibits,
5 is anybody going to have objections to any of that
6 material, not the cross-exhibits, but the other
7 material?

8 No.

9 Thank you for reminding me, Ms. McDowell. We
10 will stipulate into the record then the prefiled
11 testimony and exhibits, except for the cross-examination
12 exhibits, as identified on the exhibit list that's
13 distributed this morning, and that has been supplied to
14 the court reporter.

15 When we get to the cross-exhibits, we'll take up
16 objections as appropriate. All right?

17 MS. McDOWELL: So, Judge, just so I understand,
18 as the exhibits are offered, that's the time, or as they
19 are --

20 JUDGE MOSS: Yes.

21 MS. McDOWELL: If somebody intends to use them,
22 if there's an objection, at that time you would take up
23 whatever objection a party would have?

24 JUDGE MOSS: That's right. That's when I'll do
25 that.

0096

1 MS. McDOWELL: Then the appropriate process
2 would be to offer the cross-exhibits at the end of the
3 cross-examination?

4 JUDGE MOSS: At the conclusion of the cross.

5 MS. McDOWELL: Thank you so much.

6 MR. CEDARBAUM: So the stipulation to direct the
7 prefiled materials would be for all parties. Is that
8 correct?

9 JUDGE MOSS: That's my understanding of what I
10 just did.

11 MR. CEDARBAUM: Right. That was my
12 understanding.

13 MS. McDOWELL: Ours too.

14 MR. CEDARBAUM: Normally we would ask the
15 witness preliminary questions, ask him to identify their
16 exhibits one at a time. We just do not do that drill?

17 JUDGE MOSS: We can skip that step, which begins
18 to get tedious after about 20 or so witnesses. We won't
19 need to prove up the prefiled material that's been
20 stipulated in. You may need to lay a foundation for a
21 cross exhibit, but that's a different matter.

22 Well, I got 80 percent. That's not bad.

23 I'll go get the commissioners. We'll be briefly
24 off the record.

25 (Pause in proceedings.)

0097

1 JUDGE MOSS: Let's be on the record.

2 Mr. Griffith, if you'll please rise and raise
3 your right hand.

4 WILLIAM R. GRIFFITH

5 Witness herein, having been first duly sworn on
6 oath, was examined and testified as follow:

7 THE WITNESS: I do.

8 JUDGE MOSS: Please be seated.

9 Mr. Cedarbaum, do you have cross for this
10 witness? We don't need to prove anything up, do we?

11 MS. McDOWELL: Judge Moss, if you don't mind,
12 this witness might have a correction or two.

13 JUDGE MOSS: Let's have that.

14 DIRECT EXAMINATION

15 MS. McDOWELL:

16 Q. The parties have stipulated to the prefiled
17 testimony in this case. Do you have any corrections or
18 additions to the prefiled testimony in this case?

19 A. I have two corrections to my testimony. On
20 page 3 --

21 Q. Mr. Griffith, can you just wait one second to
22 make sure everybody has the testimony?

23 JUDGE MOSS: I have the advantage of being here
24 early.

25 MS. McDOWELL: It takes a minute to move in.

0098

1 Maybe you all can give me the signal when you're ready.

2 This is WRG-1T. Correct?

3 THE WITNESS: Yes, it is.

4 JUDGE MOSS: Ready? We're ready. Thanks.

5 BY MS. McDOWELL:

6 Q. All right, Mr. Griffith, will you proceed.

7 A. Thank you.

8 On page 3, line one, the word "authorized"
9 should modify "equity component," not "return on
10 equity." So the sentence would say, "The company's
11 return on equity authorized equity component and
12 return." And then there are no further changes.

13 My second question is on page 10, line 11. The
14 percentage figure in the far right, it says 10.9, should
15 it say 10.8.

16 Those are my corrections.

17 Q. I was about ready to ask you. Do you have any
18 other corrections or additions to your testimony today?

19 A. No, I do not.

20 MS. McDOWELL: Thank you.

21 This witness is available for cross-examination.

22 JUDGE MOSS: Thank you very much. Let's proceed
23 with you, Mr. Cedarbaum.

24 CROSS-EXAMINATION

25 BY MR. CEDARBAUM:

0099

1 Q. Good morning, Mr. Griffith.

2 A. Good morning, Mr. Cedarbaum.

3 Q. As I understand your rebuttal case, the company
4 has reduced the request for revenue increase proposal
5 from 42.8 million to 36.9 million. Is that correct?

6 A. Yes, that's correct.

7 Q. Even at that reduced level, the company is still
8 seeking about a 12 percent increase in annual revenues?

9 A. Yes. I believe it's 12.1.

10 Q. Well, is it your understanding that the staff
11 proposed revenue requirement increases by about
12 14.6 million?

13 A. Yes, I believe that's the case.

14 Q. So staff and the company are about 22 million
15 apart?

16 A. Yes.

17 Q. Would you agree that the difference between the
18 staff and the company revenue requirement proposals
19 relates primarily to cost of capital proposals and power
20 cost recovery?

21 A. I think those are the two large categories.
22 There are also major capital additions.

23 Q. The cost of capital and the power cost issues
24 make up the larger part of that difference?

25 A. Yes, I believe so.

0100

1 Q. On power costs, the main difference between
2 staff and the company relates to the cost recovery of QF
3 contracts?

4 A. It relates to the cost recovery of our QF
5 contracts, renewable contracts in Oregon and California.

6 Q. In your rebuttal at page 10, starting at line 22
7 and jumps to the top of page 11, you state your opinion
8 that other than the expedited rate filing for staff,
9 staff's collective position in this case does not
10 support creative or progressive rate making ideas, but
11 instead effectively rejects any modifications to the
12 status quo for PacifiCorp. Do you see that?

13 A. Yes.

14 Q. And then you provide on the remainder of page 11
15 a couple of examples of your opinion, the first being
16 staff's use of average or monthly average rate-based
17 balances versus the company's end of period rate-based
18 balances. Is that correct?

19 A. Yes.

20 Q. Is it correct that the staff use of average or
21 monthly average rate-based balances increased the
22 company's revenue requirement versus use of
23 end-of-period rate-based balances?

24 A. Yes. While it's true that it does, we believe
25 that end-of-period rate base, which in this case

0101

1 provides a benefit to customers, more accurately
2 reflects the costs of serving Washington customers going
3 forward through the rate year.

4 Q. Had staff used end-of-period rate-based balances
5 rather than average or monthly average rate-based
6 balances, would your revenue requirement proposal have
7 been lower?

8 A. I believe it would have been approximately
9 \$300,000 lower. Again, as I stated, the use of end of
10 period provides a benefit to customers in this case.

11 Q. Another example that you gave on page 11,
12 regarding your criticism of the staff case, is the
13 staff-proposed cutoff date for capital plant additions.
14 Is that correct?

15 A. Yes.

16 Q. And here you're referring specifically to
17 Mr. McGuire's proposal to remove the cost of the Jim
18 Bridger turbine upgrade and the Merwin fish collector
19 because of their in-service dates after the company
20 filed its rate case in this docket. Is that right?

21 A. That's correct. The Jim Bridger upgrade is in
22 service today.

23 Q. But the in-service date was after the company's
24 filing. Is that right?

25 A. It was after January 13th, that's correct.

0102

1 Q. Is it correct that the staff proposal is to
2 shift cost recovery over to facilities from this case to
3 the expedited rate filing proposal that it's made?

4 A. I'm not aware that was the specific proposal.
5 That would probably be an outcome if the expedited rate
6 filing went forward. It would not be -- those costs
7 would not be reflected in rates that come out of this
8 case.

9 Q. But if that proposal went forward, they could be
10 reflected in rates that come out of the expedited rate
11 filing case?

12 A. They would, they could, possibly, but again we'd
13 be setting rates in this case with plant in service that
14 is in service today that would not be reflected in rates
15 in December of 2013.

16 Q. The Merlin fish collector is not in service
17 today, is it?

18 A. No. The Merlin fish collector is expected to go
19 into service in around February 2014, probably about two
20 months into the rate effective year for this case.

21 Q. With respect to the expedited rate filing
22 proposal of staff, is it correct that expedited rate
23 case treatment was one of the recommendations that came
24 out of the Governor's work group that you reference in
25 your testimony?

0103

1 A. Yes, it is. And we appreciated the staff's
2 proposal for an expedited rate filing here. We felt
3 that it was difficult to understand in terms of where it
4 fits with the statutes, and the cap on an expedited rate
5 filing that would be in place, but we were appreciative
6 of the idea.

7 We believe that the first step in doing an
8 expedited rate filing would be to set base rates at a
9 level, and we hope out of this case, we're hopeful we
10 can set base rates at a level where we could recover our
11 costs and set our returns to serve Washington customers
12 at this point, and then the expedited rate filing would
13 be a good mechanism perhaps going forward from that.

14 Q. You indicate in your testimony at page 9 that --
15 this is on line four -- you state your appreciation of
16 the staff proposal, but you state the specifics are
17 unclear. Do you know if the company asked any data
18 requests or discovery questions of staff to nail down
19 the specifics of the proposal?

20 A. No, we did not. And I think what you would want
21 to look at would be on page 10 of my testimony, where we
22 look at the example of the staff's recommended increase,
23 which would be approximately a 4.8 percent increase,
24 along with if we had two subsequent expedited rate
25 filings, we would still see an overall increase that is

0104

1 short of the increase necessary in this case alone, and
2 that would occur over approximately a three-year period.

3 So we, as I've stated, at this point we believe
4 that the first step is to set base rates at a level
5 that's reasonable, and then also through the expedited
6 rate filing to specify more clearly how that would work,
7 given the requirements of WAC 480-070-505.

8 Q. The rate that you specify in your testimony
9 involves the filing requirements for general rate cases.
10 Is that right?

11 A. And has to do with the limitations of three
12 percent.

13 Q. So is it your understanding of the staff
14 proposal that the expedited rate filing would be limited
15 to under three percent?

16 A. Our understanding, it would be limited 2.99
17 percent, that's correct.

18 Q. Have you read Ms. Reynolds' testimony in this
19 case on that subject?

20 A. Yes.

21 Q. Then are you aware, or would you accept subject
22 to your check, that at page 12, lines 14 to 17, she
23 states than an ERF in excess of three percent would not
24 need to fulfill all the filing requirements normally
25 required by commission rule for a general rate case?

0105

1 A. Would you please reference again the
2 page number?

3 Q. Page 12, lines 14 to 17.

4 A. I see that. I think again for us it was
5 somewhat unclear how that would work.

6 As I stated earlier, the other issue was that
7 the staff's proposal for the base rate increase would
8 not be sufficient for the company to recover the costs
9 of serving Washington customers today. And so we had
10 focused on, in this case, on setting the base rates at a
11 compensatory level before we would look at the ERF, but
12 again we do appreciate the proposal, and we think it
13 could be workable in the future.

14 Q. But your testimony is that the staff proposal
15 would not allow the company to seek an ERF of three
16 percent or greater, per testimony? It says just the
17 opposite, doesn't it?

18 A. I'm not a lawyer, but as we reviewed this, we
19 felt there would be difficulties in achieving that, and
20 that was our review of the proposal.

21 Q. The testimony merely says that if the company
22 files an ERF that exceeds three percent, the company
23 wouldn't have to comply with the commission's filing
24 requirement rules regarding a general rate case.

25 MS. McDOWELL: Objection.

0106

1 I'm sorry. Are you through with your question?

2 MR. CEDARBAUM: No.

3 MS. McDOWELL: Sorry. I didn't mean to
4 interrupt.

5 BY MR. CEDARBAUM:

6 Q. My question is wouldn't staff's ERF proposal
7 permit the company to file, make a rate filing, that is
8 three percent or greater?

9 MS. McDOWELL: Objection. This was the question
10 that was just asked and just answered.

11 JUDGE MOSS: Let him answer it.

12 Go ahead.

13 THE WITNESS: I think what we're talking about
14 is one sentence in a piece of testimony here, and as I
15 mentioned, we appreciate the proposal, we didn't feel
16 that it was fully fleshed out as to allow us to
17 understand how that would work.

18 BY MR. CEDARBAUM:

19 Q. Do you understand how it would work on that
20 particular point now?

21 A. Well, I -- no. It says the entire set of
22 document filing requirements. So which part of those
23 would be excluded, I don't know.

24 Q. Going back to your general criticism of the
25 staff and the examples you cite regarding average or

0107

1 monthly average rate base and capital plant additions,
2 is it correct, or if you'd like to accept subject to
3 check, that in Mr. McDougal's exhibits he shows that the
4 company is fully allocated and the adjusted total rate
5 base is approximately \$824 million?

6 A. I do not have Mr. McDougal's exhibits in front
7 of me.

8 Q. Would you accept that subject to your check?

9 Or can the witness be provided them? It's
10 SRM-7.

11 A. Okay. We can accept subject to check what,
12 824 --

13 Q. Million dollars.

14 A. -- million dollars.

15 Q. For total adjusted Washington allocated rate
16 base.

17 A. I'll accept that subject to check.

18 Q. Would you also accept subject to your check that
19 the staff fully adjusted Washington allocated total rate
20 base is about 820 million, as shown by Ms. Huang's
21 exhibit?

22 JUDGE MOSS: Somebody can check that for
23 Mr. Griffith. And before he leaves the stand, if it
24 turns out that Mr. Cedarbaum has misread something in
25 the record, we'll be able to clear it up at the time.

0108

1 But go ahead with your question, Mr. Cedarbaum.

2 MR. CEDARBAUM: For the record, Mr. McDougal's
3 number is SRM-7, page 1, line 57, column five, and
4 Ms. Huang's number is JH-2 page 1, line 57, column E.

5 JUDGE MOSS: Thank you.

6 BY MR. CEDARBAUM:

7 Q. Accepting those numbers subject to your check,
8 the difference between staff and company total rate
9 basis for rate making purposes in this case is about
10 \$4 million on a rate base of \$820 million?

11 A. Well, that's the difference between those two
12 values. I don't know what components of rate base are
13 included in either of those two numbers however; if
14 those are the same components, those are different
15 components, or how that works. And I'd probably refer
16 that to one of our witnesses to address this.

17 Q. One of the other differences between the staff
18 and the company is interstate cost allocations. Is that
19 correct?

20 A. Yes, it is.

21 Q. This question has to do with nonpower cost
22 allocations. So putting aside Mr. Duvall's issues. Are
23 you aware of the revenue requirement impact of the
24 staff's proposal to use their west control area
25 methodology as is?

0109

1 A. Well, I really looked at the case as an overall
2 case. Again, as I mentioned, the staff's proposal would
3 increase rates by approximately 4.8 percent.

4 Q. You're not aware of the revenue requirement
5 impact of just that one difference between the company
6 and staff on interstate cost allocations?

7 A. I think you'd need to point me to where you're
8 referring to.

9 Q. Would you accept subject to your check and the
10 company's response to staff data request 264 that that
11 difference is about \$800,000?

12 MS. McDOWELL: Objection. You're referring to a
13 data request that's not in the record? Is that correct?

14 MR. CEDARBAUM: Yes.

15 MS. McDOWELL: I would object to that. He could
16 put it in as a cross-exhibit if he was going to ask this
17 witness about a data request.

18 JUDGE MOSS: Okay. Mr. Griffith, the question
19 to you basically is are you aware of that difference
20 being about \$855,000 or not.

21 THE WITNESS: No, I'm not.

22 JUDGE MOSS: Okay. That's it.

23 BY MR. CEDARBAUM:

24 Q. Finally, Mr. Griffith, is it true that the
25 company through Mr. Stuver has proposed modifications to

0110

1 the investor-supplied working capital calculation?

2 A. Yes, we have.

3 Q. And staff is in support of those modifications?

4 A. Yes, they are, and we appreciate that.

5 Q. Is it correct that those modifications result in
6 an increased rate base?

7 A. I believe so, yes.

8 MR. CEDARBAUM: Thank you. That's all my
9 questions.

10 THE WITNESS: Thank you.

11 JUDGE MOSS: Ms. Gafken, go ahead.

12 CROSS-EXAMINATION

13 BY MS. GAFKEN:

14 Q. Good morning, Mr. Griffith.

15 A. Good morning.

16 Q. In PacifiCorp's direct case, the company
17 proposed end-of-period rate base as a mechanism to
18 address regulatory lag. Correct?

19 A. Yes, we did.

20 Q. And PacifiCorp did not propose any other
21 mechanism to address regulatory lag or attrition in its
22 case, did it?

23 A. Let me think about that for a moment. I think
24 we've had -- we've an issue of chronic under-earning in
25 Washington, and we've been focusing on those issues in

0111

1 my testimony and in our case, and I think that the case
2 itself reflects regulatory lag that we're seeing.

3 Q. But you didn't do an attrition study or propose
4 an attrition adjustment or any other answer to that
5 issue other than the end-of-period rate base?

6 A. No, I tell you our attrition study is broader
7 than that. We filed a general rate case.

8 Q. Did PacifiCorp propose a multi-year plan or a
9 expedited rate filing mechanism in this case?

10 A. No, we did not. We wish we could have, but we
11 are still looking at the core issues here, and once we
12 can get a -- I'm hopeful we can get a resolution of
13 those, we can help deal with these other alternative
14 mechanisms.

15 Q. Would you please turn to your rebuttal
16 testimony, Exhibit WRG-1T, page 2, lines one through
17 five.

18 A. Where was that again, please?

19 Q. Page 2, lines one through five.

20 A. That's my direct testimony?

21 Q. It's your rebuttal testimony.

22 A. Right.

23 JUDGE MOSS: To avoid confusion, Mr. Griffith
24 only filed one round of testimony in this proceeding,
25 and that was at the rebuttal phase.

0112

1 MS. GAFKEN: Yes. Exhibit No. WRG-1T.

2 BY MS. GAFKEN:

3 Q. Are you there?

4 A. I see that.

5 Q. Would you please read the two sentences that
6 appear on those lines, beginning with, "The company is
7 disappointed"?

8 A. "The company is disappointed in the parties'
9 positions in this case. The parties appear to ignore
10 the commission's recent commitment to actively seek
11 solutions to issues such as earnings attrition and their
12 timely recovery of infrastructure investments,
13 regulatory lag and to approve the efficiency,
14 predictability and consistency of rate making decisions
15 in Washington."

16 Q. Thank you.

17 Understanding that there is a controversy with
18 respect to one of public counsel's adjustments, and
19 setting aside that controversy for the sake of this
20 question, isn't it true that public counsel through
21 Mr. Dittmer supported end-of-period rate base for the
22 company and filed detailed testimony supporting this
23 concept?

24 A. Yes. Mr. Dittmer did, and we appreciate his
25 proposal.

0113

1 Q. Isn't it also true that Deborah Reynolds on
2 behalf of the commission staffed proposed an expedited
3 rate filing mechanism?

4 A. Yes, it's true, and we acknowledged that.

5 Q. Please turn to your Exhibit WRG-1T, page 5,
6 lines 20 through 23. Are you there?

7 A. Yes, I'm there.

8 Q. There you state, "It is important to note that
9 without a well-designed power cost adjustment mechanism,
10 or the ability to reset net power cost outside of a
11 general rate case, the company would not have been able
12 to consider these multi-year certainty plans." Is that
13 a correct reading?

14 A. Yes. These multi-year rate certainty plans.
15 Yes.

16 Q. Yes. Are you familiar with Mr. Dittmer's
17 rebuttal testimony addressing the staff's proposal for
18 ERF?

19 A. Somewhat, yes.

20 Q. Under an ERF, would the company or could the
21 company be permitted to update all plant and/or
22 incorporate the most recent fuel and purchase power
23 prices?

24 A. I believe so. I think we -- I discussed the ERF
25 with Mr. Cedarbaum, and at this point, as I've

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1 mentioned, we were trying to address the base issues in
2 this case. We appreciate the offers of the expedited
3 rate filing, which we know has been used for other
4 utilities; however, we have not addressed that. At this
5 point we're dealing, as I mentioned before, with the
6 more basic issues of the west control area and dealing
7 with other issues at this time.

8 Q. Turning back to your testimony, Exhibit WRG-1T,
9 going to page 12, lines nine through 11.

10 A. Yes.

11 Q. In your testimony, you suggest that if the
12 commission refuses to allow the Merwin fish collector
13 that it should then allow a tracker. Is that a correct
14 representation of your testimony?

15 A. I wouldn't call it a tracker. It would be a
16 separate tariff rider that would become effective at the
17 time that the facility is in service. We've used this
18 in Oregon, and we believe it's -- and I should have
19 really mentioned it earlier. It is also a way to deal
20 with regulatory lag, and to help to synchronize the
21 timing of plant in service with the rate effective
22 period.

23 Q. Well, under the ERF proposal that's been made in
24 this case, wouldn't the Merwin fish collector be brought
25 into rates through the ERF mechanism?

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1 A. I'm not -- it would be brought into rates. I
2 don't think it would be brought into rates on a timely
3 manner.

4 MS. GAFKEN: I have no further questions.

5 JUDGE MOSS: Thank you, Ms. Gafken.

6 MS. GAFKEN: I'm sorry. I did have one more
7 question, if it's not too late.

8 JUDGE MOSS: All right.

9 BY MS. GAFKEN:

10 Q. I wanted to go back to your discussion with
11 Mr. Cedarbaum about the three percent issue with the
12 ERF. You indicated that you had some concerns about
13 that proposal, or how it might work. What you elaborate
14 a bit on those concerns?

15 A. I think our concern was under the, under the
16 ERF, without more clear specification, there would be a
17 limitation on the filing at 2.99 percent, and so until
18 specifics were ironed out on that, we -- we believe that
19 was the case, and we didn't believe, again, with staff's
20 base case set at 4.8 percent, that we would be in a
21 position to recover the costs necessary to serve
22 Washington customers through the rates that would be in
23 effect.

24 Q. Do you believe that three percent limitation
25 would apply to an ERF mechanism?

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1 A. That was our understanding that it would,
2 without some changes.

3 Q. Thank you. That's all.

4 A. We'd be glad to discuss that more at a future
5 date if the parties believe otherwise.

6 MS. GAFKEN: That's all I have.

7 JUDGE MOSS: Questions from the bench?

8 COMMISSIONER GOLTZ: Thank you.

9 Good morning, Mr. Griffith.

10 THE WITNESS: Good morning, Mr. Goltz.

11 COMMISSIONER GOLTZ: You made a correction on
12 your testimony, on page 3. What gave rise to that
13 change? Again, what you did, on line one, as I
14 understand it, you deleted "authorized for return
15 equity," and inserted it before "equity components." Is
16 that true?

17 THE WITNESS: Yes.

18 COMMISSIONER GOLTZ: What was the reason for
19 that?

20 THE WITNESS: We wanted to correct the fact
21 there that -- we have a -- our currently authorized
22 return on equity in Washington is 9.8 percent, it's
23 similar to other states that we serve.

24 COMMISSIONER GOLTZ: "Similar" meaning
25 identical?

0117

1 THE WITNESS: Yes, identical. However, if you
2 look at my table, at the bottom of page 3, our actual
3 return on equity in Washington -- what I'm just showing
4 here is Washington, but our actual return on equity in
5 Washington is the lowest, is currently the lowest of the
6 company's jurisdictions.

7 COMMISSIONER GOLTZ: Was this correction that
8 you made, was that true at the time you filed the
9 testimony or did the necessity for changing this happen
10 after you filed it?

11 THE WITNESS: It was misstated at the time we
12 filed the testimony.

13 COMMISSIONER GOLTZ: You talked about the fact
14 that the state of Washington does not generally use a
15 future test year. Correct?

16 THE WITNESS: Yes.

17 COMMISSIONER GOLTZ: Did you consider filing
18 this case with a future test year?

19 THE WITNESS: No, we did not. We didn't believe
20 we would have the ability to file a future test period
21 in Washington, a full forecast test period.

22 COMMISSIONER GOLTZ: The regulations do require
23 a -- they require, a test year, which is a past period.
24 But there's no prohibition, is there, against filing it
25 both ways, see how it would work with the future test

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1 year with the existing practice?

2 THE WITNESS: That might be the case, but I --
3 we understand that the, the historic test period is
4 required, and that's what we base the case on. We would
5 like to use forecast test periods in the future.

6 COMMISSIONER GOLTZ: What costs do you envision
7 the company incurring in the rate effective period that
8 were not included in your rate filing?

9 THE WITNESS: Well, I know for major capital
10 additions we have five major capital additions in this
11 case.

12 COMMISSIONER GOLTZ: Those are in your rate
13 filing?

14 THE WITNESS: Yes, they are.

15 COMMISSIONER GOLTZ: I'm talking about costs
16 that would be captured in a future test year, that were
17 not included in your rate filing, but would be included
18 if you had your way and had a future test year.

19 THE WITNESS: You would have smaller projects
20 cost that could flow forward into the forecast test
21 period that would not be in this case. We only have the
22 five largest over \$10 million. Changes in load.

23 COMMISSIONER GOLTZ: But changes in load are
24 forecasted now. Right?

25 THE WITNESS: Not for setting the billing

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1 determinants for customers.

2 COMMISSIONER GOLTZ: So it would be some smaller
3 capital projects is what you're saying would be included
4 that aren't included under your existing filing?

5 THE WITNESS: And there would also be just
6 changes, general escalators that are used for other cost
7 components, that O & M and so forth that are not in this
8 case and that are used in other forecast test periods.

9 COMMISSIONER GOLTZ: Right now we allow for
10 pro forma adjustments for costs that are known and
11 measurable. Correct?

12 THE WITNESS: Yes.

13 COMMISSIONER GOLTZ: You're saying there's some
14 costs other than those that would be included?

15 THE WITNESS: Yes, I believe there would.

16 COMMISSIONER GOLTZ: Those would be costs that
17 aren't measurable, but estimated? Is that the basic
18 difference?

19 THE WITNESS: Yes. I mean, forecast test
20 periods do use escalators and other factors from third
21 parties to project costs into the future, and those
22 would also be applied in a forecast test period.

23 COMMISSIONER GOLTZ: And that's also the way
24 it's done with a multi-year rate year frequently, too,
25 isn't it? That's how multi-year rate plans are

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1 frequently established?

2 THE WITNESS: Multi-year, the state -- well,
3 four of the states that we serve have forecast test
4 periods. We have multi-year rate plans in those states,
5 and they use forecast test periods. Other states, Idaho
6 does not, and we have used a multi-year rate plan there
7 without a full forecast test period.

8 COMMISSIONER GOLTZ: Your last case before this
9 commission was settled. Is that correct?

10 THE WITNESS: Yes. The 2011 case, which was
11 originally filed as a make-whole filing, with limited
12 issues, was settled.

13 COMMISSIONER GOLTZ: At the settlement hearing
14 on that, as embodied in the order, the company agreed
15 that the rates set by that proceeding in that settlement
16 were fair, adjust, reasonable and sufficient. Isn't
17 that correct?

18 THE WITNESS: Yes, sir. We indicated that under
19 this settlement we believe that rates were fair, just,
20 reasonable and sufficient. For the company, part of the
21 value of that case, and our determination that it was
22 reasonable, was the fact that we could engage in a
23 collaborative process over the period of -- prior to the
24 next rate case while we exercised the stay-out period,
25 so that we could review a number of proposals and ideas

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1 to improve the allocation methods. And that brought
2 value to the company, which under that agreement, and
3 under our determination that rates were fair, just, and
4 reasonable, was acceptable to the company to move
5 forward with that process also.

6 COMMISSIONER GOLTZ: So you're saying the rates
7 were or were not fair, just, reasonable and sufficient?

8 THE WITNESS: And I don't have the full quote of
9 the transcript there, but what we also said was under
10 the stipulation, and we viewed the stipulation as part
11 of the agreement for determining, at that time, yes,
12 rates were fair, just and reasonable, and we accepted
13 that --

14 COMMISSIONER GOLTZ: And sufficient?

15 THE WITNESS: And sufficient. Moving forward
16 with that process, to build some benefits in the future.

17 COMMISSIONER GOLTZ: And that settlement was not
18 based on future test year. Correct?

19 THE WITNESS: That's correct.

20 COMMISSIONER GOLTZ: You mentioned in your
21 response to Mr. Cedarbaum, and I wrote it down, and I
22 want to make sure I got it right, because these
23 questions were about the expedited rate filing, or the
24 ERF proposal, and I believe you said that it was
25 difficult to see how an expedited rate filing fits in

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1 with statutes. Did you mean statutes, or do you mean
2 regulations?

3 THE WITNESS: I might have used that
4 incorrectly.

5 COMMISSIONER GOLTZ: Is there a statutory
6 limitation --

7 THE WITNESS: No, I believe it's in the
8 regulation.

9 COMMISSIONER GOLTZ: You're referring to the
10 three percent limitation?

11 THE WITNESS: Yes.

12 COMMISSIONER GOLTZ: So let me ask you about
13 that. On page 10, line seven of your testimony, you
14 said that if the ERF allows raise increases of only 2.99
15 percent or less, then the mechanism would be of limited
16 value unless a common rate baseline is established in
17 this case.

18 So, I mean, are you saying that if at the end of
19 this rate case your rates are fair, just, reasonable and
20 sufficient, would you or would you not want an ERF
21 proceeding, even if -- assuming that your concern is
22 correct, it's limited to three percent?

23 THE WITNESS: I think we'd have to weigh that at
24 the time, but if the rates that came out of this rate
25 case were fair, just, and reasonable -- just, reasonable

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1 and sufficient for the company to recover the costs of
2 serving Washington customers through rates, then an ERF
3 could be a mechanism to use going forward. It would
4 really depend on what the circumstances are at the time,
5 and the 2.99 percent might be doable under that. It's
6 hard to predict.

7 COMMISSIONER GOLTZ: Three percent rate increase
8 is not insignificant.

9 THE WITNESS: No, it's not.

10 COMMISSIONER GOLTZ: It sounds like to me you're
11 saying it's not significant to the company, it's of
12 limited value. But you can't really be saying that, can
13 you?

14 THE WITNESS: No, I'm not saying that it's --
15 I'm not saying that. What -- maybe I'm not doing the
16 best job of explaining this that I could. And that is
17 we viewed the whole package on page 10 of my testimony
18 as not sufficient going forward, and that the ERFs, with
19 the staff's revenue requirement proposal, would not
20 recover our costs of serving Washington customers.

21 COMMISSIONER GOLTZ: We've had an ERF now,
22 another utility in the state of Washington, and it seems
23 to be well accepted, and you seem very tepid.

24 THE WITNESS: Well, I'm -- I guess what I've
25 been trying to say is that, first of all, three percent

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1 increases are not insignificant. Secondly, we do think
2 it would be -- we focus in this case on the base rates,
3 and once we work our way through those, we're hopeful
4 that an ERF could be a mechanism going forward. Once we
5 set the base level of revenues at a reasonable level,
6 then going forward an ERF could be a possibility.

7 COMMISSIONER GOLTZ: But I know that in other
8 states in which you do business, or the broader company
9 does business in the western states, there's a number of
10 states that have had multi-year rate plans.

11 THE WITNESS: Yes, we are very happy with those.

12 COMMISSIONER GOLTZ: And we approved a
13 multi-year rate plan with another utility in the state
14 of Washington that we regulate, and so obviously we've
15 been receptive to that. But we didn't see -- and you
16 knew that coming into this case. Why didn't we see a
17 proposal for that?

18 THE WITNESS: Well, our initial filing, of
19 course, is not an insignificant filing in any way, and
20 the rebuttal case still is a significant rate increase,
21 and so we're dealing with that first step. And the
22 first step in dealing with issues such as west side QFs,
23 dealing with costs of capital, and these important
24 issues first, seemed to us to get kind of the
25 foundations laid before we look at these alternative

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1 mechanisms.

2 COMMISSIONER GOLTZ: Okay. I have no further
3 questions.

4 COMMISSIONER JONES: Good morning, Mr. Griffith.

5 THE WITNESS: Good morning, Commissioner.

6 COMMISSIONER JONES: I'm going to focus on pages
7 5 and 7 of your testimony on the collaborative process.
8 Just a few questions on that.

9 So you described the process of this
10 collaborative group involving ten meetings with company
11 staff, public counsel, and ICNU. Correct?

12 THE WITNESS: Yes, that's correct.

13 COMMISSIONER JONES: Now, just as a foundational
14 question, were you in charge of heading up that process,
15 or was Carla Bird? Who in the company was kind of the
16 lead on that process.

17 THE WITNESS: Carla Bird was the Washington
18 state regulatory manager. A number of us within the
19 regulation group were all involved in that process and
20 I'm certainly willing to say I was as in charge as
21 anyone else.

22 COMMISSIONER JONES: Okay, good. Because Carla
23 Bird is no longer with the company. Correct?

24 THE WITNESS: That's correct.

25 COMMISSIONER JONES: What was the goal, one or

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1 two goals of the collaborative process? What did the
2 company want to see coming out of that? Would it be a
3 broad consensus on the interjurisdictional cost
4 allocation methodology? Was that the primary objective?

5 THE WITNESS: Certainly one of our objectives
6 was to get a -- some improvements to the allocation
7 methodology that the program was in a five-year pilot
8 program. We were now looking at ways to make
9 improvements and deal with shortcomings that were in the
10 base program, and so our hope was to improve that
11 process. Also to look at alternative rate making
12 mechanisms. Those were discussed during the process.

13 We brought in a number of our mechanisms from
14 other states that we have that are in effect for the
15 company that were I think usable. We were looking
16 really at trying to, within the west control area,
17 improve that allocation methodology.

18 COMMISSIONER JONES: And I've had a chance to
19 read some of the minutes of those meetings, and I'm not
20 going to ask too many questions. I think it's a
21 cross-exhibit later for Kendra White. But did you also
22 not look at the Aurora power cost modeling, power cost
23 model as opposed to grid?

24 THE WITNESS: Yes, we did look at the Aurora
25 power cost model as opposed to grid. I think the

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1 general consensus of the parties participating in the
2 meetings was that, for PacifiCorp, that Aurora was not
3 going to be an improvement.

4 COMMISSIONER JONES: Was not?

5 THE WITNESS: Was not, yes.

6 COMMISSIONER JONES: So at a high level, you say
7 on page 6, basically, did the parties agree to any
8 significant changes to the regulatory process, and your
9 answer is no. So could you summarize why you think --
10 this is the company's view -- what are the top two or
11 three reasons why this process did not work.

12 THE WITNESS: Well, as we reviewed a number of
13 mechanisms, I think that the parties, which would bring
14 current costs into rates more frequently or more timely,
15 parties were not willing to accept those types of
16 mechanisms.

17 We reviewed a number of our California
18 mechanisms, and those were not -- parties were not --
19 did not find those acceptable, and I think that was kind
20 of the -- I'm trying to think what else at this point.

21 COMMISSIONER JONES: Was it an issue of
22 resources? Was it either our staff's resources or your
23 staff's resources or public counsel or ICNU, in your
24 view? But there were insufficient resources to devote
25 to this process to develop consensus?

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1 THE WITNESS: I don't recall it being
2 specifically mentioned. That might have been true.
3 There was also a timeline that we were looking at
4 achieving this through, and so that limited time also
5 results in some of that, but we felt we had, again as we
6 mentioned, we had 10 meetings with the parties, we
7 brought forth a number of mechanisms, and the parties
8 were not receptive to those.

9 COMMISSIONER JONES: Going forward, if there's a
10 process going forward, would you suggest that the
11 process be expanded to maybe including a commissioner or
12 maybe policy staff on our side of the ex-party wall with
13 the rate case? Because I don't think we, on our side,
14 were actively involved in this process.

15 THE WITNESS: Commissioner Jones, that's
16 correct. You were not actively involved.

17 We are hopeful that the staff will step -- not
18 only will but already is participating in the
19 multi-state process for the six to eight
20 interjurisdictional allocation methodology. We are
21 hopeful that staff will be involved in that. If we had
22 another west control area process, it might be helpful
23 to expand that.

24 COMMISSIONER JONES: Just refresh my memory.
25 I've been a commissioner for eight years, I get confused

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1 between all these processes. There has been a number.
2 Just briefly describe the MSP, the multi-state process,
3 if you would.

4 THE WITNESS: The multistate process is the
5 process that involves stakeholders from all states,
6 including commission staff, intervenor parties and deals
7 with the allocation of the company's costs across the
8 five- or six-state system.

9 COMMISSIONER JONES: Our staff as committed, I
10 think it's in the testimony somewhere, to participating
11 in that process, as you just said.

12 THE WITNESS: Yes. We looked at that in the
13 west control area, the collaborative process last year.
14 We welcome staff's attendance and staff is now attending
15 the multi-state protocol meetings.

16 COMMISSIONER JONES: Those are all my questions.

17 CHAIRMAN DANNER: No questions.

18 JUDGE MOSS: Did the commissioner's questions
19 prompt anything from the parties?

20 COMMISSIONER GOLTZ: May I ask one more
21 question?

22 On the collaborative process, Mr. Jones' raised
23 one more with me. There was provision in the settlement
24 that was approved that if the -- that the company could
25 request the participation of administrative law judge to

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1 help facilitate that settlement, or that discussion.

2 Correct?

3 THE WITNESS: Yes. I believe that's correct.

4 COMMISSIONER GOLTZ: And that person would have
5 been in a sense on our side -- our side of the building,
6 our side of the wall. Correct?

7 THE WITNESS: I believe that's the case, yes.

8 COMMISSIONER GOLTZ: The company did not request
9 that?

10 THE WITNESS: I don't think any party in the
11 collaborative process requested that.

12 COMMISSIONER GOLTZ: That's right. Including
13 the company.

14 THE WITNESS: Including the company and the
15 other parties, yes, sir.

16 COMMISSIONER GOLTZ: Thank you.

17 JUDGE MOSS: Anything, Mr. Cedarbaum,
18 Ms. Gafken?

19 Redirect?

20 MS. McDOWELL: Thank you, Judge Moss.

21 REDIRECT EXAMINATION

22 BY MS. McDOWELL:

23 Q. Starting with that last question first.

24 Mr. Griffith, do you recall the company requesting the
25 commission's participation at the outset of the

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1 collaborative process?

2 A. Yes, I do. And I believe that at that point it
3 was not felt that it was appropriate to have the
4 commission participate.

5 Q. So now turning back to the questions that you
6 were asked about the expedited rate filing and the
7 testimony of Ms. Reynolds and your testimony, can you
8 turn to page 10 of your testimony, which you were asked
9 about, and specifically the citation to WAC 480-07-505.
10 Do you see that?

11 A. Yes.

12 Q. And that provision, your testimony is that that
13 provision, as you understand it, limits rate increases
14 to three percent, unless there's a general rate case
15 filing? Do you see that?

16 A. That was my testimony, yes.

17 Q. So then Ms. Reynolds' testimony that you were
18 asked about on page 12, I believe, and there at line 16
19 when she refers to the WAC, she's actually referring to
20 480-075-10. Do you see that?

21 A. I do.

22 Q. And that's a different provision, isn't it, than
23 the one you cited?

24 A. Yes, it is.

25 Q. And is the provision that Ms. Reynolds cites

0132

1 related to the filing requirements for a case as opposed
2 to the requirement of the three percent?

3 A. Yes, it is. And as I indicated, it wasn't clear
4 how -- what filing requirements from Ms. Reynolds'
5 requirements would be included or exclude.

6 Q. But Ms. Reynolds, just to be clear, doesn't talk
7 about waiving the requirements of WAC 480-075-505
8 relating to the three percent thresholds. Correct?

9 A. That's correct.

10 Q. Are you familiar with the Puget expedited rate
11 filings proceeding in the final order?

12 A. Yes.

13 Q. That final order was issued approving the
14 expedited rate filing, it was issued after the company
15 filed this case. Correct?

16 A. Yes, that's correct.

17 Q. Now, are you aware in that case that public
18 counsel and other parties objected to the expedited rate
19 filing on the basis that it might exceed that three
20 percent cap?

21 A. Yes, I understand that was the case.

22 Q. Public counsel asked you a few questions about
23 the company's attrition and the proposals in this case
24 that the company has made to address that. Do you
25 recall those questions?

0133

1 A. Yes.

2 Q. Is the company's proposal in this case for
3 adoption of its actual capital structure a proposal
4 designed to address specific attrition in Washington?

5 A. Yes.

6 Q. Similarly, is the company's proposal for
7 pro forma adjustments for new investments a proposal
8 designed to address the company's attrition in
9 Washington?

10 A. Yes, it is.

11 Q. Are the company's proposed changes to the west
12 control area allocation methodology in this case
13 proposals designed to address attrition in Washington?

14 A. Yes. And I think, as I said, that the company's
15 filing overall is intended to address that.

16 Q. I take it your answer would be the same for the
17 company's request for a PCAM and for changes to the
18 investor-supplied working capital methodology?

19 A. Yes.

20 MS. McDOWELL: That's all I have. Thank you.

21 JUDGE MOSS: Thank you.

22 Mr. Cedarbaum?

23 MR. CEDARBAUM: Yes, thank you, Your Honor. I
24 just have a few questions for Mr. Griffith.

25

0134

1

RECROSS-EXAMINATION

2

BY MR. CEDARBAUM:

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Q. Mr. Griffith, I want to ask you about the interplay between the two rules that you were just questioned about, 480-07-505 and 510. If you don't know the answer to my question, just say so.

7

8

9

10

But is it correct that 480-07-505 is the commission's rule that defines what constitutes a general rate case versus what does not constitute a general rate case?

11

12

A. Yes. 505 is what constitutes a general rate case.

13

14

15

Q. And a general rate case is a tariff filing that would produce additional annual revenues of three percent or greater?

16

17

18

Q. And it would not be a general rate case if the tariff file was under three percent. Is that right?

19

A. I believe that's the case.

20

21

22

23

Q. If we switch to 480-07-510, that's the rule that just sets out filing requirements for a tariff filing that meets the definition of a general rate case. Is that correct?

24

A. Yes.

25

Q. So if I understand your testimony, the issue is

0135

1 not whether you understand staff's ERF proposal to allow
2 an increase above three percent, the issue in your mind
3 is what filing requirements would be required or not?

4 A. If I can answer that in a different way. I
5 think what Ms. Reynolds said is that if an ERF exceeded
6 three percent, we would have limited filing
7 requirements, and we didn't understand what that meant.

8 Q. But you don't understand the staff proposal to
9 prohibit an ERF of three percent or greater, do you?

10 A. Pardon me?

11 Q. You don't interpret the staff proposal to
12 prohibit a rate filing that produces three percent or
13 more annual revenues?

14 A. No. We didn't understand it to prohibit, but we
15 didn't understand how it could work under 505.

16 Q. You were also asked questions about public
17 counsel's position with respect to an ERF and the last
18 Puget case. I believe you responded your understanding
19 was that public counsel opposed an ERF that would exceed
20 three percent. Is that correct?

21 A. I believe that's what I said, yes.

22 Q. Do you know if the basis of public counsel's
23 position was that a three percent or greater ERF was
24 prohibited by commission regulation or it was just a bad
25 idea from a policy perspective?

0136

1 A. I don't know.

2 Q. Finally, you were asked questions about the
3 PCAM. Is it your understanding that staff's proposal,
4 staff's position is that the company should not have a
5 PCAM of any kind?

6 A. Staff was not supportive of the company's PCAM
7 proposal, and I don't believe brought forth much in the
8 way of a proposal there. Mr. Duvall is here to address
9 the company's PCAM proposal, and I would defer those
10 questions to him.

11 Q. I don't want to ask a specific question about
12 it, but the staff's opposition as to the proposal of the
13 company's, which does not include any sharing bands or
14 debt band. Is that correct?

15 MS. McDOWELL: Can I just object on the basis of
16 this is beyond the scope of my redirect?

17 JUDGE MOSS: I think he can answer that
18 question.

19 THE WITNESS: Could you ask the question again,
20 please?

21 BY MR. CEDARBAUM:

22 Q. Is it your understanding of the staff's
23 testimony on the power cost adjustment mechanism that
24 staff is opposed to a PCAM of any kind for this company,
25 or that staff is opposed to the proposal the company has

0137

1 made in this case?

2 A. I think again as I indicated, Mr. Duvall is the
3 expert on this, but I believe staff, you know, oppose
4 the company's PCAM filings in this case.

5 MR. CEDARBAUM: Thank you. Those are all my
6 questions.

7 JUDGE MOSS: Thank you.

8 Anything?

9 MS. McDOWELL: No.

10 JUDGE MOSS: Sometimes best to leave well enough
11 alone.

12 Mr. Griffith, thank you very much. You may step
13 down subject to recall if needed.

14 THE WITNESS: Thank you.

15 JUDGE MOSS: Well, take a break? All right.

16 Let's make it a short break. Let's just take a
17 five-minute break, in case anyone needs to stretch their
18 legs.

19 (A break was taken from 10:35 a.m. to 10:42 a.m.)

20 JUDGE MOSS: Let's be on the record.

21 Mr. Hadaway, if you'll please rise and raise
22 your right hand.

23

24

25

0138

1 SAMUEL C. HADAWAY

2 Witness herein, having been first duly sworn on
3 oath, was examined and testified as follow:

4 THE WITNESS: I do.

5 JUDGE MOSS: Thank you. Please be seated.

6 Anything preliminary?

7 MS. McDOWELL: No, Your Honor. Dr. Hadaway has
8 no changes or corrections to his testimony, so he's
9 available for cross-examination.

10 JUDGE MOSS: All right. Very good. Let's see.
11 Find my little cheat sheet here. We have Mr. Cedarbaum.

12 MR. CEDARBAUM: Thank you, Your Honor.

13 CROSS-EXAMINATION

14 BY MR CEDARBAUM:

15 Q. Good morning, Dr. Hadaway.

16 A. Good morning, Mr. Cedarbaum.

17 Q. I hope this won't get too cumbersome, but I'm
18 going to ask you to look at your Exhibit SCH-15 and then
19 compare that to SCH-7; 15 was in your rebuttal
20 testimony, and 7 was in your direct testimony. You may
21 want to have those kind of handy.

22 A. So this is my original discounted cash flow
23 analysis and my updated analysis?

24 Q. Correct.

25 A. Yes, I have those.

0139

1 Q. So let's go to SCH-15 first, which is your
2 exhibit with the rebuttal case. And this shows the
3 updated results of your DCF analyses from the time you
4 filed your direct testimony. Is that right?

5 A. Yes.

6 Q. And in the first column it shows a constant
7 growth DCF result of nine percent. Do you see that?

8 A. Yes.

9 Q. And then the second column, a constant growth
10 DCF model result with long-term GDP growth of 9.6
11 percent. Is that correct?

12 A. Yes.

13 Q. And then the third one is your low near-term
14 growth, two-stage growth DCF model, which produced an
15 average 9.4 percent and a median 9.5 percent. Is that
16 correct?

17 A. Yes.

18 Q. Now, switching to your direct case, the
19 comparable columns, in your direct testimony, for the
20 constant growth DCF model, the first column, is an
21 average of 9.5 percent, constant growth DCF model with
22 long-term GDP growth, an average of ten percent, and
23 then the final column, low near-term growth, two-stage
24 growth DCF model, an average of 9.8 percent. Is that
25 right?

0140

1 A. Yes.

2 Q. So comparing the two pages, for each of the
3 three columns shown on the page, your DCF results
4 decline from your direct case to rebuttal case?

5 A. Yes, Mr. Cedarbaum. In my rebuttal, the whole
6 point is that that's not a reliable outcome, given that
7 interest rates have actually increased about a hundred
8 basis points during the period.

9 Q. Well, with respect to interest rates, if we
10 could go to your rebuttal testimony, on page 4,
11 SCH-10T -- actually, on page 5, the table on page 5. Is
12 it correct that this table is a time series where the
13 30-year treasury rate would represent the interest rates
14 that you're referring to?

15 A. Well, both the single A utility interest rate in
16 the first column numbers, and then the 30-year treasury
17 rate in the middle column of numbers.

18 Q. Focusing on the middle column, this is a time
19 series from July of 2010 through June of 2013. Correct?

20 A. Yes.

21 Q. There's been discussion this morning about the
22 company's last general rate case was a settled case, and
23 the case before that. Are you familiar with that case
24 at all?

25 A. I'm not exactly sure of the order dates in those

0141

1 cases. I think I have them in some of my notes, but
2 I've heard the more recent case referred to as the 2011
3 case, that settled, and the one prior to that is the
4 2010 case.

5 Q. I'll ask you the docket number, and if you're
6 not aware of it, just say so. The 2010 case was docket
7 UE-100749. Does that sound right?

8 A. I don't know the docket numbers, but if that's
9 the litigated one? Is that the one you're talking
10 about?

11 Q. Yes.

12 A. Yes, okay. I agree.

13 Q. Do you know when the commission's order was
14 issued in that docket?

15 A. No. I don't know exactly.

16 Q. Would you accept subject to your check that it
17 was issued in March of 2011?

18 A. Yes.

19 Q. So in that time frame, looking at your table one
20 on page 5, the 30-year treasury rate was 4.51 percent?

21 A. In March of 2011, yes.

22 Q. And so looking down the page to June 2013,
23 interest rates have declined from that point, in
24 March of 2011 to June 2013 of 3.4 percent. Is that
25 right?

0142

1 A. Well, at that point they had, but data request
2 responses have updated that further, and they continue
3 to go up even more. The projected rate for the 30-year
4 treasury is now over four percent. It's 4.2 percent I
5 think this last week.

6 Q. That would still be less than the March 2011
7 figure that you show in your table.

8 A. It's almost the same, actually. It's a little
9 bit less, yes.

10 Q. Now, on your Exhibit 15, looking back to that
11 again, on page 1, is it correct that the 9.6 percent DCF
12 result you show in the middle column relies upon a 5.7
13 percent historical growth calculation of GDP?

14 A. I believe we have revised that to 5.6. It was
15 an update. It was 5.7 last year, and in our update
16 through 2012 it's 5.63 now.

17 Q. So that's what's embedded in that column of that
18 exhibit?

19 A. Yes.

20 Q. If you could turn to what's been marked for
21 identification as Exhibit SCH-18CX.

22 A. Give me just a moment, please.

23 Q. Just tell me when you've got it.

24 A. I believe I have it. It's WUTC data request 79?
25 Is that correct?

0143

1 Q. Correct. I was going to ask you if you
2 recognize this as the response to staff data request 79.

3 A. Yes.

4 Q. And you were asked in the request itself to
5 provide any analysis undertaken by the witness to
6 evaluate any other readily available data supporting
7 estimates of future long-term growth in GDP. Is that
8 right?

9 A. Yes, that's right.

10 Q. In the first paragraph of your response, the
11 last sentence, you refer to a forecast of 4.5 percent.
12 Do you see that?

13 A. Yes.

14 Q. And then on page 3 of the exhibit, I'm looking
15 now at the last column under annual growth, the first
16 line says: Real gross domestic product of 2.5 percent.
17 Do you see that?

18 A. Yes.

19 Q. And then farther down the column, under the
20 heading price indices, the first line, GDP chain-type
21 price index shows 1.9 percent. Is that correct?

22 A. Yes, that's right.

23 Q. Would the addition of those two numbers -- well,
24 first, the addition of those two numbers is 4.4 percent.
25 Is that right?

0144

1 A. If you -- I don't know about the rounding that
2 might occur, but if you just literally added those two
3 numbers together, yes, that's right.

4 Q. Now, just turn to your Exhibit 14.

5 A. Okay. I have that.

6 Q. The second page. You provide data from the
7 congressional budget office. Is that correct?

8 A. Yes.

9 Q. And this shows at the top of the page the second
10 line of numbers down in the last column, nominal gross
11 domestic product for the 2019 to 2023 period of 4.3
12 percent. Is that right?

13 A. Yes.

14 Q. Finally, Dr. Hadaway, in your testimony at
15 page 9, if you'd like to refer to it, that's fine, but
16 it may not be necessary. You criticize Mr. Elgin for
17 not showing, providing statistical evidence of the
18 reliability of his eight-company proxy group. Is that
19 right?

20 A. This is in 10-T?

21 Q. It's your rebuttal testimony, so that would
22 be --

23 JUDGE MOSS: That's 10-T is correct.

24 BY MR. CEDARBAUM:

25 Q. 10-T on page 9, line seven. Actually, it starts

0145

1 at line six.

2 A. Yes, I see that.

3 Q. Now, you presented cost of capital testimony in
4 that 2010 case that we discussed earlier. Correct?

5 A. Yes.

6 Q. And in that case, your group of proxy companies
7 included 22 companies. Is that right?

8 A. That sounds about right. I haven't looked back
9 at it, obviously.

10 Q. Well, subject to check, and you can check it,
11 and if I'm wrong, your counsel will let me know.

12 A. I think that's probably right.

13 Q. In this case, you've reduced or you've used a
14 proxy group company number of 14 companies. Is that
15 right?

16 A. Yes.

17 Q. And you haven't provided any evidence in your
18 rebuttal testimony or your direct of the statistical
19 reliability of that number of companies?

20 A. Other than it being approximately twice as big
21 as Mr. Elgin's, I have not.

22 MR. CEDARBAUM: Thank you, Dr. Hadaway. That's
23 all my questions.

24 JUDGE MOSS: I believe public counsel has
25 indicated some brief cross for Dr. Hadaway.

0146

1 MS. GAFKEN: No, we haven't, actually. We don't
2 have any cross. Thank you.

3 JUDGE MOSS: Well, it's on my list.

4 MR. CEDARBAUM: Your Honor, I'm not sure if I
5 offered Cross Exhibit 18.

6 JUDGE MOSS: Boise White Paper. My apologies.
7 I was in the wrong column Commissioner Danner has
8 pointed out to me.

9 Mr. Purdy, do you have any questions?

10 MR. PURDY: No.

11 JUDGE MOSS: It must be my glasses. I can't see
12 with these glasses.

13 MR. CEDARBAUM: Your Honor, I offered Cross
14 Exhibit 18 to Dr. Hadaway.

15 JUDGE MOSS: Why don't you do it. We'll
16 consider it offered.

17 Any objection?

18 Hearing none, it will be admitted.

19 (Exhibit SCH-18CX was admitted.)

20 JUDGE MOSS: And then you won't be offering your
21 exhibit either, Mr. Purdy? 17-CX?

22 MR. PURDY: I'm sorry?

23 JUDGE MOSS: I have an exhibit here for
24 Dr. Hadaway that's been premarked for Boise White
25 Paper -- you're not Boise White Paper. You're The

0147

1 Energy Project.

2 I am getting confused this morning. All right.

3 We won't have to take another break, but I'll take a
4 deep breath.

5 Ms. Davison? I apologize. Do you have
6 something for this witness?

7 MS. DAVISON: No, Your Honor.

8 JUDGE MOSS: Do you wish to offer your exhibit
9 absent questions?

10 MS. DAVISON: No, Your Honor.

11 JUDGE MOSS: Thank you very much. That's why
12 you didn't correct me. I know. I can usually count on
13 you to correct me when I'm making mistakes like this.
14 Very well.

15 Any questions from the bench?

16 COMMISSIONER GOLTZ: We don't we wait for the
17 panel.

18 JUDGE MOSS: We can wait for the panel. Nothing
19 at this point? All right. That makes sense. We can do
20 that. Okay. Fine. We'll just hold that.

21 All right, very well. If there's any redirect?

22 MS. McDOWELL: Yes, Your Honor.

23 REDIRECT EXAMINATION

24 BY MS. McDOWELL:

25 Q. Dr. Hadaway, you mentioned in response to a

0148

1 question from Mr. Cedarbaum with respect to treasury
2 rates and the rates reflected on table one that those
3 rates had been updated. Can you explain what you're
4 referring to there?

5 A. Yes. Mr. Elgin asked us a question, staff
6 question 276, to update the data through July, which we
7 did. And that number went on up to 4.68 percent from
8 the June number. And it went on up beyond that.

9 Let me look at the data response so that I have
10 the exact right number. I have it here.

11 Q. Dr. Hadaway, just to help you out there, to make
12 it clear to everybody else, I think we have marked that
13 as a cross exhibit for Mr. Gorman. It's MPG-31-CX.

14 A. Yes, I have a copy of that.

15 Q. So go on. I'm sorry.

16 A. Well, in that, we were just showing the trend
17 since April of 2013 of interest rates have moved up
18 about 120 basis points to where they are now. As of
19 last week, single A rate was 4.87 percent on Thursday,
20 and it was 4.8 percent approximately on Friday.

21 So the whole thrust of my rebuttal testimony is
22 that interest rates have moved up sharply. The DCF
23 model cannot and does not reflect that in these updated
24 numbers that Mr. Cedarbaum was asking me about.

25 Quite frankly, it doesn't matter what growth

0149

1 rate you use now, that model now or any of the technical
2 factors about those models. I think a risk premium
3 analysis that supports at least ten percent or higher,
4 actually, ROE, and that then is much more appropriate,
5 and if we have -- the Sep-Taper event from the Federal
6 Open Market Committee expected, actually began reducing
7 its purposes, and if the market comments that we've seen
8 over the last several weeks continue, interest rates are
9 going to continue to move up.

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

11 JUDGE MOSS: Thank you.

12 MR. CEDARBAUM: Your Honor, I'm sorry. Just one
13 follow-up question.

14 JUDGE MOSS: All right.

15 RE CROSS-EXAMINATION

16 BY MR. CEDARBAUM:

17 Q. Dr. Hadaway, the table on page 5 of your
18 testimony, that you were questioned about --

19 JUDGE MOSS: Is this the rebuttal?

20 MR. CEDARBAUM: Yes, I'm sorry. SCH-10.

21 BY MR. CEDARBAUM:

22 Q. You indicated that you provided a response to
23 staff data request that included the July 2013 numbers,
24 and I believe you gave numbers for the first column for
25 single A utility. What was the updated number, the July

0150

1 number for 30-year treasuries?

2 A. 3.61 percent.

3 MR. CEDARBAUM: Thank you.

4 JUDGE MOSS: All right. Well, Dr. Hadaway, I
5 think you probably have been advised of the game plan.
6 You'll be back as part of a panel here shortly, but for
7 the moment at least, we'll excuse you from the stand.

8 THE WITNESS: Thank you.

9 JUDGE MOSS: We have Mr. Williams indicated next
10 on our list.

11 BRUCE N. WILLIAMS

12 Witness herein, having been first duly sworn on
13 oath, was examined and testified as follow:

14 THE WITNESS: I do.

15 JUDGE MOSS: Thank you. Please be seated.

16 Anything preliminary?

17 MS. McDOWELL: Let me just inquire.

18 DIRECT EXAMINATION

19 BY MS. McDOWELL:

20 Q. Mr. Williams, do you have any changes or
21 corrections to your testimony?

22 A. No, I do not.

23 MS. McDOWELL: So this witness is available for
24 cross-examination.

25 JUDGE MOSS: Again, Mr. Cedarbaum, it appears

0151

1 you have some cross.

2 MR. CEDARBAUM: I do, Your Honor. I'm just
3 trying to get my bearings.

4 JUDGE MOSS: After you will be Ms. Davison for
5 Boise White Paper.

6 CROSS-EXAMINATION

7 BY MR. CEDARBAUM:

8 Q. Good morning.

9 A. Good morning.

10 Q. If you could turn to your rebuttal testimony,
11 which is BNW-13.

12 JUDGE MOSS: I have it as 14T.

13 BY MR. CEDARBAUM:

14 Q. 14T. At the bottom on lines 22 to 23, you state
15 that the company's overall cost of capital proposal is
16 similar to other utilities in Washington, and on line 21
17 you assert that your capital structure recommendation
18 balances safety and economy.

19 A. I'm sorry. Could you give me a page reference,
20 too?

21 Q. I nor I did. Page 1.

22 A. Okay.

23 Q. So I'm looking at lines 21 through 23, where you
24 state that the company's cost of capital proposal is
25 similar to other Washington utilities, and then you

0152

1 assert that your capital structure recommendation
2 balances safety and economy.

3 A. Yes.

4 Q. So the safety and economy reference is to the
5 commission's general policy on capital structure rate
6 making policies?

7 A. Yes. It's my understanding the commission looks
8 for a capital structure that balances economy, cost to
9 customers, with safety, access to capital, on reasonable
10 terms and conditions, and we believe our capital
11 structure does provide that.

12 Q. Are the other utilities that you're referencing
13 on this page of your testimony Puget Sound Energy and
14 Avista?

15 A. Yes, they are.

16 Q. What is your understanding with respect to
17 whether Puget and Avista include short-term debt in
18 their capital structure for rate making purposes?

19 A. My understanding is the commission has ordered
20 capital structures that do include short-term debt for
21 those two utilities here in Washington.

22 Q. What is your understanding of those two
23 utilities' secured debt ratings?

24 A. I believe their secured debt ratings are
25 A-minus, A3, from Standard & Poor's and Moody's

0153

1 respectively.

2 Q. So that would put them one notch below
3 PacifiCorp's?

4 A. On the secured ratings, yes.

5 Q. Are you aware of whether or not Avista and/or
6 Puget have had difficulties obtaining capital on
7 reasonable terms and conditions?

8 A. Over what time period?

9 Q. Do you have your response to staff data request
10 287?

11 A. Yes, I do. If you give me a minute, I'll turn
12 to it.

13 Q. I guess my question would be -- over the last
14 five years would be the time period I'm referencing.

15 A. Yeah, I really can't comment on the terms and
16 conditions of their financing. I'm much more familiar
17 with PacifiCorp's financing. That's what I spend my
18 time doing.

19 Q. So you're not aware one way or the other if it
20 had difficulty in the capital markets?

21 A. I know that at least Avista was not investment
22 grade for a number of years, and it took them six or
23 seven years to get back to investment grade. So I think
24 they've had some difficulties in the prior time period.

25 MR. CEDARBAUM: Your Honor, I was going to ask

0154

1 the witness questions about Exhibit 17-CX, and quite
2 honestly in discussions with counsel I'm not sure if the
3 commission's policy is to include excerpts of orders
4 that it's issued or take official notice of them.

5 I can ask my questions without the exhibit, or
6 we can have the exhibit there for the commission's
7 convenience.

8 JUDGE MOSS: Just for the sake of clarity, it's
9 not necessary to make orders or excerpts of orders part
10 of the evidentiary record in the fashion of exhibits;
11 however, as you point out, it's present for convenient
12 reference, so in that sense, why don't you go ahead and
13 refer to it here, and we have it before us.

14 BY MR. CEDARBAUM:

15 Q. Mr. Williams, looking at Exhibit BNW-17CX, do
16 you recognize this document as the capital structure
17 portion of the commission's order from docket UE-050684?

18 A. I'm sorry. Can you tell me what the document is
19 titled? Help me?

20 Q. The first page is the title page of a commission
21 order 04 in docket UE-050684. It was marked for
22 identification as a cross exhibit for you, BNW-17CX.

23 A. Okay. I have it.

24 Q. My question is whether or not you recognize this
25 document as the commission's order in that 2005 docket,

0155

1 specifically with respect to the capital structure
2 issue.

3 A. Yes, I do recognize it.

4 Q. Is it correct that during the time this case was
5 pending before the commission, the company was owned by
6 Scottish Power and was sold to Midamerican Energy
7 Holdings Company?

8 A. Let me check the date of the order again, but I
9 believe that's correct.

10 Q. The date of the order at the top, at least the
11 service date, is April 17th, 2006.

12 A. Yes. I agree.

13 Q. Is it correct in the 2005 case, capital
14 structure was a contested issue between staff and the
15 company?

16 A. It was a contested issue, yes.

17 Q. Is it correct that the company argued for an
18 actual capital structure with 49 and a half percent
19 equity, taking into account an equity infusion in
20 Scottish Power that would occur between June 2005 and
21 March 2006?

22 A. I believe that's correct, yes. And those
23 capital infusions were made, and that was the company's
24 actual capital structure.

25 Q. Do you know what the company's actual capital

0156

1 equity ratio was before that equity infusion from
2 Scottish Power?

3 A. You'd have to give me a date and time. And the
4 capital structure changes all the time. We typically
5 report on it quarterly. So if you have a reference
6 point, that would be helpful.

7 Q. Why don't we move onto Cross Exhibit BNW-18CX.
8 Do you recognize the first six pages of this exhibit as
9 your response to staff data request 288?

10 A. Yes, I do.

11 Q. And in the request, we ask the company for a
12 table showing year-end capital structure for PacifiCorp
13 since 2005, as shown on the company's 10-K SEC forms.
14 And then page 2 of the exhibit is the company's response
15 to that request in dollar amounts. Is that right?

16 A. That is right.

17 Q. And then pages 3 through 6 are the 10-K backup
18 pages?

19 A. Right. That was also requested as part of the
20 data requests, so we provided those.

21 Q. Now, looking at page 7, this is a page of the
22 exhibit that you did not prepare. Is that right?

23 A. Yes. This is not part of our response to the
24 data request.

25 Q. But if we look at the top half of the page, the

0157

1 first lines one through six, that basically takes
2 page 2, the numbers that you did provide, and duplicates
3 them. Is that right?

4 MS. McDOWELL: Your Honor, I'm going to object
5 to this questioning and object also to page 7 of this
6 exhibit. We don't think it's proper to offer a company
7 data request, add an additional page that's created on
8 the data request, title it as if it were part of the
9 data request, and add additional information into it.

10 It seems to us it's an extension of testimony,
11 new evidence that's being offered that we don't have a
12 chance to respond to. We don't think it's a proper
13 cross exhibit.

14 JUDGE MOSS: First of all, let's be clear.
15 Mr. Cedarbaum was very clear with the witness that this
16 was not part of his data request response. So there's
17 no suggestion of chicanery in your objection I suspect.

18 As far as the use of such an exhibit as this, it
19 was not unusual to have illustrative exhibits in the
20 hearing room that take data that's portrayed in one
21 fashion and presented in a different fashion. If the
22 witness can answer questions about this, I will allow
23 it. If he can't, or won't, without a calculator in
24 hand, then that is his prerogative.

25 Mr. Cedarbaum, I will let you proceed.

0158

1 MS. McDOWELL: Thank you, Your Honor.

2 BY MR. CEDARBAUM:

3 Q. Again, Mr. Williams, there has been no argument
4 by staff that page 7 was created by you. But the top
5 half of the page does just duplicate the exact
6 information that you provided on page 2. Is that
7 correct?

8 A. I don't know. I haven't checked the work that
9 staff did on this.

10 Q. I'm not talking about -- all I'm asking you to
11 do is -- let's go to page 2.

12 A. Right. And I haven't done that comparison of
13 the data. I looked at our response that we provided.

14 Q. Do you see any differences between page 2 and
15 the top half of page 7 above line nine?

16 A. If you give me a minute, I will check it.

17 Other than items are carried to decimal place,
18 which wasn't how it was done originally, the numbers on
19 the top part of the table look consistent with my
20 response to the data request.

21 Q. And then looking at the numbers on the bottom
22 half of the page, below line nine, doesn't that just
23 convert dollar amounts on the top half to percentages on
24 the bottom half?

25 A. I don't know. I didn't do the calculations. I

0159

1 haven't checked the work, so I can't tell you what they
2 actually do. I believe that was the intent of staff by
3 doing this, but again, I have not checked the work.

4 JUDGE MOSS: I think the math will speak for
5 itself, Mr. Cedarbaum. We have the numbers and the
6 witness' response.

7 MR. CEDARBAUM: Fair enough.

8 JUDGE MOSS: I can actually do those divisions
9 myself, with help from --

10 MR. CEDARBAUM: Your Honor, I would offer
11 Exhibit BNW-18CX.

12 MS. McDOWELL: Our objection is noted for the
13 record?

14 JUDGE MOSS: All right. The page 7 is, as far
15 as I'm concerned, merely an illustrative exhibit. To
16 the extent Mr. Cedarbaum wishes to make a point, or
17 someone else, concerning the data, then again math is
18 math. Its laws are immutable, more or less. So we'll
19 take it that way. I will admit the exhibit as offered.

20 (Exhibit BNW-18CX was admitted.)

21 BY MR. CEDARBAUM:

22 Q. Mr. Williams, if you could look at page 10 of
23 your rebuttal, lines one through eight. You discuss
24 increased borrowing costs from, or ratings downgrade
25 that you would believe would result from Mr. Elgin's

0160

1 capital structure recommendation. Is that correct?

2 A. I think it's Mr. Elgin's own testimony that his
3 capital structure would result in a downgrade, at least
4 to the triple B level.

5 Q. Is your answer to my question a yes or a no?

6 A. Could you repeat your question?

7 Q. You discuss in this portion of your testimony a
8 ratings downgrade that you believe -- excuse me, the
9 increased borrowing costs that you believe would occur
10 given a ratings downgrade from Mr. Elgin's capital
11 structure recommendation.

12 A. Correct. What's discussed here is the impact on
13 the cost of debt, for debt issuances since 2006, if the
14 company's ratings had been lowered to the triple B
15 level.

16 Q. So you conclude on line eight that the company's
17 cost of debt would go up 84 basis points to 6.125
18 percent?

19 A. Yes.

20 Q. Now, if we look at Exhibit BNW-19CX. Do you
21 have that?

22 A. I believe I do. That's the copy of the work
23 paper that was put in as the cross-exhibit?

24 Q. That was my question. The exhibit is your work
25 paper supporting the 6.125 percent that you referenced

0161

1 in your testimony.

2 A. Correct. This is the support for those
3 calculations.

4 Q. The 6.125 percent itself is shown on the last
5 line, three columns over from the right under cost of
6 debt?

7 A. Correct.

8 Q. So the way this works, just generally speaking,
9 is that the top half of the exhibit shows, or the top
10 half of your work paper, shows the actual debt issuance
11 made by PacifiCorp since the acquisition by MEHC. Is
12 that right?

13 A. That is right.

14 Q. And the bottom half shows your calculation of
15 the same debt issuances assuming the ratings downgrade
16 from Mr. Elgin's proposal?

17 A. Correct. What the incremental cost on those
18 debt issuances would be.

19 Q. For example, on line one, at the top, in
20 August of 2006, PacifiCorp issued \$350 million worth of
21 debt with a coupon rate of 6.1 percent. Is that right?

22 A. Yes.

23 Q. And then at the bottom half of the page, on line
24 one, you've assumed that PacifiCorp for that same
25 issuance would have received a coupon rate of 6.814

0162

1 percent based on what APS received. Is that right?

2 A. That's right. Arizona Public Service issued
3 debt about that same time period, so I merely used the
4 rate that they incurred.

5 Q. And the surrogate companies that you've used in
6 this work paper for those calculations, for lines one
7 through 12 at the bottom, are the companies footnoted,
8 footnoted in A through L?

9 A. Yes, they are.

10 Q. And none of those companies are Washington state
11 utilities. Is that right?

12 A. I believe that's correct.

13 Q. Is it also correct that only West Star, on
14 footnote F, West Star Energy, that's the only company
15 that appears in Dr. Hadaway's comparable group?

16 A. I don't know. I haven't cross-referenced to
17 Dr. Hadaway's comparable group.

18 Q. If the witness could be provided a copy of
19 Mr. Elgin's KLE-3. Unless you have it with you. I have
20 a few questions on that.

21 A. I don't think I do.

22 MS. WALLACE: Your Honor, may I approach the
23 witness?

24 THE WITNESS: I'm sorry. I do have this.

25 This is Mr. Elgin's direct testimony?

0163

1 MR. CEDARBAUM: Right. Yes.

2 BY MS. McDOWELL:

3 Q. KLE-3. The title is Avista Corporation cost of
4 debt detail. You see that? You have that in front of
5 you?

6 A. Let me turn to it.

7 Q. It's a one-page exhibit.

8 A. Yes, I have that.

9 Q. On line 11, this shows that Avista issued new
10 bonds in 2006 at a coupon rate of 5.7 percent. Is that
11 correct? It's column D.

12 A. Yeah, I'm just looking at it now. I believe
13 it's correct. Line 11, right. Okay.

14 Q. And that would compare to the cross exhibit we
15 were looking at for PacifiCorp's August 2006 debt
16 issuance of a coupon rate of 6.1 percent?

17 A. Let me turn back to that a minute so I can do
18 that comparison.

19 Which line are you referring to for PacifiCorp?

20 Q. I'm looking again at CX-19. It shows at the top
21 of the page an August 2006 issuance by PacifiCorp, a
22 coupon rate of 6.1 percent on line one.

23 A. Okay.

24 Q. Finally, on your Exhibit 15, this is your
25 calculation of PacifiCorp's cost of long-term debt. Is

0164

1 that right? As of June 2013?

2 A. I'm sorry. I'm confused. I nor we were talking
3 about the Avista cost of debt and the PacifiCorp cost of
4 debt.

5 Q. I'm going to compare PacifiCorp's cost of debt
6 and your BNW-15 with what Mr. Elgin showed for Avista.
7 So I apologize for the cumbersome nature of this, but --

8 A. Okay. So give me a minute to look the BNW-15,
9 if I could.

10 Q. Okay.

11 A. Okay.

12 Q. This is on page 1, line eight. This shows your
13 calculation of PacifiCorp's cost of long-term debt of
14 5.287 percent.

15 A. Yes. 5.287 is the weighted average cost of
16 long-term debt.

17 Q. Thank you, Mr. Williams.

18 MR. CEDARBAUM: I think it's best that I just
19 leave it at that, rather than more flipping back and
20 forth between the documents.

21 JUDGE MOSS: All right. Thank you. Is that all
22 your questions then?

23 MR. CEDARBAUM: Yes, it is.

24 JUDGE MOSS: Ms. Davison, do you have questions
25 for this witness?

0165

1 MS. DAVISON: Your Honor, I do not. I think
2 Mr. Cedarbaum covered the ground for me.

3 JUDGE MOSS: All right. Very well.

4 MS. DAVISON: Thank you.

5 JUDGE MOSS: Do we have any questions from the
6 bench?

7 COMMISSIONER GOLTZ: I'd prefer to wait for the
8 panel for my questions.

9 JUDGE MOSS: I keep forgetting we have this
10 panel. My oversight. It is an unusual approach.

11 COMMISSIONER JONES: My policy-related questions
12 will be for later, but I just have a couple of
13 clarifying questions.

14 THE WITNESS: Sure.

15 COMMISSIONER JONES: If that is okay.

16 JUDGE MOSS: That's fine.

17 COMMISSIONER JONES: This could be a bench
18 request. Let me see if you have this in your testimony
19 already. But could you submit the most recent capital
20 structure for the company based on a 10-K filing? And
21 I'd like it submitted in two ways: One is the actual in
22 the 10-K, and the other is with the debt imputation
23 adjustments that you describe in your testimony that
24 S & P does.

25 THE WITNESS: Okay. I think I can answer the

0166

1 first part of your question from the 10-K.

2 COMMISSIONER JONES: Okay.

3 THE WITNESS: I believe that was in my rebuttal
4 testimony.

5 COMMISSIONER JONES: I think it was too. What
6 page was it? Let me see. Here we go. It's on page 4
7 and 5 and 6.

8 THE WITNESS: On page 6, you see table three.

9 COMMISSIONER JONES: Yes, I'm there.

10 THE WITNESS: The June 30th, 2013 column is the
11 most recent capital structure from the 10-K.

12 COMMISSIONER JONES: Just stop there a minute.
13 On page 5, though, you have table one where you have a
14 common equity layer of 52.22 percent.

15 THE WITNESS: Right.

16 COMMISSIONER JONES: So what the reason for the
17 difference between 52.22 and 51.17?

18 THE WITNESS: Sure. If you look at table three
19 again on page 6, the 52.22 is an average of a quarter's
20 during that fiscal year.

21 COMMISSIONER JONES: Okay. I see.

22 THE WITNESS: So we're showing each of the
23 quarter ends what the capital structure was. So you'll
24 see June 30th, 2012, 52.19, moving to 52.56, 52.57,
25 52.64, and then 51.17. And it dips in the June quarter,

0167

1 because there's some large financing activities that
2 happen.

3 COMMISSIONER JONES: Okay.

4 THE WITNESS: But then those quarters average
5 the 52.22.

6 COMMISSIONER JONES: Got it. So maybe for the
7 bench request, you could just do the -- I think in your
8 direct testimony, in some of your exhibits, you talk
9 about the estimated S & P debt imputation on PPA's,
10 prior purchase agreements.

11 THE WITNESS: Yes.

12 COMMISSIONER JONES: Maybe you could just update
13 it.

14 The other question, clarifying in nature, is
15 what is your cap X spend for this year, 2014, and 2015,
16 because I think it is relevant to the capital structure
17 discussion.

18 THE WITNESS: I believe each of those years is
19 in the range of 1.2 to 1.3 billion. We are in the midst
20 of our annual planning process right now, so the '14 and
21 '15 numbers will be revised, but I believe they're in
22 that ballpark, subject to check.

23 COMMISSIONER JONES: Okay. One last one. I'd
24 like to know what your dividend payout ratio has been to
25 the parent company, MEHC, over the past, let's say the

0168

1 current year, let's take it '12, '13, '14, expected.
2 Because you state in your testimony that you make
3 dividend payouts to the parent company to keep the
4 equity layer under 53 percent. Correct?

5 THE WITNESS: Correct.

6 COMMISSIONER JONES: So if you could just
7 provide a listing of dividend payments made to the
8 parent company.

9 THE WITNESS: I believe it's in one of the
10 responses to the data request. If it helps you, I could
11 point you to it.

12 COMMISSIONER JONES: Which one is it?

13 THE WITNESS: I think it's public counsel 18.

14 JUDGE MOSS: Is that in the record anywhere?

15 MS. McDOWELL: It is not.

16 JUDGE MOSS: Let's furnish that as part of the
17 response to bench request five.

18 MS. McDOWELL: We will do that, Your Honor.

19 COMMISSIONER JONES: That's all, Your Honor.

20 THE WITNESS: Can I just point out that's only
21 through 2011. There's projected '12 and '13, and I can
22 update those with actuals, if that would help you.

23 COMMISSIONER JONES: That will be helpful. The
24 overall policy, you're the vice-president and treasurer
25 I know, but is the overall policy to make dividend

0169

1 payouts to the parent company consistent with the 53
2 percent below equity layer?

3 THE WITNESS: Yeah, it's not quite that simple.
4 We look at all the financial metrics and try to have a
5 capital structure that provides the metrics that the
6 agencies are looking for. One of those is the capital
7 structure, though. But it's a combination of that and
8 the other cash flow, interest coverage, debt measures.
9 But generally the capital structure will be 52, to maybe
10 declining slightly over the next multi-year period.

11 JUDGE MOSS: Any redirect?

12 MS. McDOWELL: Yes, Your Honor.

13 REDIRECT EXAMINATION

14 BY MS. McDOWELL:

15 Q. Mr. Williams, Mr. Cedarbaum asked you some
16 questions about Avista's cost of debt in 2006 versus
17 cost of debt that you had estimated in your table, your
18 work papers. Do you remember those questions?

19 A. Yes. I was confused about that. I don't know
20 if we ever completed that conversation.

21 Q. I just wanted to clarify. Are you aware
22 Avista's current cost of long-term debt?

23 A. Yes.

24 Q. That's in your testimony, isn't it?

25 A. Yeah. I believe the cost of the long-term debt

0170

1 that was stipulated in our last settlement that staff
2 and other parties supported, and was approved by the
3 commission, the cost of the debt was 5.74 percent,
4 significantly higher than the 5.29 percent that the
5 company is proposing here.

6 Q. Mr. Williams, can you turn to page 13 of your
7 rebuttal, please. So it's 14T, BNW-14T, page 13.

8 A. Okay. I'm there.

9 Q. Take a look at line three.

10 A. Yes.

11 Q. I believe you said 5.74 percent?

12 A. I should have said 5.72 percent.

13 Q. I nor that would refresh your recollection.

14 A. Yes.

15 Q. So PacifiCorp's updated cost of debt in its
16 rebuttal is lower than that. Correct?

17 A. Yes. 5.29 percent. Significantly lower than
18 the 5.72 that I guess is currently in Avista's rates.

19 Q. So, Mr. Williams, you were asked some questions
20 about staff's illustrative exhibit that they attached to
21 your data request response, and I believe that's 18-CX,
22 page 7.

23 A. Yes.

24 Q. Do you have that.

25 A. Yes.

0171

1 Q. So there is a line that was added in that has a
2 short-term debt percentage. It says as a percentage of
3 total dollars. Do you see that?

4 A. I do.

5 Q. And it looks like to me that certain time
6 periods have short-term debt and certain don't. Can you
7 explain whether the periods in which short-term debt is
8 displayed, whether that demonstrates that short-term
9 debt was held throughout that particular period, or is
10 it more a point in time?

11 A. Yeah, no, this is strictly a point in time.
12 This is at these certain dates. So this is just at the
13 end of each year. So you shouldn't imply that the
14 short-term debt balance was carried all during the year.

15 So, for instance, in 2011, the high short-term
16 debt balance of 688 million, that really followed
17 maturities of several significant series of long-term
18 debt in November. And rather than try to refinance
19 those in December, when the capital markets are
20 sometimes more difficult because of holidays and
21 year-end activities, the company then delayed the
22 long-term financing until January of 2012. On
23 January 3rd, we issued 650 million of new long-term
24 debt.

25 That's a very transitory number. The 688 was

0172

1 only in place for a few days, and was immediately paid
2 off with the results of that long-term financing. So I
3 guess, you know, important message is not to read these
4 balances as existing through the whole year.

5 Q. Just to be clear, Mr. Williams, does the company
6 currently have short-term debt on its balance sheet?

7 A. The company does not currently have any
8 short-term debt.

9 MS. McDOWELL: That's all I have. Thank you.

10 JUDGE MOSS: Okay. Thank you.

11 MR. CEDARBAUM: Your Honor, I'm sorry. I
12 actually -- my oversight. I forgot to have Mr. Williams
13 identify Exhibit BNW-20CX. If it's necessary, I can do
14 that, and I would just offer my cross exhibits.

15 JUDGE MOSS: Okay. Let's just note that it's
16 his response to staff data request 275.

17 And you're going to offer 20. How about 19?

18 MR. CEDARBAUM: Yes.

19 JUDGE MOSS: And what about 17?

20 MR. CEDARBAUM: Yes.

21 JUDGE MOSS: 17 was the excerpt from the order,
22 so we'll have it in for convenience of the record.
23 That's not controversial.

24 Any objection to 19 or 20?

25 MS. McDOWELL: I don't have objections to those,

0173

1 Your Honor.

2 JUDGE MOSS: All right. Then we'll admit them
3 as marked.

4 (Exhibits BNW-17CX, BNX-19CX and BNW-20CX were
5 admitted.)

6 JUDGE MOSS: With that, Mr. Williams, we're
7 finished with you for the moment, but we'll have you I
8 think after lunch.

9 You want a question?

10 CHAIRMAN DANNER: I'm sorry. I just had one
11 question.

12 The short-term debt numbers in this exhibit are
13 as of December 31st of each year. I just want to
14 clarify. Were there -- is a dash -- it means there was
15 no short-term debt on December 31st, but it does not
16 mean it was not any during the year. Is that correct?

17 THE WITNESS: Right. That's just again the
18 single point in time. But generally if you look in the
19 work papers or some of the exhibits I presented,
20 quarterly capital structure included short-term debt
21 balances, and for most quarters the company does not
22 have any short-term debt, again, at those quarter-end
23 periods.

24 CHAIRMAN DANNER: So in 2012, was there any
25 short-term debt?

0174

1 THE WITNESS: There might have been small
2 amounts periodically, but I think it -- there was no
3 significant amounts, and I don't believe there's any in
4 any of the quarter ends, subject to check. But again,
5 it's not a significant amount.

6 CHAIRMAN DANNER: Okay. Thank you.

7 JUDGE MOSS: With that, Mr. Williams, we will
8 let you step down for the moment, and I think the panel
9 will be after lunch, certainly.

10 I thank you for your testimony so far.

11 Do you have 45 minutes for Mr. Gorman?

12 MS. McDOWELL: I believe I do.

13 JUDGE MOSS: You have that designated, but do
14 you actually have it? I'm trying to decide whether to
15 start him before lunch.

16 MS. McDOWELL: You know, it's just so hard to
17 tell. It all depends on the answers. But I do have at
18 least 30 minutes, and I might estimate it as 45 minutes.

19 JUDGE MOSS: All right. Let me ask the
20 preferences of the bench. 45 minutes? Go ahead, press
21 forward? Okay.

22 Let's go ahead and press forward. If we spill
23 over into the traditional lunch hour a little bit, then
24 people will just have better appetites.

25

0175

1 MICHAEL P. GORMAN

2 Witness herein, having been first duly sworn on
3 oath, was examined and testified as follow:

4 THE WITNESS: I do.

5 JUDGE MOSS: Please be seated.

6 Anything preliminary, Ms. Davison?

7 MS. DAVISON: No, Your Honor. Mr. Gorman is
8 available for cross-examination. Thank you.

9 JUDGE MOSS: PacifiCorp has indicated cross.
10 Proceed.

11 MS. McDOWELL: Thank you, Your Honor.

12 CROSS-EXAMINATION

13 BY MS. McDOWELL:

14 Q. Good morning, Mr. Gorman.

15 A. Good morning.

16 Q. Looking at your testimony at page 1, just to get
17 our bearings here, line 22. You have recommend a 9.2
18 percent ROE in this case. Are you correct?

19 A. Yes.

20 Q. Now, that produces a 7.25 percent rate of
21 return. Does that sound right?

22 A. With my recommended capital structure, yes.

23 Q. And that's based on PacifiCorp's original 5.37
24 percent cost of debt. Is that correct?

25 A. Yes.

0176

1 Q. Do you understand that PacifiCorp reduced its
2 cost of debt in its rebuttal to 5.29 percent?

3 A. That's my understanding, yes.

4 Q. Have you calculated the adjusted rate of return
5 using PacifiCorp's updated debt costs?

6 A. I have not.

7 Q. Would you accept subject to check that the rate
8 of return that you recommend, including PacifiCorp's
9 updated debt cost, is now lower at 7.21 percent?

10 A. I will accept that subject to check, yes.

11 Q. Now, I'd like to direct your attention to one of
12 the PacifiCorp's cross-exhibits, which is MCG-30CX.
13 That's a transcript from I think the last time you
14 testified here in Washington just a few months ago.

15 Do you recall providing testimony in Puget's
16 expedited rate filing case in, let's see, May of 2013?

17 A. Yes.

18 Q. Do you recall testifying at that time that it
19 was important to look at the observable market evidence
20 of changes in cost of capital today relative to the time
21 that the last order was issued?

22 A. Yes.

23 Q. In particular, do you recall recommending review
24 of current utility bond yields as observable market
25 evidence on current cost of capital for electric

0177

1 securities?

2 A. Yes.

3 Q. Turning back to your testimony at page 3, and on
4 lines nine through 12, you explain the justification for
5 the fact that you have recommended a lower ROE in this
6 case than PacifiCorp currently has. Do you see that,
7 lines nine to 12?

8 A. Yes.

9 Q. Specifically I'm asking about the testimony
10 where you indicate that your recommendation is justified
11 based on clear evidence that capital markets today are
12 lower than they were in 2012 when the rate settlement
13 process took place and the rate settlement was
14 ultimately approved. Do you see that?

15 A. Yes.

16 Q. You're referring there to PacifiCorp's 2011
17 general rate case?

18 A. Yes.

19 Q. Moving down the page to the bottom of the page,
20 you there provide some clear evidence, in your words, of
21 the changes in the capital markets and what you referred
22 to as the comparison of bond yields to this case and the
23 last case. Do you see that on line 17?

24 A. I do.

25 Q. So then moving to page 4, where you put out that

0178

1 table, do you have that at the top of the page?

2 A. I do.

3 Q. And your table shows a decline in interest rates
4 from that 2011 case that you dated -- the order was
5 actually entered in March of 2012. That you have a
6 13-week period ending February 2012. Do you see that?

7 A. Yes.

8 Q. And it's a 4.34 percent number?

9 A. Yes.

10 Q. And you compare that to the current case, a
11 number that you derive from June of 2013 of 4.14
12 percent. Do you see that?

13 A. I do.

14 Q. Now, can you turn to MPG-31CX. And this is a
15 data request that PacifiCorp served on you asking you to
16 confirm the update to Dr. Hadaway's table one provided
17 to staff. Do you have that?

18 A. Yes.

19 MS. DAVISON: Excuse me. Just so the record is
20 clear, are you talking about data request 2.4?

21 MS. McDOWELL: That's correct.

22 MS. DAVISON: Thank you.

23

24

25

0179

1 MS. McDOWELL: 2.4 to Boise, which was
2 referenced staff 276. I know it's confusing.

3 BY MS. McDOWELL:

4 Q. So in that data request, you confirm the
5 accuracy of this update. Correct?

6 A. Yes.

7 Q. Now, this table shows that utility bond yields
8 have increased 68 basis points since April 2013.
9 Correct? From April 2013 to July 2013?

10 MS. DAVISON: Again, excuse me, just so the
11 record is clear, which table are you referring to? Is
12 it the third page of your --

13 MS. McDOWELL: Third page, 276.

14 BY MS. McDOWELL:

15 Q. Do you have that, Mr. Gorman?

16 A. I do.

17 Q. And the question is bond yields have increased
18 from April to July by 68 basis points. Correct?

19 A. Single A utility bond yields increased by 68
20 basis points in that time period.

21 Q. So to update your chart, on page 4, using that,
22 the most recent three-month average, wouldn't you agree
23 that in the single A utility bond rated column you would
24 need to replace that 4.14 percent number with the number
25 of 4.46 percent, which is the average of the last three

0180

1 months on that chart?

2 A. If I was going to compare the number in the 2012
3 time and date of the decision with the three-month
4 period ending July 13, it would be 4.46, yes, for the
5 single A rated utility bond.

6 Q. And so that would mean if you carried over to
7 the yield change number, instead of it being a number of
8 minus 20 percent, it would swing to plus 12 percent.

9 Correct?

10 A. 12 basis points. Yes, .12 percent.

11 Q. Thank you.

12 So then going down the page to your testimony on
13 lines seven to nine, there you, based on the conclusion
14 that the yield change had declined, you indicate that
15 utility bond yields have declined by approximately 20 to
16 40 basis points since PacifiCorp's last case. Do you
17 see that?

18 A. Yes. Yes. Sorry.

19 Q. So because your table one now shows an increase
20 in utility bond yields, shouldn't that sentence be
21 updated to state: The increase in utility bond yields
22 suggests that PacifiCorp's cost of capital is higher
23 than it was in the 2011 rate case?

24 MS. DAVISON: Your Honor, I object. I don't
25 believe Mr. Gorman has agreed that his table should be

0181

1 corrected. I think he simply referred to the numbers
2 provided in the chart. So I think the record should be
3 clear that he did not in fact agree to update his chart.

4 MS. McDOWELL: Well, he's free to answer my
5 question, Your Honor.

6 JUDGE MOSS: Yes, I think he can answer the
7 question.

8 Go ahead.

9 BY MS. McDOWELL:

10 Q. Mr. Gorman, would you like me to restate my
11 question?

12 A. No. Let me read the testimony, please.

13 Well, the change in the utility bond yields is
14 comparable to 12 basis points higher now than it was at
15 the time I did my analysis. That would be one
16 indication that the return on equity is higher now than
17 at the time I did my study. And that is observable
18 evidence on the cost of utility capital.

19 Q. Thank you, Mr. Gorman.

20 So can you now turn to Cross Exhibit 28CX.

21 A. I don't know if I have them listed by cross
22 exhibit. Can you describe this one you're referring to?

23 Q. This is your response testimony in the recent
24 Puget case that we were talking about, dated August 26,
25 2013. It's a four-page exhibit.

0182

1 A. Yeah, I have that.

2 Q. Now, can you turn to page -- I think it's page 4
3 of that exhibit.

4 A. I'm there.

5 Q. There you have a similar chart to the one we
6 just went through in your PacifiCorp testimony. Do you
7 see that?

8 A. I do.

9 Q. Now, just to get our bearings, can you respond
10 as to what your ROE recommendation was in the most
11 recent Puget case? And I believe it is in your
12 testimony.

13 A. Yeah, I think it's at page 3. 9.3 percent.

14 Q. So you were at 9.3 percent in this case. And
15 then in the prior case that you referenced, which would
16 be docket 111048, you were at 9.7 percent. Does that
17 sound right?

18 A. I'm sorry. Where are you at?

19 Q. Back to your chart, on page 4, where you're
20 comparing current case, the change in capital markets
21 between current case and the prior docket, which is
22 UE-111048. Do you see that? I'm asking you what your
23 recommendations are in the Puget current case and what
24 the recommendations were in the docket UE-111048. Are
25 you with me?

0183

1 A. I'm looking for the 975.

2 MS. DAVISON: I guess, Your Honor, while he's
3 looking, I would object on the basis of relevancy. I'm
4 not sure what the relevancy is of a recommendation of
5 Mr. Gorman for Puget Sound Energy many years ago, has
6 bearing on this particular case.

7 JUDGE MOSS: 2012 wasn't all that many years
8 ago, Ms. Davison.

9 MS. DAVISON: No, it's a previous case that
10 she's asking about.

11 MS. McDOWELL: I think I can tie it up.

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

14 BY MS. McDOWELL:

15 Q. Mr. Gorman, just to help you out, the next cross
16 exhibit is 29CX, that testimony in the prior case, which
17 has your recommendation in it. Do you have that?

18 A. I want to make sure I'm at the right spot.

19 Q. Yes, I know. I'm sorry it's confusing.

20 A. I have a page from a piece of testimony for
21 Puget Sound Energy, and it summarizes my recommendations
22 as awarding PSE a return on equity of either 9.5 percent
23 or 9.7 percent.

24 Q. Correct. And it was 9.7 if the commission did
25 not order, I think it was decoupling or some version of

0184

1 an automatic adjustment mechanism, and 9.5 if it did.

2 Is that correct?

3 A. That's my recollection. Have to review the
4 testimony, but I believe that's correct.

5 Q. So basically going back to your chart then on
6 page 4 of 28CX where you had current case and then the
7 prior docket. Just so we have our bearings, current
8 case 9.3, previous case 9.7? Is that correct?

9 A. That's correct.

10 Q. So your recommendations in the Puget cases in
11 both instances are higher than your recommendation in
12 this case, the 9.2 percent. Correct?

13 A. Yes.

14 Q. And in both cases, the bond yield rate that you
15 refer to at 4.14 percent and 4.40 percent are lower than
16 the 4.46 percent number we just discussed with respect
17 to the most current yield when we were looking at the
18 PacifiCorp case. Correct?

19 A. Yes.

20 Q. So based on observable market evidence,
21 utilities' cost of capital is higher now, but your
22 recommended ROE for PacifiCorp is lower than what you
23 recommended in the prior case. Is that correct?

24 A. Well, based on market evidence, at the time I
25 did my analysis, those are my results. And the analyses

0185

1 that were conducted in each of those studies were very
2 similar.

3 I would also point out that the 9.8 percent
4 PacifiCorp was awarded in its previous rate case, in the
5 litigation rate case, the bond yields were considerably
6 higher than they are now, over a hundred basis points
7 higher in the previous case, where PacifiCorp in a
8 contested proceeding was awarded an 9.8 percent return
9 on equity and a 49.1 percent common equity ratio. At
10 that time A rating utility bond yields were about 5.6
11 percent.

12 Q. And were you here when Dr. Hadaway was talking
13 about those numbers with Mr. Cedarbaum this morning?

14 A. Yes.

15 Q. And he was explaining that based on the
16 increases that have occurred since this update, the
17 rates are actually quite comparable to what they were in
18 the time period of the 2010 case?

19 A. Well, I would disagree with that testimony. The
20 bond yields are what the bond yields are. They are
21 clear observable market evidence. And at the time
22 PacifiCorp was awarded a 9.8 percent return on equity in
23 the litigated proceedings, bond yields were about 114
24 basis points higher than they are right now, even
25 with the update through July of this year.

0186

1 Q. But not with the update through August, which is
2 what Dr. Hadaway testified to.

3 A. They are still higher, considerably higher,
4 probably still in the range of a hundred basis points
5 higher.

6 Q. So, Mr. Gorman, can you turn to page 14 in your
7 testimony.

8 A. I'm there.

9 Q. There you recommend a capital structure of 49.1
10 percent for PacifiCorp. Do you see that?

11 A. Yes.

12 Q. And that's instead of the 52.2 percent capital
13 structure proposed by PacifiCorp?

14 A. Correct.

15 Q. Now, at page 13, line four, you provide the
16 basis for your hypothetical. At lines three to four you
17 provide the basis for your hypothetical, capital
18 structure. And the basis is basically that it be
19 continued because it was used in the last couple of
20 cases.

21 Then you indicate this capital structure has
22 been reviewed by credit rating agencies, which has
23 contributed towards the stable credit outlook that
24 PacifiCorp has most recently received from S & P and
25 Moody's. Do you see that testimony?

0187

1 A. Yes.

2 Q. So do you recall that PacifiCorp asked through a
3 data request about how you knew whether the credit
4 rating agencies had actually reviewed PacifiCorp's
5 hypothetical capital structure?

6 MS. DAVISON: Do you have a DR reference?

7 MS. McDOWELL: It's MPG-24CX.

8 BY MS. McDOWELL:

9 Q. So it's another cross exhibit, Mr. Gorman, which
10 would be data request 1.2 to Boise. Do you have that?

11 A. I recall the data request.

12 MS. DAVISON: Excuse me. It's in the
13 cross-examination exhibits. Do you have that,
14 Mr. Gorman?

15 THE WITNESS: Yes, I have it.

16 BY MS. McDOWELL:

17 Q. Do you recall a data request and PacifiCorp
18 asked you how you knew the facts you were testifying to
19 here?

20 A. Yes.

21 Q. In response to that data request, you admitted
22 that it was just an assumption based on the fact that
23 the commissioner's rate decision was publicly available.
24 Correct?

25 A. Yes.

0188

1 Q. Now, can you turn to page 41 of your testimony,
2 please, specifically lines 11 through 13. There you
3 acknowledge that S & P reviews total consolidated
4 PacifiCorp metrics. Correct?

5 A. Yes.

6 Q. They're not just looking at Washington on a
7 stand-alone basis. Correct?

8 A. Well, specifically it's Washington retail on a
9 stand-alone basis is what my credit metric analysis and
10 my testimony is based on.

11 Q. But I was asking you here about S & P. And they
12 normally, Standard & Poor's, normally looks at financial
13 ratios on a consolidated PacifiCorp basis, not a
14 Washington stand-alone basis. Correct?

15 A. Well, that's what I'm disagreeing with.
16 Standard & Poor's does look at it consolidated basis,
17 but what I did was look at Washington retail in my
18 testimony.

19 Q. I understand. I'm sorry if my question is
20 unclear. I was just asking about what S & P normally
21 did.

22 A. Yeah. PacifiCorp consolidated basis, correct.

23 Q. Thank you.

24 Do you have Mr. Williams' testimony with you?

25 A. I have his rebuttal with me.

0189

1 Q. I was actually going to ask you a question about
2 his direct testimony.

3 A. I do not have it.

4 JUDGE MOSS: Perhaps you have a copy for the
5 witness?

6 MS. McDOWELL: I could provide my copy to the
7 witness, although -- excellent.

8 JUDGE MOSS: It doesn't have any marginal notes
9 in it, does it?

10 MS. McDOWELL: I was a little reluctant to give
11 mine just in case, but we have a perfectly clean copy
12 here for Mr. Gorman.

13 Thank you.

14 BY MS. McDOWELL:

15 Q. I'd like you to take a look at page 15 of the
16 table that follows line 14.

17 COMMISSIONER JONES: Are you on direct or cross?

18 MS. McDOWELL: I'm in the direct testimony of
19 Mr. Williams.

20 JUDGE MOSS: What was the page?

21 MS. McDOWELL: And the page is 15.

22 JUDGE MOSS: Thank you.

23 MS. McDOWELL: The line number is 14, the table
24 that follows line 14.

25 Do I have everybody with me?

0190

1 CHAIRMAN DANNER: Yes.

2 JUDGE MOSS: Go ahead, Ms. McDowell.

3 MS. McDOWELL: Thank you.

4 BY MS. McDOWELL:

5 Q. So it's true, isn't it, that in all
6 jurisdictions except Washington PacifiCorp has an
7 approved equity ratio in excess of 52 percent based on
8 this table?

9 A. Well, that's Mr. Williams' testimony. I haven't
10 confirmed this.

11 Q. Well, aren't you familiar with at least some of
12 these results because you've participated in cases
13 involving PacifiCorp in other jurisdictions?

14 A. Yes.

15 Q. Isn't it true that in some of these other cases
16 you have recommended significantly higher equity
17 components for PacifiCorp than you've recommended in
18 this case?

19 A. Well, I haven't taken issue with capital
20 structures proposed by the companies in the other cases,
21 so I think there's a slight distinction there.

22 Q. You've accepted a higher equity ratio than what
23 they're proposing in this case. Correct?

24 A. Other jurisdictions don't use hypothetical
25 capital structures. In those jurisdictions I only took

0191

1 issue with any technical problems I had with the capital
2 structure.

3 Q. Well, let me ask you about a specific case in
4 which you provided testimony, the company's most recent
5 Utah rate filing. And that is your testimony there at
6 25CX, a cross exhibit.

7 A. I have it.

8 Q. You have that?

9 A. Yes.

10 Q. Can you turn to page 2 of that exhibit, please.

11 A. I'm there.

12 Q. There you reference the company's proposed
13 capital structure, and it included a 52.1 percent equity
14 component. Do you see that?

15 A. I do.

16 Q. If you turn to your page 4, you recommend a 51
17 percent number. Do you see that?

18 A. I do.

19 Q. And you recommended that based on adjustments
20 you made from the actual capital structure. Correct?

21 A. Yes.

22 Q. And then can you turn to Cross Exhibit 26CX?

23 A. Can you describe that, please.

24 Q. It should be the next in the file, and it's
25 rebuttal testimony of Bruce Williams in the same case.

0192

1 A. I'm there.

2 Q. Do you respond that Mr. Williams responded to
3 the adjustments that you made and demonstrated that
4 certain of the investments that you were challenging as
5 being outside of the company's rate base were actually
6 within the company's rate base?

7 A. Yes.

8 Q. Do you recall that?

9 A. I do.

10 Q. And then if you go to the next exhibit, which
11 would be your surrebuttal testimony dated July 18th,
12 2012, and that's Cross Exhibit 27CX. Do you have that?

13 A. July 18th, 2012?

14 Q. That's correct.

15 A. Yes.

16 Q. If you turn to page 2 of that exhibit. You
17 state at lines 29 through 30 that as a result of
18 Mr. Williams' rebuttal testimony you were no longer
19 recommending adjustments to the company's proposed
20 capital structure. And the effect of that is that you
21 accepted the company's proposed actual capital structure
22 of 52.1 percent in that case. Correct?

23 A. Well, it is accurate that I withdrew my
24 adjustments to the company's capital structure, but it's
25 not true that I found that the capital structure was

0193

1 reasonable and recommended it; simply renewed my
2 proposed adjustments, because those adjustments were,
3 with respect to the Bridger mine, was not accurate, so I
4 withdrew it.

5 Q. Because the Bridger mine is in fact in
6 PacifiCorp's rate base?

7 A. Yes.

8 Q. So this testimony was filed in July 2002.
9 Correct? You see that on the front page?

10 A. 2012?

11 Q. Yes. July 2012. Excuse me. I misspoke.

12 A. Yes.

13 Q. So do you understand that Mr. Williams
14 calculated the company's actual capital structure in
15 this case using a five-quarter average?

16 A. Yes.

17 Q. And that five-quarter average would have
18 included the time period in which you testified in this
19 Utah case. Correct? July of 2012 is within that
20 five-quarter period?

21 A. I need to confirm that, but I believe that's
22 probably accurate.

23 Q. Now, can you turn back to Mr. Williams' direct
24 testimony, and this time I'd like to take a look at
25 page 14.

0194

1 A. I'm there.

2 Q. I actually wanted you to take a look at the
3 middle of that chart, the comparison of capital
4 structures, and have you take a look at the June 2012
5 actual numbers. Do you see that?

6 A. Yes.

7 Q. And it's true, isn't it, that PacifiCorp's,
8 based on this chart, PacifiCorp's actual capital
9 structure has not changed since that July 2012 period to
10 the present time?

11 A. Based on this chart, that appears to be correct.

12 Q. Your testimony in this case doesn't acknowledge
13 that you've accepted PacifiCorp's actual capital
14 structure in the 52 percent range in other
15 jurisdictions. Correct?

16 A. Well, it does now. Well, actually no. I've not
17 accepted it as a reasonable capital structure. In the
18 other jurisdictions, if -- they make their rate making
19 determinations on the actual capital structure with
20 reasonable adjustments.

21 To the extent I offered reasonable adjustments,
22 I took issue with the company's cap structure. I did
23 not recommend a hypothetical capital structure in the
24 other jurisdiction.

25 Q. So do you recall PacifiCorp recently asking you

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1 to provide all testimony where you had provided, or
2 excuse me, where you had supported a higher equity ratio
3 for integrated electric utilities during the last 24
4 months? Do you recall that data request?

5 A. Yes.

6 Q. Do you recall that you responded to this by
7 objecting on the basis that it was unduly burdensome,
8 overbroad and irrelevant?

9 A. Well, I would have to do an analysis to answer
10 the question.

11 Q. And you refused to do that analysis?

12 A. Well, I didn't have time to do the analysis.
13 But I offered you the testimony that allowed the
14 analysis to be completed.

15 Q. But you pointed to 29 pieces of testimony that
16 you produced in response to another data request.
17 Correct?

18 A. Yes.

19 Q. Was that testimony all of the testimony you
20 filed in the last two years on the cost of capital?

21 A. For integrated electric utility companies, if it
22 wasn't, it was intended to be.

23 Q. So can you turn to page 43 of your testimony,
24 please.

25 A. I'm there.

0196

1 Q. And at line one, when you're talking about your
2 financial metrics analysis, and this is the analysis you
3 did to test the safety of your particular
4 recommendations in this case, you concluded that the --
5 let's see -- at your recommended 9.20 and proposed
6 capital structure, PacifiCorp's financial credit metrics
7 are supportive of its current A-minus utility bond
8 ratings. Do you see that?

9 A. I do.

10 Q. Would you accept, Mr. Gorman, subject to check,
11 that PacifiCorp's current rating is actually single A?

12 A. I would not. Their secured rating is single A.
13 Their unsecured rating is A-minus. It's clearly
14 outlined in Mr. Williams' testimony.

15 Q. So you checked it against the lower rating, not
16 the higher rating?

17 A. Well, to the extent the lower rating is
18 maintained, the higher rating, the secured rating, is
19 going to remain above the lower rating. So the analysis
20 generally is directed at whether or not the cash flows
21 produced in the rate making calculus would support the
22 unsecured bond rating. If that is accomplished, then
23 the secured bond rating is going to be stronger than be
24 then secured bond rating.

25 Q. So, Mr. Gorman, in your analysis, you only

0197

1 included a small portion of the amount of debt that
2 S & P imputes in its credit rating analysis of
3 PacifiCorp. Correct?

4 A. Well, on an off balance sheet basis I included
5 what I was able to identify as related detail of the
6 operations.

7 Q. So you included approximately 275 million of
8 imputed debt, whereas S & P actually imputes 850
9 million. Is that correct?

10 A. They do, yes.

11 Q. So on page 42 of your testimony, you provide the
12 results of your analysis, and you indicate that on lines
13 15 to 16 --

14 A. I'm sorry.

15 Q. Page 42 of your testimony?

16 A. Oh, I'm sorry. Yes. I'm there.

17 Q. -- lines 15 to 16, and you indicate that your
18 analysis indicates that PacifiCorp will be provided an
19 opportunity to produce a debt-to-EBITDA ratio of 3.2
20 times. Do you see that?

21 A. I do.

22 Q. Now, I wanted to turn your attention back --

23 A. Could I explain that what I was referring to, as
24 I explained earlier in this testimony, is that is on
25 retail jurisdictional cost of service, not on a

0198

1 consolidated company basis.

2 Q. So I was about ready to ask you about that,
3 because on page 13 of your testimony you have a quote to
4 S & P beginning on line 8. Do you see that?

5 A. Yes.

6 Q. In there, within that quote, on line 14, it
7 refers to S & P's most recent determination of the
8 EBITDA ratio for PacifiCorp for 4.3 times. Do you see
9 that?

10 A. I do.

11 Q. So just so we understand it, your testimony is
12 that based on your financial metrics analysis the
13 reduction of PacifiCorp's ROE by 60 basis points and the
14 reduction of its actual capital structure to a
15 hypothetical level will improve PacifiCorp's EBITDA by
16 110 basis points? That's your conclusion in this case?

17 A. That's not my conclusion in this case. My
18 conclusion in this case is the earnings entitlement and
19 the cash flow entitlement from jurisdictional cost of
20 service suggests that for retail operations in
21 Washington the cost of service will produce the credit
22 metrics outlined in my testimony.

23 Now, those will be part of the consolidated
24 financial metrics of PacifiCorp that credit rating
25 agencies will consider when they look at all

0199

1 jurisdictions and nonregulated activities of PacifiCorp.
2 But my concern in this case is whether or not the rate
3 of return I'm recommending being included in cost of
4 service in this case and the rates that will be charged
5 to Washington retail customers will provide fair
6 compensation to PacifiCorp investors and will help
7 support its financial integrity. That's the objective
8 of my study here.

9 MS. McDOWELL: That's all I have.

10 I'd like to offer our cross exhibits. I'd like
11 to offer all of the prefiled cross exhibits except CX23.
12 So that would be 24 through 31.

13 JUDGE MOSS: Okay. Any objections?

14 MS. DAVISON: Your Honor, if I take these one at
15 a time, on Cross Exhibit 24, I have no objection. On
16 the series that follows, I guess just to be clear about
17 it, PacifiCorp has offered excerpts of testimony from
18 other jurisdictions, which is precisely what we had our
19 stipulation to -- or we did not have a stipulation to
20 for Cindy Crane. So I feel like there should be a
21 little consistency. Either excerpts of testimony from
22 other jurisdictions should not come in on the basis of
23 relevancy or it should come in on a consistent basis.

24 So I guess personally I think it's fine for this
25 testimony to come in, but I'm giving this long-winded

0200

1 discussion because it's a preview of the Cindy Crane
2 cross-examination exhibits where we have done precisely
3 what PacifiCorp has done here.

4 JUDGE MOSS: And you're anticipating an
5 objection so now you're responding to it before --

6 MS. McDOWELL: And she's misstating my objection
7 too.

8 JUDGE MOSS: In any event. I don't perceive you
9 to have an actual objection here, so --

10 MS. DAVISON: That is correct.

11 JUDGE MOSS: We'll admit these exhibits as
12 marked.

13 (Exhibits MPG-24CX, MPG-25CX, MPG-26CX, MPG-27CX,
14 MPG-28CX, MPG-29CX, MPG-30CX and MPG-31CX were
15 admitted.)

16 MS. DAVISON: Thank you.

17 JUDGE MOSS: The witness' prior testimony is
18 fair game.

19 All right. I'm finally on top of this now.
20 We're going to have you back for a panel, so we won't
21 have any questions from the bench at this time.

22 I guess we should break for lunch before
23 Mr. Elgin. Let's do that.

24 Mr. Elgin, we'll give you the luncheon hour
25 to -- I'm sorry, do we have some redirect?

0201

1 MS. DAVISON: I had just a couple of questions
2 on redirect. I can do them now or after.

3 JUDGE MOSS: Let's do them now if you have just
4 a couple. Let's finish up Mr. Gorman at least prior to
5 the panel.

6 REDIRECT EXAMINATION

7 BY MS. DAVISON:

8 Q. Mr. Gorman, you were subject to a lot of
9 questions about updates to cost of debt and cost of
10 capital, the changing bond markets. When did you do
11 your analysis for this case?

12 A. Around -- it was completed in June of this year.

13 Q. Isn't it true that in any case that you testify
14 in that you could do the same analysis in July or
15 August or September, October, November, pick a month,
16 and the numbers are going to slightly change?

17 A. They will change based on observable market
18 evidence, yes.

19 Q. Based on the numbers that you were presented
20 with on cross-examination, does that in any way impact
21 the recommendation that you're making to the commission
22 in this case?

23 A. Well, it's incomplete in that it only looks at
24 observable utility bond yields. There's another
25 component of -- the overall rate-of-return analysis is

0202

1 to look at the impact on equity valuations. While bond
2 yields have been going up more recently, utility stock
3 yields have been relatively flat.

4 So one consideration if I were to update would
5 be to recognize higher bond yields right now, but also
6 likely see a contraction in the equity risk premium,
7 because equity utility stocks for -- utility stock
8 values have been very stable, even in light of
9 depressions in the value of bond yields and the increase
10 in bond stocks and the increase in bond yields. All of
11 that would be considered in an updated analysis.

12 In the end, my recommended return on equity
13 would reflect that updated information in a complete
14 analysis, recognizing those changes to bond yields as
15 well as changes for stability in equity stock values.
16 So the analysis of looking only at utility bond yields
17 doesn't produce an entire picture of what evidence is
18 available to measure accurately utilities' cost of
19 equity.

20 MS. DAVISON: Thank you. I have no further
21 questions.

22 JUDGE MOSS: Thank you.

23 Now, let's have some lunch, and we'll prepare
24 ourselves for Mr. Elgin after lunch. Thank you.

25 Let's be back at 1:15 then. One hour.

0203

1 (A luncheon recess was taken from 12:15 p.m. to
2 1:17 p.m.)

3 JUDGE MOSS: Mr. Elgin.

4 KENNETH L. ELGIN

5 Witness herein, having been first duly sworn on
6 oath, was examined and testified as follow:

7 THE WITNESS: Yes.

8 JUDGE MOSS: Thank you. Please be seated.

9 Anything preliminary, Mr. Cedarbaum?

10 MR. CEDARBAUM: No, Your Honor.

11 JUDGE MOSS: All right. Then Mr. Elgin is
12 available for cross-examination then. Let's see, we
13 have the company has indicated 30 minutes. So you may
14 proceed.

15 MS. McDOWELL: Thank you, Judge Moss.

16 CROSS-EXAMINATION

17 BY MS. McDOWELL:

18 Q. Good afternoon, Mr. Elgin.

19 A. Good afternoon.

20 Q. Can you turn to page 2 of your testimony. Just
21 to get an overview of your position, I think that's
22 where you state your overall cost of capital
23 recommendations in this case.

24 A. Yes.

25 Q. Now, your overall cost of capital is based on

0204

1 cost of debt of 5.34 percent. Correct?

2 A. Yes.

3 Q. Now, do you understand that PacifiCorp has
4 updated its cost of debt in this case?

5 A. Yes.

6 Q. And would you accept, subject to check, that use
7 of PacifiCorp's updated debt costs in your cost of
8 capital chart here would reduce the ROR to 7.00 percent?

9 A. If I were to use what Mr. Williams has
10 testified, is that your question?

11 Q. That's correct.

12 A. That would only be part of it. But you would
13 also have to include short-term debt, so it would
14 depend. I don't know how or whether or not in your
15 hypothetical it would include that.

16 Q. I'm just saying if you replace the 5.34 percent
17 you have here with Mr. Williams' updated number, that
18 would move your 7.03 percent to 7.00 percent.

19 MR. CEDARBAUM: I'll object to the extent that
20 this question mischaracterizes Mr. Elgin's testimony.
21 His total cost of debt on this page is a combination of
22 long-term and short-term debt, and the question is
23 asking him to assume it's all long-term debt.

24 MS. McDOWELL: This is one of those math
25 questions that I'm just asking if he accepts that if you

0205

1 replace the number of 5.34 with a number of 5.29, does
2 that produce a 7.00 number.

3 JUDGE MOSS: I think what I heard Mr. Elgin say
4 is he's not sure. I think you could ask him whether
5 perhaps it would be lower than the 7.03, and that's
6 about as far as you're going to get with the witness on
7 the stand today.

8 MS. McDOWELL: Thank you.

9 BY MS. McDOWELL:

10 Q. If you replace the number 5.34 with the number
11 5.29, would it produce lower rate of return than a 7.0
12 percent?

13 A. Yes. That math is correct.

14 Q. Thank you, Mr. Elgin.

15 MS. McDOWELL: Thanks for your help, Judge.

16 JUDGE MOSS: Well, he's rolled the two together.
17 I think that's what he's trying to explain. He can't
18 give you a certain number.

19 MS. McDOWELL: I'm with you.

20 BY MS. McDOWELL:

21 Q. So, Mr. Elgin, can you turn to page 39 of your
22 testimony.

23 A. Yes.

24 Q. So throughout your testimony here responding to
25 the company's cost of capital recommendation, in several

0206

1 places you refer to a number of 52.1 percent, indicating
2 that that's the company's proposal for an equity
3 component in the capital structure. Do you see that?

4 A. Yes.

5 Q. And it's true, isn't it, that PacifiCorp has
6 never recommended a 52.1 percent capital structure in
7 this case, a 52.1 percent equity ratio in this case?

8 A. That is a typo. It's 52.51 percent is the
9 company's recommendation. That was -- I apologize for
10 that.

11 Q. That was in the direct case. Correct?

12 A. Yes.

13 Q. 52.51 percent.

14 Mr. Elgin, do you recall that the company
15 updated its capital structure in its rebuttal case, and
16 proposed a 52.22 percent equity ratio?

17 A. Yes.

18 Q. And that 52.1 percent number, that was the
19 company's recommended equity component in its 2010
20 general rate case. Is that correct?

21 A. I'll accept that subject to check.

22 Q. Now, in that 2010 PacifiCorp rate case, you
23 recommended a 46.5 percent equity component in the
24 capital structure. Correct?

25 A. Yes.

0207

1 Q. And the commission rejected that recommendation
2 as too low. Correct?

3 A. The commission rejected it, yes.

4 Q. In this case you responded by proposing an even
5 lower equity component of 46.6. Correct?

6 A. Yes.

7 Q. Now, since the 2010 general rate case, the
8 commission decided the 2011 Puget general rate case,
9 correct, where capital structure was also litigated?

10 A. Yes.

11 Q. And you were a witness in this case. Correct?

12 A. Yes.

13 Q. So can you turn to your Cross Exhibit KLE-5CX,
14 please.

15 A. I have that.

16 Q. On page 2 of that exhibit you have your cost of
17 recommendations in that case. Do you see that?

18 A. Yes.

19 Q. In that case you also proposed a 46 percent
20 equity component. Do you see that?

21 A. Yes.

22 Q. The commission also rejected that as too low in
23 that decision. Isn't that correct?

24 A. Well, the commission did not accept it, so in
25 that sense, yes, it was rejected.

0208

1 Q. Can you turn to the piece of paper that I handed
2 you before this examination began, which is an excerpt
3 from that order.

4 For the record, this is order 08 in docket
5 UE-111048.

6 I've specifically handed you -- it's a
7 two-page exhibit, which has the front page of the order,
8 and then has an excerpt that includes paragraph 56. Do
9 you see that?

10 A. Yes.

11 Q. So in that case, didn't the commission find that
12 reducing Puget's actual equity ratio while it was
13 experiencing attrition -- and I have this, it's about
14 midway, toward the end of the paragraph -- the quote is
15 that it could be viewed unfavorably by the financial
16 markets and rating agencies. Do you have that?

17 A. Yes.

18 Q. And the commission concluded that -- this is at
19 the end of that paragraph there -- by raising the equity
20 ratio from its current authorized level to the level it
21 expects during the capital year, we improve PSE's
22 opportunity to earn its full authorized return during a
23 period of high capital expenditures.

24 So what I wanted to ask you about is your
25 analysis of capital structure in this case. And I

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1 believe that's on pages 11 to 14 of your testimony.

2 Now, in reviewing this testimony, I did not see
3 any discussion of PacifiCorp's attrition in your
4 recommendations to reduce PacifiCorp's actual equity
5 component in its capital structure. Is it fair to say
6 that in making your recommendation you did not account
7 for PacifiCorp's attrition in any way?

8 MR. CEDARBAUM: I'll object as assumes facts not
9 in evidence, at least through this -- well, foundation
10 as to whether or not this witness agrees that the
11 company is experiencing attrition.

12 JUDGE MOSS: I think that would be appropriate
13 foundation.

14 BY MS. McDOWELL:

15 Q. Mr. Elgin, are you aware that PacifiCorp has
16 been under-earning in its Washington jurisdiction for
17 many years?

18 A. My understanding is that the company has alleged
19 that.

20 This would have been the appropriate case for
21 the company to put on an attrition analysis, and it did
22 not do so, so I can't say anything other than what the
23 expert alleges. And this morning is the first time I've
24 heard connection between the equity ratio and a remedy
25 for the company's -- used the actual equity ratio as a

0210

1 means to respond to alleged attrition.

2 If it was indeed attrition that you were
3 experiencing, it's incumbent upon the company to make
4 the requisite showing and for the parties to be able to
5 respond to that evidence.

6 Q. Do you have Bruce Williams' testimony with you?

7 A. Yes, I do.

8 Q. And I will have it in just a minute here, his
9 rebuttal testimony.

10 There's a section in that testimony beginning on
11 page 2 entitled policy issues. Do you see that?

12 A. Yes, I have that.

13 Q. Do you see that beginning on page 3, line 17,
14 Mr. Williams refers to a section of the letter from
15 Governor Gregoire referring to attrition? Do you see
16 that?

17 A. That's at the bottom of page 3 on line 22?

18 Q. Yes. The question refers to attrition. Do you
19 see that?

20 A. Yes, I do see that.

21 Q. And then do you see Mr. Williams' response
22 indicating that use of a hypothetical capital structure
23 is not consistent with addressing attrition in rate
24 making?

25 A. Yes. But that still begs the question whether

0211

1 or not the 52 -- equity ratio of 52 percent is
2 appropriate.

3 The portrayal and the actual earnings and where
4 the company would be if it were capitalized properly, in
5 my opinion, the returns portrayed by Mr. Griffith in his
6 rebuttal testimony would be higher. So it's a matter
7 again of arithmetic. If you have less -- if you have
8 more equity and you have a certain level of earnings and
9 you apply that to a earned return on equity, it will be
10 lower. It's, again, math.

11 Q. So just to be clear, those are not issues you
12 considered in proposing the capital structure that you
13 proposed in this case?

14 A. Yes, I could not consider them. This was his
15 rebuttal testimony. I'm talking about the direct
16 testimony.

17 Q. So, Mr. Elgin, I wanted to ask you about your
18 proposal to impute Avista's debt cost in this case to
19 PacifiCorp. That's at page 37 of your testimony.

20 A. Go ahead.

21 Q. And just so I'm clear on your proposal, you are
22 proposing to use Avista's total cost of debt from its
23 last rate case, and that's, for the record, UE-120436.
24 Is that correct?

25 A. Yes. I portrayed that in my Exhibit KLE-3. The

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1 calculations are there.

2 Q. You were a witness in that case also, weren't
3 you?

4 A. That's correct.

5 Q. So turning to Exhibit KLE-6X. I believe that
6 was your initial rate of return testimony in that case.

7 A. Yes, I have that.

8 Q. In that case, on page 3, you recommended a 5.7
9 percent cost of debt for Avista. Is that correct?

10 A. Yes.

11 Q. And then ultimately this case was resolved by a
12 stipulation I believe adopted in, order nine in the
13 case, that adopted a 5.72 percent cost of debt. Does
14 that sound right?

15 A. I'll accept that, yes.

16 Q. Your testimony in that case was actually marked
17 as an exhibit for Debra Reynolds, DJR-5CX. I'm not sure
18 if you have that with you.

19 A. Yes, I do, I think.

20 MR. CEDARBAUM: Just give me a chance to find
21 that.

22 THE WITNESS: Yes, I believe I have that.

23 BY MS. McDOWELL:

24 Q. You testified in support of that cost of debt.
25 Correct?

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1 A. That's correct.

2 Q. And just to be clear, in this case while you
3 propose to impute Avista's cost of debt or a cost of
4 debt you say is Avista's cost of debt, you're not
5 proposing to impute the other portions of the
6 commission's order in that case, the adopting a 9.8 ROE
7 or a 7.64 ROR. Correct?

8 A. No. That was a settlement in that case. There
9 were many factors that we considered.

10 Q. Your Exhibit KLE-3 is the exhibit from which you
11 derive your 5.343 percent number. Correct?

12 A. Yes.

13 Q. Do you have that exhibit?

14 A. Yes, I do.

15 Q. That exhibit relies on a 5.6 percent cost of
16 debt for Avista. Do you see that?

17 A. It's the cost of long-term debt, that's correct.

18 Q. That number is different from the number that
19 was authorized by this commission. Correct?

20 A. Well, I wouldn't say authorized.

21 Yes, it is different than what I'm proposing.
22 This number is different than what is portrayed here for
23 several reasons. But this Avista's cost, actual cost of
24 debt. It's taking their issuances, the interest
25 payments, the underwriting fees paid, and the

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1 traditional treatment to calculate their cost of debt.

2 Q. But you'll acknowledge it does not correspond to
3 the cost of debt that was authorized by the commission
4 in order nine. Correct? That's a higher cost?

5 A. It was not -- yes.

6 Q. And then to derive the 5.34 percent number,
7 you'd add short-term debt. Is that correct?

8 A. Yes.

9 Q. That's the next line there. And that's where
10 you get the number 5.34 percent?

11 A. That's right.

12 Q. So doesn't this adjustment show that even if you
13 use a cost of debt lower than what's in Avista's rates
14 now, and you add short-term debt, the result is a cost
15 of debt that remains higher than PacifiCorp's current
16 long-term cost of debt?

17 A. Yes. Avista's cost of -- that's exactly why I
18 did this. In Mr. Williams' direct case, he alleged that
19 it was unfair for the staff to recommend a hypothetical
20 capital structure, and then used its embedded cost of
21 short-term -- I mean of long-term debt. So similarly
22 how I -- we use surrogate companies to establish a cost
23 of equity for this company, I felt it was fair to look
24 at a comparable rated A-minus utility and calculate what
25 their cost of debt is, including four percent short-term

0215

1 debt, and use that as a surrogate for this company, so
2 that I was responding to Mr. Williams' testimony in that
3 regard, and trying to be fair.

4 MS. McDOWELL: That's all I have.

5 I'd offer KLE-5CX, KLE-6CX and DJR-5CX.

6 (Exhibits KLE-5CX, KLE-6CX and CLE-7X were
7 admitted.)

8 JUDGE MOSS: Any objections?

9 MR. CEDARBAUM: I'm sorry. No, objections.

10 I do have just a couple of follow-up questions.

11 JUDGE MOSS: Okay. Let me do something here for
12 the record. I'm going to renumber DJR-CX as CLE-7CX and
13 I'll accept it into the record on that basis.

14 MS. McDOWELL: Thank you.

15 JUDGE MOSS: We'll strike that same exhibit from
16 Ms. Reynolds when we get there, or I can do it now.
17 It's DJR-5CX. Right?

18 MS. McDOWELL: That's correct.

19 JUDGE MOSS: We'll strike that.

20 MS. McDOWELL: That's correct. I think we were
21 thinking in terms of traditional witness order, and not
22 this witness order.

23 JUDGE MOSS: This will work out all right. So
24 those will be admitted.

25 Mr. Cedarbaum, you said you have a follow-up

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1 here?

2 MR. CEDARBAUM: Yes, Your Honor. I just wanted
3 to ask Mr. Elgin to turn to page 39 of his testimony.

4 REDIRECT EXAMINATION

5 BY MR. CEDARBAUM:

6 Q. The line nine, you made a record correction to
7 the 52 percent number; from 52.10 to I think it was
8 52.51.

9 A. Yes.

10 Q. Does that change affect either your own
11 recommendation or your response to the company's
12 recommendation?

13 A. No, it does not.

14 Q. You also made a distinction between the
15 company's presentation and its direct testimony versus
16 its rebuttal case with respect to the subject of
17 attrition. Do you recall that?

18 A. Yes.

19 Q. Can you explain why that's important?

20 A. Yes, we, as commission staff, we respond to the
21 direct case. So to the extent the company was alleging
22 attrition and proposing remedies, we evaluate first
23 whether or not there is indeed attrition, and then the
24 second thing is what's the appropriate remedy, whether
25 it be end-of-period rate base, some kind of hypothetical

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1 equity ratio, or future test periods, or whatever the
2 revenue may be. But, in my mind, the remedy needs to be
3 related to the alleged attrition and the specific
4 response to what's occurring to the company. We did not
5 have any evidence from the company on that point.

6 MR. CEDARBAUM: Thank you. That's it.

7 JUDGE MOSS: Okay. Very good. Mr. Elgin, you
8 may as well stay where you are, since we're going to
9 have the panel of the witnesses.

10 I'm going to ask if counsel here can bring their
11 chairs up since we have four. I'll bring a chair down
12 from up here, and you can either pull up chairs from the
13 gallery there or just sit back there.

14 I remind the panelists, you all remain under
15 oath, so we don't need to go through that exercise a
16 second time.

17 This is an opportunity for some interaction
18 between you four and the bench. And we don't have an
19 agreed order here, but Mr. Goltz, would you care to
20 commence?

21 COMMISSIONER GOLTZ: I'll see if I can ask
22 everything that Commissioner Jones has in mind to ask.

23 Thank you.

24 Although we have this format, I think it's
25 useful, it may be that in my questions I'll just be

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1 asking individuals, and I won't ask for too much
2 interaction.

3 So I wanted to ask Mr. Hadaway first, am I
4 correct that over -- looking back, prior to this case,
5 in the last few years that you've been testifying, that
6 you would -- summarizing that, you would say the DCF
7 method would be the primary method of determining return
8 on equity?

9 DR. HADAWAY: Yes, sir. Up until very recently,
10 that's been the case.

11 COMMISSIONER GOLTZ: That was the case through
12 your initial testimony. Correct?

13 DR. HADAWAY: I raised concerns about the model
14 in that initial testimony, but yes, it was still the
15 primary method.

16 COMMISSIONER GOLTZ: Sometime between then and
17 your rebuttal testimony you would say, no, it's not
18 primary anymore?

19 DR. HADAWAY: Yes, sir. Starting with June
20 the 19th, and really the period leading up to that, when
21 the Federal Open Market Committee made clear that it was
22 beginning a process of changing its interest rate
23 policy.

24 COMMISSIONER GOLTZ: So you testify for
25 PacifiCorp in a number of states. Correct?

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1 DR. HADAWAY: Yes.

2 COMMISSIONER GOLTZ: You testify for other
3 companies in a number of cases?

4 THE WITNESS: Yes.

5 COMMISSIONER GOLTZ: Do you have any of those
6 that are ongoing right now?

7 DR. HADAWAY: Yes, sir.

8 COMMISSIONER GOLTZ: Are you saying in those
9 other jurisdictions that the UCF should no longer have
10 primacy?

11 DR. HADAWAY: I'm saying additional weight
12 should be give to interest rate-based models like this
13 premium model. I'm filing rebuttal testimony as we sit
14 here today in Arkansas with that very testimony in it,
15 and I have a case in Texas that I'm preparing that same
16 testimony in.

17 COMMISSIONER GOLTZ: You attached in your
18 Exhibit SCH-2 quite a list of cases in which you filed
19 testimony on cost of capital going back almost 30 years.
20 Right?

21 DR. HADAWAY: Yes, sir. I started in 1980.

22 COMMISSIONER GOLTZ: More than 30 years then.

23 Has there been any other time in that history,
24 1982 to present, when DCF hasn't been your primary
25 method?

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1 DR. HADAWAY: I would have to think very
2 carefully about that, but over time we have used
3 different models and emphasized that different weights
4 would be placed on those models, again ranging from --
5 we've had discussions at this commission, Commissioner
6 Jones and I have, about the capital asset pricing model,
7 for example, and I've used that -- not as a primary
8 method. Typically the DCF model, as it is with this
9 commission, and around the country, is the one that most
10 commissions rely on most heavily.

11 COMMISSIONER GOLTZ: You're saying now for this
12 case, at this time, we should rely more heavily on the
13 risk premium method?

14 DR. HADAWAY: Something based on interest rates.
15 Interest rates have gone up over a hundred basis points
16 since April. And if you look at my analysis or if you
17 look at Mr. Gorman's analysis, or anyone else, the DCF
18 model because of the data it's based on simply can't
19 capture that increase in capital costs that is
20 occurring.

21 COMMISSIONER GOLTZ: I guess I'm asking, though,
22 has there been any other time since 1980 when you would
23 say, yes, in fact the DCF model should not have primacy,
24 or is this just a new thing?

25 DR. HADAWAY: I've done so many cases, I can't

0221

1 be sure, but I believe when interest rates in the 1980s
2 were as high as they were, there were many models that
3 were giving ROE's above 20 percent, for example, and the
4 DCF was probably one of those, because dividend yields
5 were over ten percent, mini growth rates were high. And
6 in that environment I don't think I ever recommended
7 higher than about 16 or 17 percent, and that was as a
8 commission staff person.

9 COMMISSIONER GOLTZ: I have a question for
10 Mr. Williams on capital structures. And I'll ask
11 actually this of all of the capital structure witnesses.

12 So first for Mr. Williams, are you saying that
13 in all cases, all times, the commission should accept
14 actual capital structure?

15 MR. WILLIAMS: I think what we're saying is that
16 the actually capital structure, if it produces a
17 reasonable overall rate of return, which I believe ours
18 does, if you look in light of the Avista and the Puget
19 rates of return, and it's necessary to support the
20 ratings, which we believe ours is, and those ratings
21 provide a benefit through a lower cost of debt, that it
22 is reasonable to use the actual, and the actual should
23 be what's used.

24 COMMISSIONER GOLTZ: But you would agree that
25 sometimes commissions, including this one, approve a

0222

1 capital structure where the approved equity component is
2 greater than the actual equity component?

3 MR. WILLIAMS: Yes, I'm aware of that in the
4 recent Puget case that was discussed a few minutes ago,
5 where I think you authorized a 48 percent common equity
6 component, when the company had 46 percent during the
7 test period, but with the expectation of it being
8 increased when rates were effective, yes.

9 COMMISSIONER GOLTZ: But beyond that, wouldn't
10 you agree that sometimes a hypothetical capital
11 structure is approved by a commission, including this
12 one, in order to assist the company financially?

13 MR. WILLIAMS: Yeah. I think there could be
14 situations like that, where a hypothetical capital
15 structure that had more equity than what the company
16 actually had would help it with its ratings or its
17 coverages or some other issue that the commission is
18 concerned and wants to help with.

19 COMMISSIONER GOLTZ: Mr. Gorman and Mr. Elgin,
20 would you agree with that? That under what
21 circumstances might a hypothetical capital structure
22 actually assist the company potentially?

23 MR. GORMAN: I think it does, if you use a
24 hypothetical capital structure with more common equity
25 than the actual amount of common equity, then you're

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1 providing that company greater cash flows to help
2 restructure its cash flow to meet the targets you lay
3 out for it.

4 COMMISSIONER GOLTZ: Mr. Elgin, have there been
5 examples in your experience where that's been done by
6 this commission?

7 MR. ELGIN: Yes. As a general proposition in --
8 this commission has used hypotheticals for that very
9 purpose, to enhance the financial stabilities of the
10 companies it regulates to put them on more solid
11 financial footing.

12 The most recent cases were for both Avista, as
13 the financial turmoil it went through as a result of the
14 2000 western system power crisis, and also for Puget
15 Sound Energy as a result of that crisis, and also as a
16 result of its merger with -- or acquisition of
17 Washington Natural Gas, actually became Puget Sound
18 Energy, it ran into some financial difficulty in the
19 transition.

20 But the traditional kinds of things the
21 commission has done has accepted hypotheticals to put
22 equity in where there was none.

23 COMMISSIONER GOLTZ: So, Mr. Williams, I gather
24 you're saying that just so long as the actual capital
25 structure is kind of within some sort of reasonableness,

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1 we ought to leave well enough alone? Is that sort of
2 it? You're not saying actually -- all, forever,
3 otherwise we wouldn't be doing the sorts of hypothetical
4 capital structures that Mr. Elgin described.

5 MR. WILLIAMS: Right. I think you probably need
6 to look at each case by case, but I'm saying our company
7 in this case, the actual capital structure does provide
8 a benefit to the customers.

9 You know, it has -- it balances both the safety
10 and the economy that I think the commission is looking
11 for. It provides the economy through an overall rate of
12 return, very much in line with Avista and Puget, and
13 those are recent cases I understand, and also provides a
14 safety, and perhaps it provides more safety by a higher
15 rating, a better balance sheet, a stronger company, but
16 there's no additional cost for it. The costs are very
17 much in line with what Avista and Puget have in rates
18 today.

19 So I don't want to give you a blanket answer
20 that yes, it's always actual. I think you need to look
21 at it on a case-by-case basis, but with kind of the
22 criteria that I laid out; that if it does support the
23 ratings and it provides a benefit to customers to lower
24 debt cost, a competitive overall rate of return, I mean,
25 that seems reasonable to me.

0225

1 COMMISSIONER GOLTZ: So supporting lower debt
2 costs. So there's a dispute between the company's
3 position and the commission staff's position on the
4 appropriateness of short-term debt in the capital
5 structure.

6 MR. WILLIAMS: Yes, I think that's a fair
7 assessment of it.

8 COMMISSIONER GOLTZ: Isn't short-term debt in
9 general cheaper than other forms of capital?

10 MR. WILLIAMS: I think generally, but let me
11 answer your question that the company, even though it
12 doesn't have short-term debt is capturing the benefit of
13 those low short-term interest rates.

14 If you look in my cost-of-debt exhibit you'll
15 see about \$600 million of variable rate, pollution
16 control, revenue bonds, that are reset daily or weekly.
17 Those are very low rates. Those are a rate of about 1.3
18 percent. That's even lower than the rate that I believe
19 Mr. Elgin has proposed for the cost of short-term debt.

20 So even though we don't have any short-term
21 debt, the customers are still getting the benefit of
22 that low short-term interest rate through the component
23 of long-term debt.

24 COMMISSIONER GOLTZ: Isn't short-term debt just
25 a normal means of financing operations for most

0226

1 companies?

2 MR. WILLIAMS: I think it -- typically it can
3 be. It depends on your cash flows, what your cash needs
4 are.

5 We've benefitted the last couple of years from
6 bonus depreciation, which has enhanced the cash flows,
7 so we haven't had the need for as much short-term debt.
8 At the same time we've also been fairly aggressive with
9 issuing long-term debt, at what we think are attractive
10 rates, locking in today's rates, you know, for 20 or 30
11 years, that we think will provide value for customers
12 for that long period of time.

13 COMMISSIONER GOLTZ: Mr. Gorman, you don't
14 propose short-term debt in this capital structure. And
15 looking at some of the testimony that was put in the
16 record this morning of your testimony in other states, I
17 didn't notice a short-term debt component. Is that a
18 pattern of your recommendations, or is that the case?

19 MR. GORMAN: Typically it's based on what the
20 company actually does.

21 There is risk associated with using short-term
22 debt, refinancing risk. Many utilities decide or choose
23 to finance in a more conservative manner to lock in the
24 maturity of their securities while mitigating then the
25 financial risk of having to refinance those securities

0227

1 when they come due. So that's one factor.

2 I recognize the necessity of what I believe to
3 be a reasonable capital structure. Another factor is
4 the actual type of operations the utility has. As an
5 example, utilities with gas service use short-term debt
6 to manage working capital, because there's a very
7 significant variation in the amount of gas inventory
8 that company may have throughout the year.

9 Almost all utilities use short-term debt to some
10 extent to finance their construction work in progress,
11 simply because of the timing of writing checks to
12 vendors and equipment manufacturers and environmental --
13 or engineering procurement contract folks. It makes
14 sense to use short-term debt to build up a larger amount
15 and then refinance it with longer term securities.

16 But I have not questioned the use of long-term
17 debt because I think it's generally consistent with a
18 conservative utility financing structure. For that
19 reason I have not taken issue with it.

20 COMMISSIONER GOLTZ: Mr. Elgin, then responding
21 to that, is the short-term debt that you're proposing,
22 it sounds like they're saying that that's a little bit
23 higher up on the risk scale. Do you have a response to
24 that?

25 MR. ELGIN: No. I would say it's not, not for

0228

1 the amount -- I would say if you were to be proposing
2 somewhere upwards of ten percent, I would say that the
3 higher up on the risk scale would apply.

4 What I'm suggesting is four percent is a
5 reasonable amount, and in particular, because you
6 consider working capital is a rate-based item, it's
7 quite appropriate to consider how the company manages
8 the working capital of its business, and using
9 short-term debt as part of that cash management, and as
10 well using short-term debt to, as Mr. Gorman described,
11 fund construction and fund its ongoing business needs,
12 and use it as a way to bridge and maximize the timing
13 and the effect of when you would do something more
14 permanent.

15 So I think four percent is a very small amount,
16 it's a proven amount to use, and that's the foundation
17 for my recommendation in this case.

18 COMMISSIONER GOLTZ: I have no further
19 questions.

20 CHAIRMAN DANNER: Thank you.

21 I have a question. I want to go back to
22 Dr. Hadaway's direct testimony. On page 20, lines 10
23 through 13, you state -- and this is with regard to risk
24 premium method -- although these more sophisticated
25 methods are widely used in academic costs of capital

0229

1 research, their additional data requirements and their
2 potentially questionable underlying assumptions have
3 detracted from their use in many regulatory
4 jurisdictions. And you say it's however a useful
5 parallel approach to the DCF model.

6 If you're going to downplay the DCF model, I'd
7 like to know what the questionable underlying
8 assumptions are that you identified in that, and whether
9 they're still -- are they still questionable underlying
10 assumptions if we're going to give more importance to
11 this method.

12 DR. HADAWAY: Well, my testimony there is really
13 about the capital asset pricing model, the arbitrage
14 pricing theory model. Particularly the so-called APT
15 model has really not gotten used in regulation to my
16 knowledge, other than just a few papers may be written
17 about it, but I've never seen a commission use it. It's
18 because the model assumes a lot of relationships in the
19 market that are essentially untestable. Academicians,
20 particularly many years ago, debated those assumptions
21 and they were trying to produce a better model, but it
22 simply hasn't turned out to be that way.

23 The capital asset pricing model, on the other
24 hand, is widely used in many Wall Street applications,
25 and up until interest rates have been pushed down by the

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1 government's recent monetary policy, many valuation
2 opinions and other things that needed a cost of capital
3 would use the CAPM; however, in the regulatory process
4 your friends in Oregon, who were one of the first
5 commissions to rely heavily on the CAPM -- in my very
6 early academic work I actually wrote a paper that had to
7 do with some of the same things they were doing over
8 there. This goes back to the 1970s.

9 But over time the whole issue of market
10 efficiency, diversifiable and nondiversifiable risk,
11 have come under some suspicion as necessary to being
12 exactly the way the market is. I'm glad Commissioner
13 Jones is back, because he and I have talked about thee
14 things before.

15 But the CAPM has extensive assumptions about
16 equal borrowing and lending rates, about certain kinds
17 of risk aversion, things that we don't typically talk
18 about outside of the classroom. It's a fine model, but
19 it requires inputs that are very, very judgmentally
20 based, and different equally expert witnesses produce
21 tremendously different rates of return from that model,
22 so for that reason most commissions don't rely on it.

23 I have for years and years used a simpler risk
24 premium approach of saying what a utility is granted in
25 the way of risk premiums, utilities have been granted by

0231

1 regulatory commissions, and if we look at today's
2 interest rates and add those to the adjusted risk
3 premium that's consistent with the level of interest
4 rates, I think that's a more direct, it doesn't have all
5 the assumptions that the CAPM or certainly the APT
6 models have, and it's one that people can understand.

7 CHAIRMAN DANNER: When you talk about it, you're
8 talking about this in combination with DCF then?

9 DR. HADAWAY: Not under present conditions.
10 When I look at the results in this case, and also in
11 those other cases that I mentioned earlier, and we see
12 that DCF results are going down at the very time when
13 interest rates are raising rapidly and projected to rise
14 further, and then I believe that has to be an indication
15 at least under present market conditions that the DCF
16 model is simply not accurate.

17 The inputs to it -- it's going to take a while,
18 but if interest rates continue to rise -- Mr. Gorman and
19 I can debate this -- but utility stocks have been
20 relatively flat recently, and they've also gone down.
21 Many of the so-called dividend failures have fallen out
22 of favor really in the last month to six months.

23 There was a period in May when it started to
24 happen, when people anticipated the Fed's move, and it
25 sort of improved. Chairman Bernanke tried to sort of

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1 smooth the markets over and utilities recovered a bit,
2 and now in just the last few weeks they've come down
3 very hard again as interest rates have started rising
4 again.

5 CHAIRMAN DANNER: If we're giving less
6 importance to DCF, we're going to rely on these others,
7 in your direct testimony you basically identify two
8 methods, APT and CAPM, and said that they have some
9 questionable underlying assumptions hereto. You then
10 talk about you have a more simple method, but it seems
11 to be relying on a spot price. So if we're worried
12 about underlying assumptions, it seems that we've got --
13 we're taking a snapshot that's very narrow. That
14 worries me a little bit. I hope you can ease -- calm my
15 nerves a little bit on this.

16 DR. HADAWAY: I don't want blame you for being
17 concerned about the word "spot." That always troubles
18 people. I would not encourage you to use just the spot
19 interest rate.

20 I provided three different interest rates in my
21 risk premium analysis. One is what I traditionally do,
22 I use the most recent three months. And I think this
23 same thing Mike Gorman has done in some of his analysis.
24 I used a forecasted interest rate that's based on the
25 so-called Bloomberg forward curve, what's going to

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1 happen sort of through 2014. And then I did demonstrate
2 what a spot interest rate will give you if you just
3 looked at that. But that's not the top of the range,
4 it's not the ten percent that I'm recommending. It's
5 the forecasted interest rate that gets the ten percent.

6 So I guess what I'm saying, that the other
7 models, the DCF model simply cannot move quickly enough
8 to capture what's going on. So I would encourage you to
9 use additional judgment about where interest rates are
10 and about where market publications are telling you that
11 interest rates are headed to decide what rate of return
12 you should use.

13 CHAIRMAN DANNER: Okay. Thank you.

14 Mr. Gorman or Mr. Elgin, do you want to give me
15 your thoughts on this?

16 MR. ELGIN: Yes, sir. I'd be glad to.

17 I'm not an advocate of risk premium
18 methodologies. In particular, as I state in my
19 testimony, they tend to be -- rely too heavily on what
20 commissions decide, so you might as well just look at
21 RRRR results and get a ballpark and there you are.

22 I still would recommend DCF, because the
23 underlying theory of DCF is the price that investors in
24 actively traded, competitive markets are bidding for
25 ownership of these equities.

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1 In particular, if you look at my study, I did my
2 study just within two months after the company filed, so
3 I believed it was good to have kind of contemporaneous
4 DCF results with the company -- with Dr. Hadaway.

5 And then in my testimony I provided you some
6 evidence about what's happening with the recent kind of
7 slide of interest rates. And if you look at today's
8 prices, today's prices, there's been some rebound, but
9 the dividend yield of the comparable group, whether it's
10 my comparable group or Dr. Hadaway's, there has been a
11 rebound, but it's not any -- it's not as high as what we
12 calculated in our initial study.

13 So again I'm an advocate of DCF because it
14 relies on stock prices. And the other reason why stock
15 prices are so important is equity costs -- it's the
16 bedrock of the business. It's bedrock funds that
17 support the investment in the utility. And those equity
18 costs change slowly over time, and how they change over
19 time is again reflected in the price investors are
20 willing to pay for common equities.

21 So I think there's way too much quibbling about,
22 well, interest rates went this way and interest rates
23 went down and up and what do you actually use for -- in
24 a risk premium study. Look at equity prices, look at
25 how the market is reacting in relationship to what's

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1 happening in long-term interest rates, and then make a
2 judgment. But if you look at today's dividend yields,
3 they're still lower than when Dr. Hadaway and I filed
4 our initial testimony.

5 CHAIRMAN DANNER: Are there trends that you see
6 that you can project out?

7 MR. ELGIN: Yes. The biggest trend I see right
8 now is much more volatility. In the last four to five
9 years, particularly interest rates, and to a lesser
10 extent in equities, the market reacts and overreacts to
11 news events, and it reacts to those news events more
12 than one time. I don't know how many times in the past
13 three years we saw the impact on interest rates and
14 equity markets of the European debt crisis. It was
15 solved, it wasn't solved, and we went through this
16 roller coaster.

17 I see a little bit of that roll coaster today
18 with respect to federal funds, policy, and the
19 quantitative easing, but as a general proposition, a lot
20 of volatility in the market, but I do think that
21 interest rates were artificially low, I think we're
22 going to see some gradual recovery, a hundred basis
23 point rise on ten-year notes.

24 I think it's going back to more normal -- you're
25 going to see a much more normal yield curve, and I think

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1 what it's going to do also is stabilize the capital
2 market line so you're going to have a more rational kind
3 of capital market line going into the future. So that's
4 kind of the thing I would see. Volatility in interest
5 rates, but more return to kind of a more normal level as
6 we come out of this recovery from the financial crisis
7 of 2008.

8 CHAIRMAN DANNER: Thank.

9 Mr. Gorman, do you want to speak to these
10 issues?

11 MR. GORMAN: I do. I am an advocate for
12 considering as much information, relevant information,
13 as is available to make an informed decision on what the
14 current market cost of equity is. I don't know if at
15 any given time one model is more effective or accurate
16 than another model, but I do know that over time I find
17 one result to be more convincing than the results of
18 another model.

19 Right now I think the DCF model is giving
20 reasonable results based on the parameters of that
21 model. As shown in my schedule, the dividend payout
22 ratio for utilities in the proxy group are around 60
23 percent. That's a pretty fundamental support for the
24 dividend paying capacity of the companies in the proxy
25 group. Essentially they only have to pay out about 60

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1 cents on the dollar of earnings to support their
2 dividend.

3 The information in my schedules show that the
4 cost of the dividend, you know, the dividend per share
5 divided by the book value per share is about six
6 percent. So if the utility is earning nine to ten
7 percent, the cost of the dividend is about six percent,
8 they can retain 30 or 40 percent of their earnings,
9 consistent with that target payout ratio, pay their
10 dividends, reinvest earnings, grow their company.

11 The yield I think on the DCF model does reflect
12 current interest rate environments. The significance,
13 though, of rising interest rates, because of the Federal
14 Government's coming out of that market, less government
15 intervention in the long-term interest rate markets, I
16 think might have an impact on utility yields going
17 forward, but we haven't seen that yet.

18 Utility stock prices have been very stable.
19 Yield components of utility stocks has not increased
20 with the yield component of utility bonds. So what does
21 that mean? Well, it means utility stocks may be valued
22 the way they are because the market has an appetite for
23 low risk stable investments, like utility companies. So
24 when the government backs out of long-term debt markets,
25 is there any guarantee or any certainty that long-term

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1 interest rates will increase? There's no certainty, but
2 there's a probability it will.

3 The next question is what does that mean in
4 terms of utility stock price valuation, and again, we
5 don't know, but what we've seen so far is utility bond
6 values have been dropping, utility stock prices have
7 been relatively stable.

8 So how do you use that to measure a current cost
9 of equity? Well, you continue to use as much
10 information as is available. The market risk premium or
11 the bond yield risk premium study would suggest an
12 increasing return on equity. But the DCF model that
13 has -- this is driven by investors' decisions to buy and
14 sell utility stock, suggests that the cost of capital is
15 relatively stable and low for utility companies.

16 So there's conflicting information from the
17 market right now in attempting to measure accurately
18 what the utilities' cost of equity is. I don't think
19 it's reasonable to disregard the DCF model, because it's
20 staying low, because market literature supports the
21 notion that utilities are -- precede by the marketplace
22 is stable, low risk investments, and that's what the
23 market is looking for right now, which contrasts,
24 however, with the risk premium model, which tracks
25 utility and treasury bond yields that are increasing

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1 right now.

2 Whether they're continue to increase, nobody
3 really knows. There's perceptions that they will. But
4 they've increased quite a bit in the last three months.
5 They may continue to increase, they may not. They may
6 stay at current levels until inflation becomes the
7 driving force in the marketplace for what interest
8 rates -- nominal interest rates should be, or there's a
9 fundamental shift in the risk of the debt investment.
10 But all of that is just speculation based on what might
11 happen in the future.

12 What we can see in the market today is the
13 return on equity estimates which are based on our DCF
14 model and our risk premium studies. I think they're all
15 pretty meaningful information to measure utilities' cost
16 of equity.

17 CHAIRMAN DANNER: Dr. Hadaway, do you want an
18 opportunity to respond to that, and Mr. Williams, of
19 course, chime in at any time.

20 DR. HADAWAY: We can all look at the newspapers,
21 and I would say just take a look at your favorite
22 utility stocks and see what their high price was for the
23 year, what the low price was for the year, and where
24 they're trading right now. And they're closer to the
25 low price.

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1 As we go forward, you'll see that if interest
2 rates do move on up -- again, I don't disagree with
3 Mr. Gorman. We don't know for sure what's going to
4 happen with utility stock prices. If we did, we
5 wouldn't all be here.

6 But at the same time, the pressure has been to
7 push down utility stocks, and it's continuing, and if
8 interest rates do, in fact, move on up, if it's the
9 September paper -- or September Taper as they're calling
10 it, does in fact occur, then you'll see utility stocks
11 pushed down, you will see dividend yields move up, and
12 the DCF model will come back into favor.

13 But that hasn't happened, because we have to
14 look back, we use three months of historical data, and
15 my risk premium analysis value line puts out new
16 additions three times every quarter, and so we use stock
17 prices that match those additions. So it's just a
18 little bit backward looking is all I'm saying to you.

19 I'm not saying the model is necessarily broken,
20 or that, you know, a year from now we're going to reject
21 the DCF model, but right now, just as we have filed this
22 case two days after the Fed's announcement, the other
23 parties filed their testimony in this case, and it's a
24 critical point not to use those low, low estimates.
25 They're coming out of data that is rapidly being

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1 replaced.

2 CHAIRMAN DANNER: Thank you.

3 I want to just touch briefly on the proxy group.
4 I don't want to have a big discussion about it.

5 I note that there's some difference about which
6 companies should be in, which companies should be out.

7 I'm interested, Mr. Gorman, you only rejected
8 one of the companies, Mr. Elgin rejected five of the
9 companies. What were your views on the four companies
10 that he rejected but you did not? Were they comparable
11 in your mind?

12 MR. GORMAN: The group as a whole I thought was
13 reasonably comparable; that is Dr. Hadaway's group was
14 reasonable comparable. I had one issue with Tampa
15 Electric.

16 Typically a company that is in the middle of a
17 merger or an acquisition, the observable market price
18 is -- may be impacted by that merger or acquisition and
19 therefore may not reflect the long-term valuation of
20 that company on the stand-alone basis, so it can skew
21 the results, so normally you pull that out of the proxy
22 group.

23 I thought it would be appropriate to remove
24 Tampa Electric look from this group. Dr. Hadaway
25 disagreed with that. I think it's reasonable to do

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1 that. Fitch has actually put Tampa Electric on credit
2 watch because of the proposed acquisition of Mexico Gas
3 Company. So I think there is real market evidence that
4 the market is watching what happens to this company
5 based on that proposed transaction.

6 But aside from that single company, and based on
7 that very clear criteria for including or excluding a
8 company in a proxy group, I didn't take issue with the
9 other companies in the proxy group identified by
10 Dr. Hadaway.

11 CHAIRMAN DANNER: So factors like the amounts of
12 regulated activity versus unregulated or inclusion of
13 risk was not something that bothered you?

14 MR. GORMAN: It would concern me if there was a
15 significant amount of nonregulated businesses, but I
16 didn't see that to be a criteria for any of the
17 companies to the extent that it justified removing the
18 company from the proxy group.

19 A nuclear unit is a generating facility. The
20 nuclear risk that we saw back in the '80s I think is
21 mitigated more recently; not because of the risk of
22 nuclear meltdown, but the fact that a nuclear generating
23 facility typically is an 80 to a 90 percent of invested
24 capital of the utility anymore. So the financial and
25 operating risk of the nuclear unit today was not like is

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1 not like it was 20 years ago.

2 There's still clear problems for risk associated
3 with operating a nuclear unit, that it's public health
4 and public safety issues, which there are mutual
5 cooperative insurance proceeds that all the nuclear
6 companies cooperate in the Price-Anderson Act that will
7 help financially protect a company from liability in the
8 event of a major catastrophe at nuclear station. So I
9 don't see that as so much of a risk issue today that
10 stands out amongst other risk, real risk that utilities
11 have to manage in operating their companies.

12 CHAIRMAN DANNER: Thank you.

13 Of course I'll let any others respond if they
14 choose to.

15 DR. HADAWAY: The issue on Tampa Electric is a
16 minor, minor one. In my three models, one of them goes
17 up if you take it out, two of them go down. It doesn't
18 have a material effect. Mike and I just disagreed.

19 My thought on not changing my group was size.
20 Tampa Electric is about a \$7 billion asset company and
21 Mexico Gas is a less than a billion, 900 million,
22 something like that.

23 Going forward, the most recent Value Line that
24 just came out last week says that this is a significant
25 transaction, and they discussed it, and going forward we

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1 will probably take it out of the group, but it will not
2 affect the outcome.

3 MR. ELGIN: Again, my point is it's not the size
4 of the group. I try to put together what I feel is a
5 proper group.

6 What it really boils down to is in this case
7 what you use as -- for the estimate of growth in the DCF
8 methodology. And Mr. Gorman and I both believe if you
9 lend weight to GDP as an element of assessing long-term
10 growth prospects of utilities it should be near-term
11 data and projections, not historical data as Dr. Hadaway
12 used. And so that's what drives the DCF result, and a
13 growth rate of about four and a half percent, at the
14 outward, five percent, as Dr. Hadaway -- in the upper
15 fives as Dr. Hadaway has, just clearly drives the result
16 of his DCF methodology. And so that's what makes the
17 difference, not the size of the group.

18 CHAIRMAN DANNER: All right. Thank you. Let me
19 see if I have any other questions.

20 I don't have anything. Thank you.

21 JUDGE MOSS: Commissioner Jones?

22 COMMISSIONER JONES: Good afternoon.

23 This is being very temperamental. Can I use
24 yours?

25 CHAIRMAN DANNER: You sure can.

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1 COMMISSIONER JONES: Okay. Good to see
2 everybody again.

3 Dr. Hadaway, how's Austin, Texas?

4 DR. HADAWAY: It's much warmer than here.

5 COMMISSIONER JONES: I'm going to start with a
6 question on zone of reasonableness. As you know, you've
7 read our orders, and you each use DCF, CAPM and risk
8 premium, and you have a high and a low. And so I'd like
9 to go to each of you, maybe starting with Mr. Gorman,
10 and give me based on most recent rebuttal testimony, and
11 you re-ran some numbers, Dr. Hadaway, again.

12 But just give us your best sense of what a zone
13 of reasonableness would be for the ROE -- it could be in
14 a range of 50 basis points, 80 basis points, a hundred
15 basis points -- using all three methodologies.

16 MR. GORMAN: I've tried to do it at page 39 of
17 my testimony. There I summarize the results of the
18 three studies. At the time I completed my analysis,
19 June of this year, I found a zone of reasonableness to
20 be relatively narrow, about 9.1 to 9.25 percent. That
21 does include the risk premium study, which reflected
22 bond yields, which were much lower more than current
23 bond yields.

24 If I updated that analysis I would use the
25 current three-month bond yield in that study. I have

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1 updated my DCF studies for other cases I'm filing
2 testimony in, and the bond yields in DCF results are not
3 changing much. They're relatively stable.

4 COMMISSIONER JONES: They're not?

5 MR. GORMAN: They're not.

6 COMMISSIONER JONES: So the upper end could go
7 up a little bit, but not a lot?

8 MR. GORMAN: Yes. The upper end might stretch
9 to 9.6 to 9.7, the lower end would stay around 9, 9.1.

10 COMMISSIONER JONES: Mr. Hadaway, I refer to
11 your direct testimony. On page 30 you summarize all
12 your result of everything, but you did not put -- I'm
13 shocked that you did not put CAPM in that table. I
14 think your CAPM analysis produced a low of 7.55 percent.
15 Correct?

16 DR. HADAWAY: Yes, sir.

17 COMMISSIONER JONES: If you included CAPM, it
18 would be 7.55 to 10.0, but at least in your table there,
19 as I look at it, your low is -- current utility debt
20 plus equity risk premium is 9.3 percent. But on your
21 rebuttal, you re-ran your DCF, of course, and came up
22 with a range of 9.0 to 9.6.

23 DR. HADAWAY: Yes, sir, that's right.

24 COMMISSIONER JONES: So what would be a
25 reasonable zone today?

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1 DR. HADAWAY: I would encourage the commission,
2 as I said previously, to discount the DCF severely right
3 now. While we're going through this transition period,
4 the data simply haven't caught up, and stock prices,
5 dividend yields, with where they may go. And what the
6 model is telling us is simply not consistent with the
7 direction that all other capital market prices are
8 going.

9 So my encouragement to you is consider the risk
10 premium model as a stand-alone look right now. That
11 model, if updated further, would say about 9.8 to 10.2,
12 because interest rates, forecasted interest rates, have
13 moved up even since I did the rebuttal.

14 COMMISSIONER JONES: Excuse me. What's the
15 basis of the 10.2?

16 DR. HADAWAY: The 10.2 is the 4.2 percent
17 Bloomberg forward curve for 2014, for the 30-year
18 treasury bond, plus approximately 106 basis points,
19 which was the spread for the most recent three months,
20 between single A and 30-year treasury rates. We put
21 that into the risk premium model, and that's the number
22 that comes out.

23 COMMISSIONER JONES: But in your rebuttal
24 testimony -- I think it's SCH-16 is your exhibit.

25 DR. HADAWAY: Yes, it is.

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1 COMMISSIONER JONES: As you said to Commissioner
2 Danner, you just ran three risk premium models, very
3 cursorily, I think. One was the Bloomberg curve
4 projected interest rates of three-month average, and
5 current spot interest rates.

6 DR. HADAWAY: Yes, sir, that's right.

7 COMMISSIONER JONES: So if we put more weight on
8 a risk premium approach, is this the evidence that you
9 refer us to when we make our decision using a risk
10 premium?

11 DR. HADAWAY: That would be the starting point,
12 but I would certainly encourage you to take the
13 additional evidence that exists today, that interest
14 rates have moved up even further. The interest rate, as
15 I said this morning, was 4.87 percent for single A
16 utilities this past Thursday. That's the highest it's
17 been in over two years. So those things continue to
18 mount up.

19 COMMISSIONER JONES: So why should we -- I think
20 you talked with Commissioner Golts or Commissioner
21 Danner about this, about spot interest rates. I know
22 you don't like the term, but you put it in your exhibit
23 so I'm going to use it.

24 It seems to me a lot of the analysis, whether it
25 be DCF, CAPM, is based on either historical data of the

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1 long-range nature, and you in your own GDP growth
2 forecast, using the St. Louis Bank reserve data -- you
3 go back how many years?

4 DR. HADAWAY: Sixty years.

5 COMMISSIONER JONES: Sixty years. So, you know,
6 I take that into account when we look at all these
7 analyses.

8 But why should we put so much weight on spot
9 interest rates? I mean, Chairman Bernanke could change
10 tomorrow. We could have Janet Yellen come in or
11 something could happen in the world economic markets and
12 we could have deflation instead of inflation.

13 My point is why are you urging us to look at
14 spot interest rates, very short-term nature?

15 DR. HADAWAY: I don't know if a panel discussion
16 like this allows for handouts, but if you would like --

17 JUDGE MOSS: You anticipated the question?
18 Sure. We can have a handout. We'll consider any
19 objections to it being admitted as an exhibit.

20 COMMISSIONER JONES: Dr. Hadaway, this even has
21 Dr. Bernanke's photograph on it. Very apropos.

22 CHAIRMAN DANNER: It also says we have to
23 prepare for the next collapse.

24 JUDGE MOSS: What a grim expression he has.

25 DR. HADAWAY: Mr. Gorman said this morning you

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1 can take interest rates for what they are, because they
2 are what they are. And this is what the treasury bond
3 interest rate has looked like, and that you can add a
4 hundred basis points to this and it tells you what the
5 single A -- approximately what the single A interest
6 rate has done.

7 COMMISSIONER JONES: Mr. Gorman, in your risk
8 premium analysis, I think in your testimony you used for
9 a 30-year treasury, you used a 3.70. Correct?

10 MR. GORMAN: Yes.

11 COMMISSIONER JONES: If you were to rerun your
12 analysis today, would you use 3.79 or would you use a
13 three-month average, a two-month average? How would you
14 account for these recent short-term increases in the
15 long-term treasury?

16 MR. GORMAN: Well, if I updated my analysis
17 using the most recent information available, then that
18 portion of my risk premium study, the treasury bond,
19 would be based on blue chip financial forecasted
20 treasury bond yield.

21 Dr. Hadaway said it was up to 4.2 percent in the
22 most recent publication. I need to verify that. If
23 that's right, that's what I would have used.

24 COMMISSIONER JONES: Okay.

25 MR. GORMAN: However, I would have used the most

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1 recent observable actual utility bond yields in that
2 same study, but applied to utility bond yields instead
3 of forecasted bond yields.

4 The reason I'd used both current observable and
5 forecasted yields in that risk premium is because of the
6 uncertainty of what interest rates will be when the
7 rates are in effect. It may be that interest rates will
8 not change from current observable levels, maybe they'll
9 go down, maybe they'll go up, but we just don't know.

10 COMMISSIONER JONES: Okay.

11 MR. GORMAN: If you look at blue chip financial
12 forecasts, forecasts for a change in interest rates are
13 almost always for an increase in interest rates. If you
14 compare their forecast to the actual interest rate that
15 prevailed at the time of the forecast, you'll see that
16 blue chip economists almost have always consistently
17 overestimated what the actual interest rates will be.

18 COMMISSIONER JONES: No, I'm aware of that. I
19 think you have submitted an exhibit to your testimony to
20 that effect criticizing Dr. Hadaway's use of forecasted
21 interest rates, because your point is, right, they're
22 always wrong, or they're always overinflated? Correct?

23 MR. GORMAN: They're far more frequently wrong
24 by overstating what the actual interest rate is than
25 they are understating.

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1 COMMISSIONER JONES: Let's talk a little bit on
2 risk premium analysis a little bit more, because I
3 think, Dr. Hadaway, you did not abandon DCF analysis on
4 rebuttal, but you gave it significantly lower weight.
5 And so I'd like to explore the underpinnings of risk
6 premium analysis, because I think when we make our
7 decision, we may have to give more weight to it going
8 forward.

9 One of the criticisms of risk premium analysis
10 is it relies on commission-authorized ROE's, and here we
11 are sitting on the bench listening to you as witnesses
12 propound your theories on cost of capital. So some
13 experts have criticized it for having circular
14 reasoning. It's not as objective as it could be based
15 on data.

16 What's your response to that, Mr. Gorman,
17 Mr. Hadaway?

18 MR. GORMAN: That the DCF -- the underlying
19 theory that the DCF model is circular?

20 COMMISSIONER JONES: No. A risk premium model.

21 MR. GORMAN: Well --

22 COMMISSIONER JONES: Because it relies on
23 commission-authorized ROE's as the reference point to
24 use.

25 MR. GORMAN: There is some limited value in

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1 using that model by itself. You know, the difficulty in
2 a risk premium model is by -- to measure the equity as
3 premium you have to start with the investor-required
4 return and subtract from that the observable utility
5 bond yield, or observable treasury bond yield.

6 The current investor-required return is the
7 most -- one of the more controversial issues in a rate
8 case. Dr. Hadaway and I I don't think have ever agreed
9 on what the current investor-required return is.

10 COMMISSIONER JONES: Never?

11 MR. GORMAN: I can't remember us ever agreeing,
12 but we've come close a few times.

13 If you are going to have a balanced methodology,
14 there needs to be a determination of what the
15 investor-required return is from a party that has an
16 impartial outlook on what the current investor-required
17 return is. The best proxy for that impartial individual
18 are the regulators who listen to presentations and
19 evidence offered by myself and Dr. Hadaway and others in
20 rate cases around the country.

21 If you can accept the regulatory commission
22 finding on a fair return on equity as being an
23 impartial, binding on what the current market cost of
24 equity is, then you can use that data to measure an
25 equity risk premium.

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1 COMMISSIONER JONES: Dr. Hadaway, your response
2 to that?

3 DR. HADAWAY: There are a couple. Just a slight
4 point on the business about blue chip forecast. I don't
5 disagree. I've seen Mr. Gorman's analysis in a number
6 of cases. But partly because of that we don't use blue
7 chip. Ours is based on a trading-devised Bloomberg
8 curve, it's based on futures trading of actual
9 investors, not on people forecasting but on what actual
10 trading in bond futures is doing right now. So it's not
11 quite like the blue chip forecast. That's where the 4.2
12 comes from.

13 Now, secondly, I fully appreciate the difficulty
14 of one commission accepting another commission's returns
15 and simply saying that's all we have to look at. On the
16 other hand, investor expectations are what we're trying
17 to get a handle on. And if we look -- I don't know how
18 to say this entirely tactfully.

19 If we look at your decision in the 2010 case for
20 this company where you reach 9.8 percent, that was a
21 full 60 basis points lower than integrated electric
22 utilities around the country were receiving at that
23 time. That was the average for 2010 around the country
24 was 10.38 percent. That's on I believe page 8 of my
25 rebuttal testimony.

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1 For 2011, which you all decided that case in
2 March, but going all the way through 2011, the average
3 number was 11 -- was 10.24 percent. Now, the average
4 number for the first six months of 2013 has been 9.84
5 percent for integrated electrics. That drop came based
6 on the data that was collected at the end of 2012 and so
7 forth and the end of 2013.

8 So you certainly haven't done anything circular
9 at this commission by considering what investors expect
10 regulatory commissions to provide to utilities. And so
11 I think Mike and I actually agree on that.

12 We disagree on how to apply the risk premium,
13 but there are many, many other factors, but when you
14 take all the cases, and we take into consideration that
15 the average utility bond rating is about single A minus
16 now, all those things point to that being a pretty good
17 proxy for what investors should expect utilities to be
18 allowed in these processes.

19 COMMISSIONER JONES: Much of the disagreement
20 between the two of you, Mr. Gorman and Dr. Hadaway, is
21 using a risk premium analysis, is this criticism of the
22 inverse relationship between interest rates and equity
23 returns. Right?

24 MR. GORMAN: Yes.

25 COMMISSIONER JONES: You spent some time in your

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1 rebuttal criticizing his methodology, and I think he
2 responded as well. So without getting too complicated
3 and too much into the academic literature, kind of
4 summarize again for us why this simply inverse
5 relationship between interest rates and the equity risk
6 premium is not appropriate today.

7 And the same for you.

8 DR. HADAWAY: Okay.

9 MR. GORMAN: That's not the only factor that
10 helps describe the difference in investment risk between
11 an equity security and a debt security. The difference
12 in required cost of capital will reflect the market's
13 assessment of the investment risk of the underlying
14 securities. Relative interest rates is one factor.
15 There are many other factors that help describe that
16 risk. But there are other factors which don't describe
17 risk that can help explain changes in interest rates,
18 which may not change equity risk premiums.

19 As an example, a nominal interest rate will
20 include an inflation component and a real return
21 component. As inflation drops, the nominal yield on
22 that security will also drop. A required return on
23 equity includes an inflation component and a nominal
24 component, the real risk component. As inflation drops,
25 the required return on the equity investment will drop.

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1 To the extent nothing else changes, it is
2 conceivable, and likely, if nothing else changes, that
3 the relative difference in equity risk premiums will not
4 be impacted if the required return on a bond investment
5 and the required return on an equity investment is
6 impacted by nothing other than a change in inflation
7 outlooks.

8 The simple inverse relationship methodology
9 ignores other market factors which can help explain
10 where the equity risk premium is in any given
11 marketplace, even if there is a change in interest
12 rates.

13 COMMISSIONER JONES: Dr. Hadaway?

14 DR. HADAWAY: If I may, I would point you to two
15 tables that I have in Exhibit SCH-1T, my direct
16 testimony on page 28, and then sort of a graph version
17 of that in my rebuttal.

18 COMMISSIONER JONES: Okay. Page 28?

19 DR. HADAWAY: Yes, sir. Page 28.

20 COMMISSIONER JONES: All right.

21 DR. HADAWAY: If we could, if you don't mind
22 having your thumb stuck maybe in two places, on page 20
23 of 10-T, my rebuttal testimony, page 20, there is a
24 graphical representation just based on the data that
25 Mr. Gorman used.

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1 COMMISSIONER JONES: I got it.

2 DR. HADAWAY: In other words, it's a shorter
3 time period.

4 In the direct testimony on page 28, the average
5 allowed risk premium for the period 1980 to 1986, when
6 interest rates were very high, was 1.69 percent. As
7 we've gone forward, you see it's steadily grown.

8 And I don't disagree. There are many things
9 that can change people's outlook on risk. But the one
10 thing that has consistently changed and allowed rates of
11 return has been the size of this interest rate
12 relationship.

13 You know, some people would say, well, it's
14 statistical analysis that you do in your risk premium on
15 the last page, maybe it's not valid or something, maybe
16 it has to do with that early time period when those very
17 high interest rates were in there. So what we've done
18 in rebuttal testimony, on page 20 of the rebuttal
19 testimony, is simply take the period from 1986 forward,
20 which is the period that Mr. Gorman uses in some of his
21 analysis, and the lighter shaded bars are the risk
22 premiums, and they steadily grow as interest rates come
23 down.

24 So whether the exact coefficient is minus .43,
25 or whatever comes out of a regression analysis, or

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1 whether it's simply a commonsense effect that the cost
2 of equity doesn't move in lockstep with interest rates,
3 the things I've been describing for you in terms of the
4 increased interest rates, I haven't said that the cost
5 of equity has gone up 120 basis points, I'm saying that
6 since I did my direct testimony, maybe it's gone up 50
7 or 60 basis points.

8 COMMISSIONER JONES: Okay. So there's just kind
9 of a fundamental disagreement between the two of you on
10 that. And I think we have limited time here, so I'm
11 just --

12 DR. HADAWAY: Sorry about that.

13 COMMISSIONER JONES: I'm going to leave it at
14 that.

15 My last question is for Mr. Williams and
16 Mr. Gorman, a little back and forth on this.

17 Mr. Williams, you had a chance to look at
18 Mr. Gorman's testimony when he did the cash flow metrics
19 in his testimony. Correct?

20 MR. WILLIAMS: Correct.

21 COMMISSIONER JONES: I think you state, I don't
22 have it in front of me now, but you basically seem to be
23 alleging that if we adopt his recommendation of a 49.1
24 cap structure from 9.2 ROE, I think your words were it's
25 more than likely that there will be a one notch or a two

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1 notch downgrade in the rating, either the corporate
2 credit rating or the bond rating of the company. Is
3 that your testimony?

4 MR. WILLIAMS: I believe I was citing
5 Mr. Gorman's analysis and the results of his analysis,
6 where he stated that the metrics that came out would be
7 sufficient to support an A-minus rating.

8 COMMISSIONER JONES: Right.

9 MR. WILLIAMS: I think we talked about that
10 earlier, that's not consistent with the company's
11 security bond ratings. We had some back and forth I
12 think between the secured and unsecured.

13 I guess my criticism of his model is that it
14 doesn't really reflect the reality of the company, and
15 all the adjustments the ratings agencies make, all the
16 interest expense that comes through from things other
17 than securities or debts, and the other adjustments as
18 well. So I'm not sure you could take Mr. Gorman's model
19 just on its face value.

20 COMMISSIONER JONES: But what specifically is
21 your concern? Is this a real risk you think? We are
22 seven percent of your total revenue in the state of
23 Washington.

24 MR. WILLIAMS: Right. I think if the company
25 was actually capitalized at a 49 percent level

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1 consistent with the recommendation, there's no doubt in
2 my mind we'd be downgraded. The only question is how
3 far. I think we avoid being downgraded because we
4 carried the 51, 52 percent common equity level.

5 So you're right, Washington is seven percent of
6 the total company, but every state matters, and every
7 other state has adopted the actual capital structure. I
8 think Mr. Gorman confirmed that earlier this morning as
9 well, that Washington is the only state on a
10 hypothetical structure, everybody else is on an actual.

11 COMMISSIONER JONES: Correct.

12 MR. WILLIAMS: Everyone else is at the 51.2. So
13 to the extent the company was actually capitalized at
14 that level, there's no doubt in my mind that we'd be
15 downgraded, debt costs would be higher, we'd probably be
16 arguing how much higher they'd be, but we'd have that
17 discussion.

18 So I think to the extent that we actually did
19 finance consistent with the order of -- capital
20 structure you ordered two cases ago, yes, the company
21 would be down graded.

22 COMMISSIONER JONES: But you did not provide any
23 testimony in your rebuttal on either FFO -- funds from
24 operation -- to total debt, or EBITDA to debt, you just
25 make this broad assertion that it's going to be likely

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1 to be downgraded.

2 MR. WILLIAMS: Right.

3 COMMISSIONER JONES: Just let me finish. Are
4 you taking specific issues with his calculations at 9.2
5 and 49.1? Or is it more an assertion that you just
6 think it's more than likely you'll be downgraded?

7 MR. WILLIAMS: I think if you go read the
8 ratings agencies' reports that are in my exhibits,
9 you'll see that they're very clear. The company's
10 recent results have been just adequate to maintain the
11 ratings, and just adequate includes, you know, the
12 actual capital structure, the actual results of
13 operations.

14 So anything that would weaken those results,
15 such as a lower equity component, a lower ROE, will
16 undoubtedly weaken the financial metrics and push us
17 below their expectation. Whether you take my word for
18 it or not, I would encourage you to read the rating
19 agencies' reports and you'll see it's very clear our
20 results are just meeting their expectations.

21 COMMISSIONER JONES: I have read those, and I
22 think S & P said something like with your heavy cap X
23 program at 1.5 billion a year, and the building out of
24 Gateway West and other transmission generation, that it
25 could, you know, take more cash away from the operation.

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1 And I think one of the metrics has S & P cited was, what
2 was it, FFO to total debt, or funds from operation to
3 debt. That could go below 20 percent.

4 MR. WILLIAMS: Right.

5 COMMISSIONER JONES: So I think, yes, I have
6 read those, and I think that is a factor we should
7 consider.

8 Mr. Gorman, what is your response? Do you still
9 stand by your numbers that you did in your testimony on
10 cash flow metrics, EBITDA, total debt?

11 MR. GORMAN: I do stand by them as a basis of
12 measuring those cash flow metrics as they relate to the
13 regulated retail costs of service in this jurisdiction.

14 I think Mr. Williams and I have actually had the
15 same argument in many different cases about whether or
16 not I'm constructing these ratios to duplicate what
17 S & P does on a total company basis. I've tried to make
18 it clear that that's not what I'm trying to do.

19 What I'm trying to do is measure the cash flow
20 strength of the regulated cost of service in the
21 jurisdiction. And there is a distinction. S & P
22 doesn't care about customers, they care about
23 bondholders. They're looking at credit metrics to help
24 gauge the investment risk to bondholders in PacifiCorp
25 and other utility securities. Conversely, in a

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1 regulatory proceeding, you're looking at just and
2 reasonable rates. So from that standpoint, it is --
3 it's a question of what are the off balance sheet
4 obligations for PacifiCorp, how are they considered in
5 the rate making calculus, and with the standards
6 established by the regulatory commissions which balance
7 investor and shareholder -- investor and rate payor
8 interest, how are they treated in that rate making
9 mechanism?

10 You know, a big difference in the level of off
11 balance sheet debt I recognize in that which S & P
12 considers is pension expense and post retirement
13 employee benefits. That's a rate making issue. And
14 many regulatory commissions will consider whether or not
15 pension expense and pension obligations should be
16 considered on a current FASB requirement, a cash flow
17 requirement, or they're not prepayments and other types
18 of pension assets or liabilities on a regulatory asset
19 basis should be considered in their cost of service.

20 If I ignored all those rate making treatments of
21 those significant cost-of-service items, I would be
22 undermining what the regulatory commissions have
23 fashioned in order to balance the interest of investors
24 and rate payors.

25 So the only way to provide a fair assessment of

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1 the cash flow strengths of the retail operations is to
2 accept what the regulatory commission finds to be
3 appropriate rate making practices for pensions and OPEC,
4 but also look at the off balance sheet obligations the
5 utility has for other elements which are used to provide
6 service to customers, such as purchase power agreements
7 and operating leases and those sorts of major financial
8 commitments.

9 The capital leases typically are reflected in
10 the rate making calculus also. I believe my
11 methodology, while not being a duplicate of Standard &
12 Poor's, is an accurate assessment of the financial
13 strength of the rate making procedures in that
14 jurisdiction to provide fair compensation and to
15 maintain the financial integrity of the utility.

16 COMMISSIONER JONES: That's it.

17 JUDGE MOSS: Okay.

18 COMMISSIONER JONES: Thank you very much.

19 JUDGE MOSS: We've been at this a good long
20 time.

21 COMMISSIONER GOLTZ: I apologize. Can I ask one
22 follow-up question?

23 JUDGE MOSS: Sure, sure.

24 COMMISSIONER GOLTZ: Commissioner Jones asked
25 kind of for updates from everybody. Mr. Gorman, as I

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1 recall you said that, oh, instead of your range from --
2 if you were to redo your range it was 9.1 to 9.25, but
3 now given bond yields are raising, it might go to 9.6 or
4 9.7; Dr. Hadaway said now the DCF would have been a 9.8
5 to 10.2.

6 So I have two questions. First one, just for
7 Mr. Elgin, and the rest for the group, first one for
8 Mr. Elgin, do you have any sort of on-the-fly
9 adjustments to your range?

10 And the question for the group is are those
11 really relevant. We just went through -- you all went
12 through some very detailed analyses of what the cost
13 of -- what the ROE should be, and we're getting these
14 kind of off-the-cuff updates. Not off the cuff, they're
15 thoughtful and everything. But should we really be
16 adhering or listening to those, giving those immediate
17 updates much weight, given that Mr. Elgin said, you
18 know, that the return on equities, investor expectations
19 aren't erratic like that, they're more for the long
20 term?

21 So first, Mr. Elgin, do you have any sort of
22 updates to yours? And second, for the group, what
23 weight should we give these last minute updates?

24 MR. ELGIN: My recommendation is to give little
25 weight to them. As I said, I have done some research

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1 with respect to this recent volatility, and the upper
2 end of the -- let's talk about the universe of electric
3 and combination gas companies. So Value Line is
4 indicating that a dividend yield in the industry is
5 around four percent. So my range in my DCF analysis was
6 4 to 4.25. Given all the volatility that we've had, my
7 numbers, given today's market information about investor
8 equity stocks, is still good data.

9 It really gets down to some judgment about
10 what's a reasonable level of growth for these companies.
11 And if you look at retention ratios, which I agree with
12 Mr. Gorman, he's saying the industry average retention
13 ratio is about 40 percent, and if you take some kind of
14 return on book, and I know I was criticized for it being
15 circular, but all this analyses, whether it's using the
16 earnings analyst estimates or risk premiums, you have to
17 begin with some kind of fundamental estimate of what's a
18 reasonable return that investors can expect.

19 So if you have a 40 percent retention ratio, and
20 let's just say that the utilities haven't -- can earn 12
21 percent on book. 12 percent times the 40 percent
22 retention ratio indicates a growth rate of about four
23 and a half to five percent; maybe in the -- it may be in
24 the upper fours, 4.8. So the math is 12 times .4 is
25 4.8. So you add to that a dividend yield of four, and

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1 you're at the upper eights.

2 And given the fact that there is -- I agree with
3 Dr. Hadaway, we don't know what interest rates are going
4 to do, but there's some risk, and there's some pressure,
5 and nobody knows what's going to happen when QE2
6 unwinds, and QE -- excuse me, not QE2, the quantitative
7 easing unwinds. So I would say -- if I had to update, I
8 would say 25 basis points at most would be a
9 conservative. So a range of 8.75 to 9.25, given the
10 potential for some uncertainties, I think a number in
11 there would be appropriate.

12 COMMISSIONER GOLTZ: Comments from the rest of
13 you on sort of the relevancy of these last minute
14 updates?

15 DR. HADAWAY: If I may. I may not have heard
16 correctly, but when you were describing our updates, you
17 may have attributed 9.8 to 10.2 to my DCF?

18 COMMISSIONER GOLTZ: Yes.

19 DR. HADAWAY: It would be my risk premium
20 update.

21 COMMISSIONER GOLTZ: Okay.

22 No other comments on the relevancy of those?
23 You're good with your updates then, both of you?

24 DR. HADAWAY: I know that you have the
25 opportunity to follow interest rates, and I know that

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1 technically decisions are not supposed to be made
2 outside the record; however, I've been doing this for a
3 long time, and we all know if interest rates are going
4 on up, the cost of capital is moving up, not down.

5 MR. WILLIAMS: I think determining a fair rate
6 of return is consistent with giving PacifiCorp the same
7 opportunities all other investors have. And any
8 investors that are in this market and they want to make
9 a long-term investment, they take the market interest
10 rates that's on the table right now. If they want to
11 argue to a bank for a higher CD rate or a bondholder for
12 a higher interest rate, they can't say that we think
13 interest rates are going to be higher later so you
14 should pay us a higher interest rate right now. It's
15 based on what we know right now.

16 What we know right now is utility cost of
17 capital is lower now than it's been any time in the last
18 30 years. It's a very low cost capital market for
19 utility companies. It's fair treatment.

20 COMMISSIONER JONES: I can't resist with
21 Dr. Hadaway. I can't let you get away with 9.8 to 10.2
22 percent on risk premium. Does this mean that you're
23 abandoning or you -- I mean, you did submit an updated
24 DCF analysis at 9.0 to 9.6 percent. Correct? In
25 rebuttal?

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1 DR. HADAWAY: The DCF, yes, sir.

2 COMMISSIONER JONES: So that still stands, and I
3 credit you for giving us a range of information. So
4 you're not changing that information?

5 DR. HADAWAY: I can't. I don't have the data to
6 change that.

7 COMMISSIONER JONES: Okay. So then the question
8 I think that we're trying to get at is what would a zone
9 of reasonable estimates be taking into account? Because
10 you seem to be saying we should give more weight to risk
11 premium, still give some weight to DCF, and ignore CAPM.
12 So, I mean, what would a range of the low end and a
13 range of the high end be if we weighted 70/30, 60/40,
14 however you want us to do it?

15 DR. HADAWAY: Let me say I think that's a very
16 difficult question, because I would like to say that the
17 DCF model right now simply doesn't give a reliable
18 estimate, with your knowledge of how the models work,
19 and what's the consideration, that you would give
20 consideration to its being on the very low side, then
21 perhaps 9.6 at the top of that range is the very low end
22 of it. But in doing that, I would only endorse that if
23 the top end of the range -- I said I was filing other
24 rebuttal today -- that the top end of the range there is
25 10.4. It's a triple B rated company. But something

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1 like that sort of a range that surrounds ten percent
2 pretty well is where the risk premium numbers are going
3 to bring you right now.

4 JUDGE MOSS: It's time for a break, but I want
5 to see first, to explore the possibility of letting
6 these fine witnesses retire from the stand.

7 We've had a very thorough and balanced, and I
8 might say polite, conversation with the bench, and I
9 feel that my capacity for absorbing more information on
10 this subject is growing more limited by the moment. But
11 my thought is that we probably don't need anything
12 further from the parties. So unless there's some strong
13 pushback against that, can we let these witnesses get
14 off the stand?

15 I'm hearing no objections to that idea.

16 MS. McDOWELL: You know, I just had I think one
17 correction I needed to make.

18 JUDGE MOSS: A correction?

19 MS. McDOWELL: It was an answer that
20 Mr. Williams gave, that I may have heard wrong, but I
21 think he may have transposed.

22 JUDGE MOSS: Let's make sure the record is
23 accurate. Go ahead.

24 MS. McDOWELL: That's all. May I proceed?

25 JUDGE MOSS: Go ahead.

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1 MS. McDOWELL: Mr. Williams, I may have heard
2 this wrong. When you were talking about the equity
3 components of the capital structure in other states, I
4 thought I heard you say 51.2 percent, and I wondered if
5 that transposed numbers.

6 MR. WILLIAMS: It should have been 52.2 or 52.1
7 percent. If I mixed those up, I'm sorry.

8 MS. McDOWELL: It's possible I misheard that,
9 but I wanted to make sure the record is clear.

10 JUDGE MOSS: I sincerely meant what I said.
11 Thank you all very much. That was a very interesting
12 presentation.

13 MS. McDOWELL: Judge Moss, I know Dr. Hadaway
14 has a flight to catch. Is it permissible for him to be
15 excused at this point?

16 JUDGE MOSS: I think so. We've had about as
17 much conversation as we need with you, Dr. Hadaway, if
18 you'd like to fly back to Austin.

19 DR. HADAWAY: I've changed to 6:30 in the
20 morning. I already changed it.

21 JUDGE MOSS: It's hot in Austin anyway.

22 MS. DAVISON: Is the same true for Mr. Gorman?

23 JUDGE MOSS: That's fine.

24 Mr. Gorman, if you need to leave, that's fine.

25 Let's come back at about five after the hour,

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1 folks.

2 (A break was taken from 2:54 p.m. to 3:07 p.m.)

3 JUDGE MOSS: Let's go back on the record.

4 BRYCE DALLEY

5 Witness herein, having been first duly sworn on
6 oath, was examined and testified as follow:

7 THE WITNESS: I do.

8 JUDGE MOSS: Thank you. Please be seated.

9 Anything preliminary for Mr. Dalley?

10 MS. WALLACE: No. He's available for cross.

11 JUDGE MOSS: He's available for cross. We have
12 some cross indicated, I believe. This would be staff, I
13 believe you've indicated 15 minutes.

14 MR. CEDARBAUM: Yes, Your Honor.

15 JUDGE MOSS: And five for public counsel.

16 Go ahead, Mr. Cedarbaum.

17 CROSS-EXAMINATION

18 BY MR. CEDARBAUM:

19 Q. Good afternoon, Mr. Dalley.

20 A. Good afternoon.

21 Q. You're the company's rebuttal witness to staff
22 witness Kendra Smith on interstate cost allocations with
23 respect to nonpower cost matters. Is that correct?

24 A. Yes.

25 Q. And we're here talking about staff's proposal --

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1 staff I guess has a two-tiered presentation. The first
2 tier is to reject the company's proposed modifications
3 to the west control area and a jurisdictional cost
4 method, and to require a report for the next rate case.
5 Is that correct?

6 A. That's my understanding of staff's primary
7 proposal, yes.

8 Q. The second tier would that the commission
9 accepts the company's proposed modification. The staff
10 has some additional ones that it's proposing the
11 commission make as well.

12 A. That's staff's stated position, yes.

13 Q. In your rebuttal testimony, you're critical of
14 the staff's recommendation to the company to file this
15 cost allocation report after this case is over. Is that
16 right?

17 A. Yes. That's correct.

18 Q. And you understand that the staff's report that
19 it recommends focuses on the west control area and the
20 jurisdictional cost methodology?

21 A. That the report they're requesting?

22 Q. Yes.

23 A. Yes. And the reason I am critical of it is
24 because we filed a report as part of this case, after
25 the five-year trial of the WCA had concluded, we

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1 presented a report as part of this rate case.

2 Q. That's the report that's in your direct
3 testimony, your Exhibit 2?

4 A. That's correct.

5 Q. Just for clarification, the report that staff is
6 recommending, your understanding is that would focus on
7 the WCA approach. Is that right?

8 A. It's my understanding -- yes. It's my
9 understanding that Ms. White has outlined a few things
10 that she would like to look at that are related to the
11 WCA, but the WCA report that's filed as my exhibit is
12 also related to that same methodology.

13 Q. Also in your rebuttal testimony, I don't need
14 you to find the specific citation, but you also refer to
15 the multi-state process that the company gave involving
16 all of the company's states and the examination of the
17 cost allocation. Is that right?

18 A. Yes. Those discussions are currently happening.
19 We were pleased the staff participated. Just last week,
20 Thomas Schooley and Jason Ball participated in one of
21 those MSP conference calls.

22 Q. The MSP process, at page 5 of your testimony at
23 line six through eight, you indicate that that focuses
24 upon the 2010 protocol methodology. Is that right?

25 A. Well, the other states that are participating at

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1 that table use the 2010 protocol interjurisdictional
2 allocation methodology, and so the discussions there are
3 based primarily around that methodology, but they're not
4 limited to just the current construct of that method.
5 And so parties at that table are analyzing and
6 evaluating other options to replace the 2010 protocol
7 when it expires in the 2016, 2017 time period.

8 Q. Is the MSP process focusing on the WCA approach?

9 A. It doesn't focus directly on the WCA approach,
10 but there are elements of the WCA that are considered as
11 part of those analytics.

12 Again, I wouldn't say that the MSP is just
13 focusing on one methodology. It's focusing on
14 allocation issues in general, and parties from different
15 states have proposed a number of different analytics
16 that they would like to see the company run, and we're
17 at kind of the beginning stage of that and collecting
18 what the parties would like to see analyzed during those
19 discussions and kind of identifying the timeline of when
20 those analyses will be conducted.

21 Q. With respect to the MSP process also on page 5,
22 lines 14 to 18, you state that staff and other parties
23 have not been participating -- have not participated in
24 the MSP discussions since approximately 2004. I guess
25 you've qualified that with respect to this latest

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1 meeting that you said staff members attended.

2 A. That is correct. Last Thursday there was an MSP
3 call and Tom Schooley and Jason Ball participated for
4 Washington staff.

5 Q. And the time period since 2004 would include a
6 five-year trial period for the WCA that followed the
7 company's 2006 rate case. Is that right?

8 A. Yes. 2004, I believe the WCA was adopted by the
9 commission as part of the 2006 rate case, and was
10 adopted in the middle of 2007, and so there was probably
11 two or three years in there, or more, where there was
12 not the WCA, but that staff hadn't participated. I
13 wasn't involved in the discussions in MSP that early in
14 my career, but I have been involved more recently.

15 Q. For five years of that period, since 2004, that
16 was the -- before this commission, that was the time
17 period in which the WCA was in trial mode. Is that
18 right?

19 A. Yes, that's correct.

20 Q. And then following that, in the 2011 case, the
21 commission established the Washington Collaborative. Is
22 that correct?

23 A. Yeah. I think it was a stipulation amongst all
24 the parties to establish collaborative process, where
25 we'd be able to sit down and have discussions outside of

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1 the litigated case and come up with solutions and ideas
2 to potentially improve the regulatory environment and
3 mechanisms here instate.

4 Q. When did the collaborative end?

5 A. The collaborative concluded -- I believe there's
6 an exhibit, it was introduced per Ms. White, but I
7 believed it concluded at the end of October 2012. I
8 could verify that if you give me a second.

9 Yes, October 25th, 2012, is the last meeting.

10 Q. If I could have you turn your attention to Cross
11 Exhibit RBD-7CX. Do you have that?

12 A. Yes. This is, just to be clear, it's the
13 company's response to staff data request 286.

14 Q. Correct. You have that in front of you?

15 A. Yes, I do.

16 Q. In this data request we asked the company to
17 provide a date list of the dates and attendees at all
18 MSP meetings since the Washington Collaborative ended,
19 and any documentation of the Washington staff being
20 invited or informed of those MSP meetings. And then
21 there's a list. There's documentation on the first
22 page, some narrative, the second page is kind of a grid
23 of the meetings and the attendees, and then pages 3
24 through 8 are individual e-mails sent to the three
25 commissioners of the Washington Utilities and

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1 Transportation Commission inviting each of them to an
2 MSD -- what is it called? It's the commissioners' forum
3 on March 16, 2012. Is that correct?

4 A. That's correct.

5 Q. And the purpose of that commissioners' forum was
6 to hear the report from PacifiCorp with respect to
7 activities at the MSP?

8 A. Yeah. It really -- I would classify it as kind
9 of the kickoff of the next round of MSP meetings. The
10 MSP is never kind of concluded and started anew. It's
11 continued really since the inception of an allocation
12 methodology that was approved by the majority of the
13 company states.

14 But this particular meeting was what I would
15 kind of classify as the beginning of evaluating what
16 methodological will replace the 2010 protocol. That's
17 set to expire in the 2016, end of 2016 time frame, and
18 the parties were getting together to discuss
19 alternatives, potential modifications. So this would be
20 kind of the kickoff of that process.

21 Q. I'm referring you to what's been marked for
22 identification as Exhibit RBD-5CX. This appears to be a
23 company response to staff data request 240. Are you
24 familiar with this document?

25 A. I am.

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1 Q. I don't want to get into the specifics of it,
2 because it does say response was Mr. McDougal, but I
3 think my questions are at a higher level than that -- a
4 more general level I guess I should say.

5 A. Thank you.

6 COMMISSIONER GOLTZ: We knew what you meant.

7 BY MR. CEDARBAUM:

8 Q. Anyway, in the request we asked the company to
9 explain how to create a new allocation factor within the
10 RAM and JAM models used in the company's case, and then
11 the response indicates a number of tabs and macros that
12 would need to be change to do that. Is that right?

13 A. That is correct. And as a former revenue
14 requirement manager, I'm closely aware of how these
15 models work and operate and some of the complexities
16 that are included in them.

17 Q. So this looks like a fairly complicated process?

18 A. Well, to create a new allocation factor, this
19 is -- I guess it depends on how you look at it. From my
20 perspective, adding a new allocation factor to the model
21 would be -- like, say, you wanted instead of, you know,
22 CAGW factor you wanted to add an ABC factor. To go into
23 the model -- and these are Excel-based models with
24 several macros and links and formulas -- and simply just
25 to add in a line for this ABC new factor would require

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1 some extensive modeling changes.

2 The model is not designed to just simply add a
3 factor. We haven't added a factor to the model since
4 the WCA was adopted. And so the factors that are there
5 and listed and for which the macros are built to work
6 around are well established. And so to simply go in and
7 say I want to do a new factor, ABC, would require some
8 significant modeling changes.

9 Now, in this case, the company has proposed some
10 modifications to the calculation of certain allocation
11 factors, such as the control area generation west CAGW
12 factor. Those modifications wouldn't require the
13 extensive changes that are described here in this
14 response.

15 Q. But with respect to a new allocation factor, it
16 gets more complicated than that?

17 A. Short answer is yes.

18 Q. I'm referring you to what's been marked for
19 identification as Exhibit RBD-6CX. Staff asked the
20 company to rerun RAM and JAM to reflect the 2010
21 protocol, and keeping everything else the same. And on
22 page 1 of the exhibit it appears the company objects.

23 Then if you were to turn to the second page, the
24 response indicates that during the course of preparing
25 rebuttal, the company did conduct that analysis and

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1 provided it to staff in its response. Is that right?

2 A. That's correct.

3 Q. We did not include the attachment, because it's
4 very long.

5 A. Yes.

6 Q. How many pages would it be?

7 A. Well, the JAM is our model that we use -- the
8 RAM and the JAM are the two models we use in each of our
9 jurisdictions. And there's a way of taking (inaudible)
10 books data on a total company level and separating those
11 down into each of the jurisdictions in which we operate,
12 using the allocation methodology approved in that state.

13 Because of those complexities, and starting with
14 one accounting system, the models can be complicated. I
15 mean, there's no doubt about that. We've tried --
16 through this rate case I believe we've had several
17 discussions with staff on how the models work, we've had
18 tutorials and workshops and things of that nature,
19 accommodated them at our offices to try to show how
20 these models works, and are always available by phone to
21 help assist in kind of some of these more technical
22 aspects. But, yes, these models do require some
23 extensive modeling and macros.

24 Q. If we were to have printed out the attachment to
25 65, we're talking hundreds of pages for the document?

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1 A. I would say, yeah. A thousand. I'd have to try
2 to print it. I've never tried to print the model
3 because it's really not a printable document. It has
4 pages that are designed to print, but the model itself
5 is not. So I think if you print all pages, it would
6 probably more likely be thousands rather than hundreds.

7 Q. The last area I have to cover with you is on
8 page 6 of your rebuttal testimony. At the top of the
9 page, you state at lines one and two that all the
10 staff's adjustments appear to be designed to reduce
11 Washington's share of the cost. Do you see that?

12 A. Yes, I do.

13 Q. The context of this is that second tier
14 recommendation of staff for specific WCA modifications
15 in addition to the company's should the commission go
16 down that road?

17 A. Yes. I believe that staff's position, although
18 it's still a little unclear to me, because staff's
19 primary position in this case, I believe, is just to
20 maintain the status quo and adopt no changes to the WCA.
21 But where the confusion gets in is there's an
22 alternative proposal that if the company -- or if the
23 commission should decide to adopt the company's
24 proposals that they should also adopt staff's. And I
25 don't see how that would be possible, since staff's

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1 secondary or alternative recommendations are in direct
2 conflict with the company's proposals. So I don't see
3 how the commission could accept both of them.

4 Q. I wanted to ask you questions about
5 Exhibit RBD-8CX, which is the last cross exhibit we have
6 for the company, for you. Specifically in the context
7 of that testimony on page 6, where you indicate that all
8 of staff's adjustments appear to be designed to reduce
9 Washington's share of costs. And so --

10 MS. WALLACE: I'm sorry to interrupt. I just
11 wanted to point out that we aren't going to object
12 because you've made it clear that illustrative exhibits
13 involving math are fine, but we did want to note for the
14 record that this wasn't our understanding of staff's
15 primary position. It wasn't PacifiCorp's understanding
16 that this was staff's position on CAGW. And the first
17 time we saw these calculations were when we received
18 this exhibit, and they're based on actually calculation
19 of staff's position. Of company, not staff.

20 JUDGE MOSS: That company conducted?

21 MS. WALLACE: Yes.

22 JUDGE MOSS: Go ahead, Mr. Cedarbaum.

23 BY MR. CEDARBAUM:

24 Q. Mr. Dalley, looking at Exhibit 8CX, this
25 involves an allocation factor CAGW. Is that correct?

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1 A. Yes.

2 Q. Just briefly, for the record, what is that
3 allocation factor used for?

4 A. The CAGW, or control area generation west
5 factor, is the primary factor used in the west control
6 area allocation methodology to allocate to Washington
7 its share of generation and transmission resources.

8 Q. Is it correct the top half of the page, or lines
9 one through five, shows the company's calculation of its
10 CAGW factor?

11 A. That is correct.

12 And this is a -- one of the proposals that we've
13 made in this case is to take the CAGW and weight --
14 which has two components, as kind of outlined here.
15 There's an energy component and a demand component, and
16 then we take those two and weight them.

17 And the weighting of 62 energy, 38 percent
18 demand, is a change that we've made or propose to make
19 in this rate case, to align it with the demand energy
20 weightings that are used in the company's cost of
21 service study.

22 And so using those two weightings, the 62 energy
23 and the 38 demand, produces a control area generation
24 west factor for Washington of 22.6265 percent.

25 Q. Now, looking at the bottom half of the table,

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1 under the staff column, the staff section, have you
2 checked the math on this?

3 A. I have not gone into the spreadsheet, but
4 conceptually I understand that it's the same as the top
5 section of the spreadsheet, in that it's showing a 73
6 percent energy and 27 percent demand. I think this
7 demonstrates a couple things. As I mentioned earlier,
8 it would -- the company's proposal is the 62/38, and
9 even if the staff's proposal is 73/27, which I'm not
10 sure that it is, the commission couldn't accept both.
11 It would have to decide one or the other. But the 73/27
12 that's outlined there for staff was a calculation that
13 actually we performed as part of our rebuttal testimony.

14 Q. I believe you're referring to Ms. Steward's
15 testimony?

16 A. It's actually in my testimony. If you give me a
17 moment I'll -- on page 9 of my rebuttal testimony,
18 beginning on line five, I state that staff's alternative
19 proposal would result in demand energy weightings of 27
20 percent demand, 73 percent energy, which is nearly the
21 inverse of staff's primary recommendation of maintaining
22 that the 75 percent demand/25 percent energy weightings
23 used in the WCA approved in 2006.

24 I go on to say that we had asked a data request
25 of staff, once we received their testimony outlining

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1 maybe the basis of how this would be calculated, to see
2 if they had conducted the analysis to see what this
3 would result in. And that's Exhibit RBD-4, is attached
4 to my rebuttal testimony. And in that response, staff
5 indicated that it had not calculated its new method of
6 determining the demand energy split and so the 27
7 demand, 73 percent energy was conducted by the company.

8 Q. And so using the company's 73/27 split, as
9 you've calculated, results in a lower CAGW allocation
10 factor on line 11 than the company's factor on line
11 five?

12 A. I think it's the inverse. It's a higher.

13 Q. I'm sorry. Higher.

14 A. Yes.

15 Q. So that would allocate more cost to Washington
16 using line 11 versus line 5?

17 A. It would mathematically, yes.

18 Q. Thank you.

19 MR. CEDARBAUM: Your Honor, I would offer
20 Exhibits RBD-5CX, 6-CX, 7-CX, and 8-CX.

21 JUDGE MOSS: Hearing no objection, those will be
22 admitted as marked.

23 (Exhibits RBD-5CX, RBD-6CX, RBD-8CX were
24 admitted.)

25 MR. CEDARBAUM: I have no more questions.

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1 JUDGE MOSS: All right. I believe Ms. Gafken
2 you've indicated some cross for this witness?

3 MS. GAFKEN: Yes. I expect it should be brief.

4 CROSS-EXAMINATION

5 BY MS. GAFKEN:

6 Q. Good afternoon, Mr. Dalley.

7 A. Good afternoon.

8 Q. We've already heard some testimony about the
9 multi-state process, and I had some questions about
10 that. PacifiCorp's primary recommendation is that the
11 commission order its staff to participate in those
12 discussions. Correct?

13 A. Yes. Staff has indicated in the collaborative,
14 and as demonstrated by just participation in the last
15 week, that they've accepted that invitation.

16 Q. Would PacifiCorp like other Washington
17 stakeholders to participate in those discussions as
18 well?

19 A. Yes. In fact, if you'd look at the participants
20 from the other jurisdictions, I know that the industrial
21 customers of northwest utilities are participating I
22 think on behalf of Oregon customers at this point. But
23 there are other intervenors and groups that participate,
24 yes.

25 Q. Do other consumer advocates participate?

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1 A. Yes. Our Oregon, the one -- I know there are
2 some on the east side that I'm not as familiar with, but
3 our citizens utility board in Oregon participates
4 actively in those.

5 Q. How often do the MSP discussions takes place?

6 A. Generally they meet on a monthly basis. Some of
7 those are phone calls, sometimes they're in person, but
8 generally the discussion have occurred on a monthly
9 basis.

10 Q. When they are in person, where are they
11 typically held?

12 A. Typically I think they've been in Salt Lake
13 City, although I think the locations have been moved
14 over the years. I know they met in Las Vegas. For a
15 number of years they've met in Boise. I think there
16 have been meetings in Portland.

17 Q. Are they typically day long or more than one
18 day?

19 A. It really depends. Some of the conference calls
20 can be a couple of hours, others can be a full day. So
21 it just depends on the issues that are being presented
22 and discussed and how much time it might take to get
23 through those.

24 Q. For the in-person meetings, is there the
25 opportunity for remote participation?

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1 A. Yes. There's always a dial-in. There's always
2 a conference call line if folks can't make that in
3 person. We've done that to try to accommodate folks
4 that aren't local. If we have a meeting in Salt Lake,
5 the folks in Portland participate, and people have made
6 use of that.

7 Q. Is there currently a regular schedule for the
8 meetings? Have they been scheduled out for the next
9 year? What does that look like?

10 A. Yeah. I think in one of the cross exhibits that
11 Mr. Cedarbaum just took me through had kind of an
12 outline of the meetings that are in the near future.

13 If you look at I think it's RBD-7CX. And it
14 shows that for the remainder of 2013 -- we just had a
15 meeting last week, August 22nd. There's meetings
16 scheduled for September 18th, October 24th,
17 November 14th, and December 12th; some of those in
18 person, some of those conference calls. The in-person
19 meetings are in Salt Lake City and in Portland.

20 MS. GAFKEN: I think those are all my questions.
21 Thank you.

22 JUDGE MOSS: Thank you.
23 Anything from the bench?

24 CHAIRMAN DANNER: Just a few questions here. I
25 saw e-mails that you sent out to each of the

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1 commissioners, and this is before my time on the
2 commission, I didn't see the responses. Was that just a
3 telephone or did somebody get on the phone if they
4 weren't going to be there, or was there a document or
5 response to the e-mails? Do you recall?

6 THE WITNESS: In the last sentence of the data
7 response, Christy Wallace is our standing neutral that's
8 hired to kind of facilitate these discussions, and she
9 notified the company that an e-mail declining
10 participation was received, although she did not provide
11 a copy of that e-mail to the company.

12 CHAIRMAN DANNER: So that you don't know if
13 there were any reasons given or anything?

14 THE WITNESS: I do not.

15 CHAIRMAN DANNER: I can find that elsewhere,
16 although it's not in the record.

17 My other question is I saw on the list the
18 participants. California does not participate?

19 THE WITNESS: They do not. We are a fairly
20 small player in California. They're obviously invited.
21 It's kind of an open door discussion, but they have
22 chosen not to participate at this point, although they
23 do use the same allocation methodology as the other
24 states.

25 CHAIRMAN DANNER: Thank you.

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1 Oh, and Las Vegas, what part of the service
2 territory is Las Vegas?

3 THE WITNESS: It was before my time,
4 unfortunately.

5 CHAIRMAN DANNER: Thank you. That's all I have.

6 JUDGE MOSS: What part of the business if
7 California? I understand we're about seven percent here
8 in Washington.

9 THE WITNESS: It's a little less than two
10 percent.

11 JUDGE MOSS: All right. A little smaller.

12 Any redirect?

13 MS. WALLACE: Just one redirect.

14 REDIRECT EXAMINATION

15 BY MS. WALLACE:

16 Q. Do you recall Mr. Cedarbaum asking you a few
17 questions about RBD-6CX? It's the company's response to
18 data request 265.

19 A. Yes.

20 Q. Why didn't the company provide the 2010 protocol
21 model when it was requested the first time?

22 A. Well, as the response says, we didn't provide it
23 because we're not proposing to use the 2010 protocol as
24 part of this case, as evidenced in testimony.

25 But, second, it is quite the analysis to convert

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1 a revenue requirement from the WCA to the 2010 protocol.
2 It's kind of, as discussed with Mr. Cedarbaum, the
3 modeling would require some work to get it there. And
4 so -- and even in our rebuttal testimony, when we saw
5 the parties' positions and how they created a further
6 allocation gap for the company, we felt that it was
7 appropriate to conduct that analysis, but it was done on
8 the filed case, not on the rebuttal case, just because
9 the time it took to pull that analysis together.

10 MS. WALLACE: Thank you, Mr. Dalley.

11 JUDGE MOSS: Nothing further?

12 Okay, Mr. Dalley, thank you for your time with
13 us on the stand.

14 And we'll have Mr. Duvall next.

15 GREGORY N. DUVALL

16 Witness herein, having been first duly sworn on
17 oath, was examined and testified as follow:

18 JUDGE MOSS: Any preliminaries?

19 MS. McDOWELL: Yes, Your Honor. I just wanted
20 to note for the record that the company did file an
21 errata for GND-7CT. So as I understand it, Mr. Duvall
22 has no corrections to make here today, but there are a
23 few corrections that we noted in our prefiled.

24 JUDGE MOSS: Okay. You filed substitute pages.
25 We have those at the bench, so we don't really need to

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1 go through it unless you just want to.

2 MS. McDOWELL: We filed this so we wouldn't have
3 to go through it.

4 JUDGE MOSS: That's good practice to follow.
5 And others did also in this case. So we have the
6 corrected testimony. Just so you know, I keep the
7 originals too.

8 MS. McDOWELL: I appreciate that. I just wanted
9 to bring that to folks' attention. We'll be working off
10 the testimony with the errata.

11 So this witness is available for
12 cross-examination.

13 JUDGE MOSS: All right. We have two parties
14 indicating cross-examination. Public counsel and Boise
15 White Paper. Any preferences?

16 Go ahead, Ms. Gafken.

17 CROSS-EXAMINATION

18 BY MS. GAFKEN:

19 Q. Good afternoon, Mr. Duvall.

20 A. Good afternoon.

21 Q. PacifiCorp is proposing that the cost of power
22 from PURPA-qualifying power facilities outside of
23 Washington should be included in the NPC allocated to
24 the Washington jurisdiction. Is that correct?

25 A. That's correct.

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1 Q. So for ease of reference, I'm going to refer to
2 the PURPA-qualifying power facilities as QFs. I'm
3 hoping that's okay with everybody.

4 A. Fine with me.

5 Q. Did PacifiCorp ask for recovery of power costs
6 from QFs outside of Washington in its last rate case?

7 A. No, not in the WCA.

8 Q. Did PacifiCorp ask for recovery of power costs
9 from QFs outside of the Washington in the rate case
10 before the last one, so two cases ago?

11 A. No. The QFs outside of Washington have not been
12 included during the pendency of the trial period of the
13 WCA.

14 Q. So during that time PacifiCorp has only
15 requested QFs that exist inside of Washington be
16 included in Washington rates?

17 A. Yeah. That's correct. That was part of the
18 WCA.

19 Q. Are you familiar with power flow studies?

20 A. Not very. I know what they are, but I don't
21 conduct power flow studies. Our transmission group
22 would do that.

23 Q. But do you know what they are?

24 A. I do.

25 Q. So just answer to the best of your ability.

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1 I'll ask the question, and I think you'll know the
2 answer, but we'll see.

3 A power flow study would show how power produced
4 by QFs outside of Washington is flowing to Washington
5 customers, wouldn't it?

6 A. I don't know exactly if it would or not.

7 Q. Do you know whether PacifiCorp has conducted a
8 power flow study?

9 A. Well, PacifiCorp transmission conducts power
10 flow studies when they're looking at planning
11 transmission lines.

12 Q. Would you please turn to your cross exhibit
13 GND-15.

14 A. Okay.

15 Q. This is a data request that public counsel asked
16 of PacifiCorp. And it says to be determined for the
17 sponsor. But do you recognize the data request that
18 appears in Exhibit 15-CX?

19 A. Yes, I do.

20 Q. If you'll turn to the second page of the
21 exhibit, section E. Would you read the last sentence?

22 A. The company has not prepared power flow studies
23 for the Washington service area.

24 Q. Would you please turn to cross exhibit GND-14CX.

25 A. Okay.

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1 Q. That is a data request that PacifiCorp requested
2 of staff. Do you recognize that data request?

3 A. Yes, I do.

4 Q. Would you agree that the staff provided
5 information of Oregon's policies recording power
6 purchases from QFs in response to that data request?

7 A. Yeah. They provided information on a
8 distributed generation report from Oregon, which
9 included information on qualifying facilities as well.

10 Q. If you would turn to cross Exhibit GND-16CX.
11 This exhibit does contain confidential information, but
12 I don't expect to require any confidential information
13 to be actually spoken. I think we can remain in an open
14 session, in other words.

15 A. Okay.

16 Q. In flipping through the exhibit, is it fair to
17 say that the vast majority of QFs are located in Oregon?

18 A. Yes, they are.

19 Q. Is it also fair to say that QF contracts are
20 both older and newer? I mean PacifiCorp has newer QF
21 contracts.

22 A. That's correct. There's a variety of vintages
23 of the QF contracts.

24 MS. GAFKEN: At this time I would like to move
25 to offer Cross Exhibits 14 and 15CX.

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1 JUDGE MOSS: No objection. They'd be admitted
2 as marked.

3 (Exhibits GND-14CCX and GND-15CCX were admitted.)

4 JUDGE MOSS: That completes your questioning, I
5 take it?

6 MS. GAFKEN: Yes, that completes my questioning.

7 JUDGE MOSS: Ms. Davison, I believe you have
8 some questions for this witness?

9 MS. DAVISON: Your Honor, we had two
10 cross-examination exhibits for Mr. Duvall, one of which
11 counsel for PacifiCorp indicated is best for Cindy
12 Crane, so we are not going to offer the first one. And
13 we do not have any cross-examination for Mr. Duvall.

14 JUDGE MOSS: Okay. So what has previously been
15 mark as GND-11CX you may use with Crane, or not at all?
16 Is that correct?

17 MS. DAVISON: It's 12 and 13.

18 JUDGE MOSS: No. 12. Okay. You have three
19 exhibits for you here. 11, 12 and 13.

20 MS. DAVISON: Right. No. 11 we are not going to
21 offer; 12 and 13 will be for Crane.

22 JUDGE MOSS: No, I have it straight. No cross.
23 Does the bench have questions for Mr. Duvall?

24 COMMISSIONER JONES: I have a few.

25 JUDGE MOSS: Mr. Jones has a few.

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1 COMMISSIONER JONES: Good afternoon. I'm going
2 to ask you some questions primarily about the QFs.

3 So you have stated in your testimony that PURPA
4 requires in some way cost recovery for these sorts of QF
5 facilities in a control area or an earlier state
6 jurisdiction. I realize that PURPA is a federal
7 statute, requires the qualifications of QFs by FERC, and
8 other terms and conditions in a contract, but isn't it
9 true that state PUCs like us retain primary jurisdiction
10 over key elements of both calculation of avoided costs,
11 and that's on the utility purchase obligation, and
12 generally how cost recovery issues are handled?

13 THE WITNESS: Yeah. They're I think the type of
14 resource, the size of the resource, and the sort of the
15 overall methodology are things that are outlined by
16 FERC, but each state commission implements the purchase
17 of QFs in different ways to some extent.

18 COMMISSIONER JONES: Okay.

19 On page 7 you state that the weighted average of
20 the Oregon and California contracts in this case is now
21 \$77.20 per megawatt hour. Is that correct?

22 THE WITNESS: That's correct.

23 COMMISSIONER JONES: Does this take into account
24 recent contracts in Oregon that have either been
25 terminated -- I think you state that four contracts have

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1 recently been terminated or substantially renegotiated.

2 THE WITNESS: The only change between the direct
3 and rebuttal was the cancellation of the Butter Creek
4 wind plants. \$77 was based on the original filing, and
5 I have not recalculated the number after the
6 cancellation of Butter Creek, but I don't think it would
7 change much.

8 COMMISSIONER JONES: Are there more QF contracts
9 now that you are presently renegotiating or possibly
10 interpreting that could bring this average cost down
11 further in the foreseeable future?

12 THE WITNESS: Not that I'm aware of, either down
13 or up.

14 COMMISSIONER JONES: In your testimony, I think
15 on page 14, you cite to a press release that we issued
16 recently on interconnection policy requirements. So
17 what is that statement trying to purport? Because that
18 was meant to deal with -- I think that you quoted
19 Chairman Danner on this, I don't want to put words in
20 his mouth -- but I think it was focused on the
21 interconnection requirements, not on PURPA and QFs, per
22 se.

23 CHAIRMAN DANNER: What page is that on?

24 JUDGE MOSS: Are we on rebuttal testimony?

25 COMMISSIONER JONES: Rebuttal.

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1 JUDGE MOSS: That's GND-7CT.

2 COMMISSIONER JONES: GND-7CT. Isn't it on
3 page 7? Got it?

4 So what's the effect of that attribution?
5 Because we really don't deal with QFs, as I understand
6 it, in our policy statement.

7 THE WITNESS: Okay. So Mr. Gomez, in terms of
8 talking about Oregon energy policies, cited an Oregon
9 document on distributed generation.

10 COMMISSIONER JONES: Okay.

11 THE WITNESS: And there were issues in there.
12 Washington has also created a report on distributed
13 generation. That was October 7th, 2011.

14 COMMISSIONER JONES: I remember it well.

15 THE WITNESS: Yeah. That's an exhibit in -- a
16 cross exhibit for Mr. Gomez. But in that document there
17 are a number of issues relating to QFs in terms of
18 things like increasing the contract length and things
19 like that, which line up very closely with the Oregon
20 energy policies on QFs. That's really the point, that
21 there's not a whole lot of difference, from what I can
22 tell, between Oregon and Washington policies on QFs.

23 COMMISSIONER JONES: So is your primarily
24 argument that the three states, California, Oregon and
25 Washington, have similar policy frameworks on

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1 distributed generation, renewable generation, and
2 therefore we should accept your proposal to include
3 these QFs, or is it more the FERC, the federal law,
4 requires us to do it?

5 THE WITNESS: No. It's the former. The energy
6 policies are fairly aligned. Each state has their RPS
7 and each state has emission performance standards. Very
8 aligned in that way.

9 But I think probably more importantly is the \$77
10 for the Oregon and California QFs is a reasonable price.
11 It's not out of line. The non-QF prices, as the public
12 counsel indicated in their testimony, average about \$72.
13 Within that \$72 average, the Hermiston generating
14 facility, the PPA with Hermiston is \$75. The PPA with
15 the Camas co-gen facility is \$97. Those are both in
16 Washington rates, and no one has taken any kind of issue
17 with those.

18 We've looked at -- I've put in information about
19 what the QF prices in Puget's rates are, which are \$97
20 to \$73 in their last two cases. So given that the \$77
21 kind of falls into a reasonable range, and these are all
22 renewable resources, that distributed generation, which
23 seemed to be aligned with Washington energy policy, you
24 know, those reasons, along with, you know, a few others
25 like, you know, all of the other states that we operate

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1 in consider that QFs system resources and allocated
2 system wide, so all the other five states are paying a
3 portion of the Washington QFs, and vice versa. So
4 it's -- those are the reasons.

5 COMMISSIONER JONES: Okay. Thank you.

6 That's all I have.

7 JUDGE MOSS: Anything on the redirect?

8 MS. McDOWELL: Nothing.

9 JUDGE MOSS: All right. Mr. Duvall, I
10 appreciate your time with us on the stand, and you may
11 step down, subject to recall if needed.

12 And this brings us to Crane. Boise White Paper
13 has indicated some cross.

14 CINDY A. CRANE

15 Witness herein, having been first duly sworn on
16 oath, was examined and testified as follow:

17 THE WITNESS: I do.

18 JUDGE MOSS: Please be seated.

19 Any preliminaries?

20 MS. McDOWELL: Yes, Your Honor. I believe
21 Ms. Crane has a correction to her prefiled testimony.

22 THE WITNESS: Yes, I do.

23 JUDGE MOSS: Okay. I think we can go ahead.

24 THE WITNESS: Yes. On page 3 of my rebuttal
25 testimony, line 12, the sentence that starts, "I base

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1 the coal strip coal costs in my direct testimony,"
2 should be changed to reflect I based the coal strip coal
3 costs in Mr. Duvall's direct testimony. I do not have
4 any direct testimony in the case.

5 And that's all.

6 MS. McDOWELL: Thank you, Ms. Crane.

7 This witness is available for cross-examination.

8 JUDGE MOSS: All righty. Ms. Davison, proceed.

9 MS. DAVISON: Thank you, Your Honor.

10 As you know, we have a variety of
11 cross-examination exhibits that we had attempted to get
12 a stipulation into the record, and so I thought before I
13 went through a boring, laborious attempt to lay
14 foundation or relevancy for these exhibits, because they
15 all go to exactly the same issue, that perhaps we could
16 revisit that and see if there are some exhibits that we
17 could just have stipulated into the record and not waste
18 everyone's time on this issue.

19 JUDGE MOSS: With a setup like that, I have to
20 give an opportunity to discussion at least.

21 MS. McDOWELL: So, Your Honor, in discussions
22 with counsel prior to the hearing today, we did indicate
23 that we had some objections to these exhibits. I think
24 the foundation of our objection, and a lot of what
25 you'll hear from us today, is that Boise submitted an

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1 approximately two-page adjustment related to Bridger
2 coal coasts on the basis that the coal supplies should
3 be repriced at what they purport is a market price, it's
4 not a cost-based price.

5 We don't, frankly, see a lot of relevance to --
6 we don't understand the relevance of many of these
7 exhibits to that adjustment. There's a lot of stuff
8 here on coal inventory which was never a part of that
9 adjustment, and we don't understand how that plays in.

10 In all of our cross exhibits we use excerpts
11 from testimony and prior proceedings, so there was some
12 clear indication to us to -- to the other folks about
13 what we were going to be cross-examining on here. Here
14 it's complete sets of testimony mostly from east side
15 jurisdictions.

16 So we just really don't understand what the
17 relevance of these is. On that basis, we were not
18 willing to stipulate them. It's possible she could lay
19 a foundation for them, it's possible we would come to
20 understand it.

21 I think our major concern here is that Boise is
22 attempting through some of these exhibits to establish a
23 new adjustment or expand their adjustment to some kind
24 of coal inventory issue based on these cross exhibits
25 and we think that's an improper approach.

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1 JUDGE MOSS: Well, the issue here as I
2 understand it is Boise takes the position that the coal
3 should be priced as if it were an affiliate transaction.

4 MS. DAVISON: (Nods head.)

5 JUDGE MOSS: And as provided in the settlement
6 agreement ultimately approved by this commission, that
7 approved the merger or the sale of the company in
8 general, with respect to affiliate transactions that was
9 the treatment afforded.

10 What is it you expect to show with these
11 exhibits that it somehow falls within that? I mean, the
12 company's counter position is that, well, no, that's not
13 the way the commission treats this. The commission
14 treats these coal costs from the affiliate coal mine as
15 if it were a company asset being offered by PacifiCorp
16 to produce fuel for its plant. So how do these exhibits
17 fit into picture?

18 MS. DAVISON: Thank you, Your Honor.

19 Essentially I think the point we're trying to
20 raise is not a huge point, and I'll say at the outset
21 that we seem to never get it right with PacifiCorp. We
22 just concluded an Oregon case in which we were chastised
23 for doing excerpts of testimony, so we were trying to
24 anticipate this and put all the pages in. So we're
25 happy to excerpt. But like I said, we seem to never get

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1 it quite right on that.

2 Essentially what we're going after is exactly
3 what you said, Judge Moss. What these documents show is
4 the company's position and testimony about the
5 availability of the coal, and market options for the
6 coal, and it's as simple as that. I'm not going to try
7 to make it more complex than what it is.

8 JUDGE MOSS: Well, it's a fair amount of
9 material, and sitting here at this moment, I don't think
10 I'm prepared to go through it at 4:00 in the afternoon
11 and decide, particularly on a part-here-part-there
12 basis, what should and should not be.

13 So I'm going to ask that we put Ms. Crane aside
14 for the day, take up our next witness, and I'll look at
15 this overnight, and we can rule. That way we won't
16 spend a whole lot of hearing time arguing back and forth
17 about specific points in these proposed exhibits. Is
18 that agreeable to everyone?

19 MS. DAVISON: I think that makes a lot of sense.

20 MS. McDOWELL: That's fine. I do have specific
21 points that I can, you know, highlight with respect to
22 each exhibit if that would be helpful. I mean, I would
23 hate for you to go and rule on all these without hearing
24 our specific objections to these exhibits.

25 JUDGE MOSS: Oh, yeah, I'm hear you, I just

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1 don't want to spend time right now. I'll hear you in
2 the morning and then I'll go get the commissioners. How
3 about that?

4 MS. McDOWELL: That suits me fine.

5 JUDGE MOSS: Ms. Crane, with apologies for
6 exciting your nervous system unnecessarily --

7 THE WITNESS: Not a problem.

8 JUDGE MOSS: -- we'll have you back in the
9 morning after I hear the argument between counsel and
10 make a ruling.

11 THE WITNESS: Thank you.

12 JUDGE MOSS: Thank you very much.

13 MS. McDOWELL: Let's see whose nervous system
14 gets excited next.

15 JUDGE MOSS: Well, it would appear that
16 Mr. McDougal is up next on the list here, although for
17 the volume of testimony, surprisingly brief
18 cross-examination.

19 STEVE R. McDOUGAL

20 Witness herein, having been first duly sworn on
21 oath, was examined and testified as follow:

22 THE WITNESS: I do.

23 JUDGE MOSS: Thank you. Please be seated.

24 Nothing preliminary, Ms. Wallace?

25 MS. WALLACE: No, Your Honor.

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1 JUDGE MOSS: Let's get right down to it. We
2 have cross-examination from staff, five minutes.

3 Mr. Cedarbaum?

4 MR. CEDARBAUM: No questions.

5 JUDGE MOSS: Mr. Cedarbaum has waived his cross.

6 We have public counsel, 15 minutes.

7 MS. GAFKEN: I don't think it will be
8 15 minutes, but I do have a few questions for
9 Mr. McDougal.

10 JUDGE MOSS: Proceed.

11 CROSS-EXAMINATION

12 BY MS. GAFKEN:

13 Q. Good afternoon.

14 A. Good afternoon.

15 Q. Please turn to rebuttal testimony SRM-15, go to
16 page 25, line 16 through 18.

17 JUDGE MOSS: You're going to have to give us a
18 little more time with this one, because of the large
19 size. This is rebuttal, which is what number?

20 MS. GAFKEN: Yes. Exhibit SRM-16 rebuttal
21 testimony, page 25, line six through 18.

22 JUDGE MOSS: I think we're there.

23 BY MS. GAFKEN:

24 Q. There you state that PacifiCorp disagrees with
25 public counsel's revenue normalization adjustment.

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1 Correct?

2 A. That is correct.

3 Q. Public counsel's revenue normalization
4 adjustment would annualize the level of revenues that
5 would be collected from the number of rate payors at the
6 end of the test period. Correct?

7 A. That is correct. And in doing revenue
8 normalization, you've got a varying amount of customers
9 throughout the year, so to look at one period in time or
10 one point in time rather than looking at a full 12
11 months we believe would distort the number.

12 Q. In this case, the effect of the revenue
13 normalization adjustment as proposed by public counsel
14 would be to reduce the adjusted test year revenues by
15 approximately \$1.7 million, which would then increase
16 the revenue requirement by \$1.7 million. Is that
17 correct?

18 A. That is correct. We are aware that this
19 adjustment actually would benefit the company, but just
20 based upon the way it was calculated, we do not believe
21 it is correctly done.

22 Q. PacifiCorp is recommending that rate base be
23 measured at the end of the test period. Is that
24 correct?

25 A. That is correct.

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1 Q. And PacifiCorp agrees with public counsel's
2 adjustment to annualized depreciation based on year-end
3 plant values. Correct?

4 A. That is correct.

5 Q. PacifiCorp uses wage rates effective at the end
6 of the period to calculate its labor expense. Correct?

7 A. That is correct.

8 Q. Would it then be conceptually consistent to
9 annualize revenues based upon year-end numbers of
10 customers if you were to use year-end values for
11 rate-based annualized depreciation based on year-end
12 plant values and annualized payroll for year-end wage
13 rates?

14 A. In order to look at the annualization of
15 revenues, you've got to look at a couple of different
16 components. One, as you change --

17 Q. I'm sorry. I don't mean to interrupt, and
18 please give your explanation, but could you answer
19 whether it would be conceptually consistent first before
20 going into the explanation?

21 A. Conceptually, it's not correct to do revenues at
22 one point in time. The reason is when you're looking at
23 revenues, you've got a couple of different components.
24 You've got revenues, you've got what their impact is on
25 energy, and then as you impact energy, you start

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1 impacting allocation factors.

2 So as you are looking at these, you have to look
3 at all three of them, and if you look at the revenues,
4 the number of customers, and megawatt hours, there's
5 variability each month of the year. And so it's
6 really -- I don't know of any way to really look and say
7 we're going to look at a June number or a
8 December number, because you have some customers that
9 come and go throughout the year. So in looking at that
10 kind of an adjustment, it's more appropriate to look at
11 a 12-month period.

12 Q. Couldn't the same be said, though, with respect
13 to plant or wages or depreciation?

14 A. On plant and on depreciation, what you're trying
15 to do is you're trying to look at an amount going
16 forward. We know that plant, if you look at the
17 company's earnings and demonstration -- earnings and
18 demonstration reports that have been filed with this
19 commission, it is going up every year. So by going to
20 end of period generally, it is better reflecting the
21 plant in service, and more closely aligning it with the
22 rate effective period.

23 Q. So I think you indicated that the other three
24 components that I asked you about, you look forward to
25 see what happens, and generally using the end of period

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1 might be appropriate. Isn't PacifiCorp projecting a
2 decrease in customers going forward?

3 A. There is a decrease, and this is part of the
4 thing that is happening with the production factor. So
5 if you look at the production factor, it -- there is a
6 decrease occurring between the historic and the forecast
7 period.

8 MS. GAFKEN: That's all I have. Thank you.

9 JUDGE MOSS: Anything from the bench for
10 Mr. McDougal? Apparently not. No?

11 COMMISSIONER JONES: Just one. Thank you,
12 Judge Moss. Just a quick follow-up.

13 Mr. McDougal, is your problem with the revenue
14 annualization adjustment that Mr. Coppola made is that
15 it's done improperly or is it more that you cannot
16 measure or annualize the number of customers throughout
17 the year, or both?

18 THE WITNESS: Both. In order to really do
19 revenues, because we do forecast test periods in many of
20 our states, but what we do when we do that forecast test
21 period is we will look at a 12-month period. When we
22 look at that 12-month period to establish the number of
23 customers, we then adjust the energy and we adjust the
24 allocation factor. We do all of those. That's where
25 the adjustment did not correctly look at all the

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1 impacts.

2 COMMISSIONER JONES: So is it conceptually
3 impossible to do, or is it just that it was done
4 improperly in this case?

5 THE WITNESS: I think more it was just done
6 improperly in this case. It is conceptually possible,
7 but you have to, like I said, you would have to do
8 adjustment because in some of our service territory you
9 do have seasonal customers.

10 COMMISSIONER JONES: Sure.

11 THE WITNESS: You would have to adjust for that,
12 rather than saying let's use customers as of June 30th.

13 COMMISSIONER JONES: Sure. But isn't that true
14 for all sorts of issues with all utilities, there are
15 seasonal customers, and you normalize so many things in
16 the rate making process? Right?

17 THE WITNESS: That is correct.

18 COMMISSIONER JONES: You do not contest the
19 annualization of the depreciation amount that he made?

20 THE WITNESS: No, we did not.

21 COMMISSIONER JONES: Okay. Thank you.

22 COMMISSIONER GOLTZ: Judge Moss?

23 JUDGE MOSS: Yes.

24 COMMISSIONER GOLTZ: If you were in a quickly
25 growing area, say parts of Utah, and you had a rate case

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1 like we had here, wouldn't your position be different?
2 Wouldn't you want to have the end-of-year customers if
3 it was a rapidly growing area?

4 THE WITNESS: If you were using historical data.
5 Yes. In Utah we actually use a forecast test period.

6 COMMISSIONER GOLTZ: Right. I understand that.
7 Therefore you use an average of the future year's --
8 monthly average, I suppose.

9 THE WITNESS: Yes.

10 COMMISSIONER GOLTZ: But in a modified
11 historical test year, where you're trying to accommodate
12 and predict based on historical data what the rate
13 period would be, you'd want to go to the end-of-period
14 rate base, end-of-period customers, wouldn't you?
15 Accepting -- unless you've got like some oddity of the
16 service territory where everybody takes off during
17 December.

18 THE WITNESS: You'd want to look at the most
19 recent data, I agree with that. But what you've got to
20 do is, especially where we use allocation factors to
21 allocate costs between Oregon and Washington, we look at
22 a 12-month period, we look at the 12 peaks, and so we've
23 got to try and somehow come up with those 12 peaks in
24 order to allocate the costs.

25 COMMISSIONER GOLTZ: Nothing further.

0316

1 JUDGE MOSS: Okay.

2 MS. GAFKEN: Your Honor, I want to clarify for
3 the record. It was an adjustment for Mr. Dittmer, not
4 Mr. Coppola.

5 COMMISSIONER JONES: Sorry.

6 MS. GAFKEN: I just wanted to make that
7 technical clarification.

8 JUDGE MOSS: That's fine. Thank you.

9 Anything further from PacifiCorp?

10 MS. WALLACE: No, Your Honor. Thank you.

11 JUDGE MOSS: With that then, Mr. McDougal, thank
12 you for your time with us on the witness stand, and you
13 may step down, subject to recall.

14 The next two witnesses, Brown and Kelly, are
15 witnesses for whom no cross-examination has been
16 indicated, and we have stipulated in the prefiled
17 materials. So they need not appear on the stand, unless
18 they're just fraught with eagerness -- even if they're
19 fraught with eagerness.

20 All right. Now for the witness Ralston. There
21 was no cross indicated, but Commissioner Jones, you said
22 you might have some questions?

23 COMMISSIONER JONES: Three or four.

24 JUDGE MOSS: If we could have Ralston.

25 MS. McDOWELL: Your Honor, if it would be

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1 acceptable, he is in Salt Lake, we gave him the news
2 this morning that there will be some questions for him.
3 It would be best from his perspective if we could do it
4 tomorrow morning.

5 JUDGE MOSS: I think that will work for you,
6 won't it, Commissioner Jones? That's fine.

7 MS. McDOWELL: Whatever is most convenient.
8 He's available all morning.

9 JUDGE MOSS: Okay. We'll take care of that in
10 the morning.

11 MS. McDOWELL: But we do have other witnesses
12 here.

13 JUDGE MOSS: In fact, there's cross indicated
14 for Tallman.

15 MS. McDOWELL: He is available.

16 JUDGE MOSS: Let's have Mr. Tallman.

17 THE WITNESS: I am eager.

18 JUDGE MOSS: I can tell. You're standing up
19 there in the back.

20 STEVEN R. TALLMAN

21 Witness herein, having been first duly sworn on
22 oath, was examined and testified as follow:

23 THE WITNESS: I do.

24 JUDGE MOSS: Thank you.

25 Please be seated.

0318

1 Anything preliminary?

2 MS. WALLACE: I don't believe so.

3 Mr. Tallman, do you have any corrections to your
4 testimony?

5 THE WITNESS: I do not.

6 MS. WALLACE: No, Your Honor, Mr. Tallman is
7 available for cross-examination.

8 JUDGE MOSS: Ms. Gafken, you have some cross for
9 this witness?

10 MS. GAFKEN: I do have a little bit of cross for
11 Mr. Tallman.

12 CROSS-EXAMINATION

13 BY MS. GAFKEN:

14 Q. Good afternoon, Mr. Tallman.

15 A. Good afternoon.

16 Q. I want to make sure you had access to
17 Mr. Coppola's Exhibit SC-8C. If somebody could get that
18 over to him, we will look at that exhibit during your
19 cross.

20 A. I do not. Was this one of the cross exhibits?

21 MS. McDOWELL: No.

22 MS. GAFKEN: It's not a cross exhibit. It was a
23 prefiled exhibit, one that we submitted under
24 Mr. Coppola.

25 THE WITNESS: I do not.

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1 MS. GAFKEN: Is somebody routing it to him?

2 MS. WALLACE: We're working on it.

3 BY MS. GAFKEN:

4 Q. In the meantime, would you turn to your rebuttal
5 testimony, Exhibit MRT-2T, page 2, line nine.

6 A. Yes.

7 Q. There you testify that the current projected
8 in-service date for the Merwin fish collector is
9 February 2014. Is that still the correct projection?

10 A. Yes, that's our current projection.

11 Q. Now, you do have Exhibit SC-8C in front of you?

12 MS. WALLACE: That's what we just handed you.

13 BY MS. GAFKEN:

14 Q. If you could also refer to cross
15 exhibit MRT-6C CX. Do you have both of those?

16 A. I have both.

17 Q. Do you recognize the cross exhibit MRT-6-C CX as
18 a data request that public counsel requested of
19 PacifiCorp?

20 A. Yes, I do.

21 Q. Do you see the response date of April 22nd,
22 2013?

23 A. Correct.

24 Q. And just to make sure that I didn't misspeak in
25 my earlier question, Exhibit 6-C CX is the data response

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1 to DR 70. Is that correct?

2 A. Correct. PC 70. I'm sorry. I was trying to
3 track with you that.

4 Q. I'm trying to track with me too.

5 Would you accept that the numbers that appear on
6 Mr. Coppola's Exhibit SC-8C were based on PacifiCorp's
7 response to public counsel data request No. 70, which is
8 the cross exhibit?

9 A. Without doing a comparison, no. I haven't
10 reviewed Mr. Coppola's exhibit prior now.

11 Q. I think the exhibit will speak for itself. It
12 notes that that's the source. I'm not sure --

13 JUDGE MOSS: That's all right. That will be
14 plenty. Let's move on.

15 BY MS. GAFKEN:

16 Q. The numbers that appear in Cross Exhibit
17 MRT-6C CX, the cross exhibit, the response to public
18 counsel data request No. 70, were those numbers actual
19 or forecasted as of the response date of April 22nd,
20 2013?

21 MS. WALLACE: Counsel, can you clarify? Do you
22 mean the attachment or the text of the request? Or
23 both?

24 MS. GAFKEN: Well, both. The numbers in the
25 exhibit. I'm asking whether they were projected or

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1 actual at the time the response was made.

2 MS. WALLACE: Thank you.

3 THE WITNESS: Maybe you could help me out a
4 little bit here. Is this question B on PC 70 that the
5 attachment is referring to? I believe it is.

6 BY MS. GAFKEN:

7 Q. I think if you turn to page 5 of 6 of the
8 exhibit.

9 A. Correct. So it appears to be a -- it's
10 associated with the pro forma adjustment per the Merwin
11 and any number of projects.

12 When the company responded to other data
13 requests -- there's another data request I think that's
14 more recent, that gives the company's most recent
15 pro forma projection for the Merwin fish project. And I
16 believe it's -- I think it's WUTC 194. And it gives a
17 more recent update, and it's a combination of actual
18 expenses through -- I think the most recent date was
19 sometime in June or July, and then a forecast or
20 pro forma adjustment beyond that. So I imagine here
21 it's the same thing, it's a combination of the actuals
22 and a pro forma.

23 Q. Would it be fair to say that the expenditures
24 that are listed in Exhibit 6-C CX, after the April 22nd
25 date, are projections?

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1 A. Well, I think what I'm saying is that a more
2 recent update that the company has provided is the third
3 supplemental to WUTC 194, which is a combination of
4 actuals --

5 Q. I'm going to object as nonresponsive. I
6 understand that --

7 JUDGE MOSS: Ms. Gafken, I'm having a little
8 trouble with your questions too. These exhibits are
9 full of numbers, and the witness is not being referred
10 to specific numbers. I don't think he's in a position
11 to judge whether any given number is a forecasted number
12 or an actual number unless you point him to the specific
13 number and ask him about it.

14 MS. GAFKEN: I'm referring, Your Honor, to
15 page 5 of the exhibit.

16 JUDGE MOSS: All right.

17 MS. GAFKEN: In particular, the Merwin traps
18 numbers.

19 JUDGE MOSS: All right. And I think he told you
20 as of the date of the exhibit, the numbers up to
21 April were actual, and the numbers past that were
22 forecast.

23 Is that what you testified? Did I understand
24 that correctly?

25 MS. GAFKEN: It wasn't clear that that's what he

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1 said.

2 THE WITNESS: Well, what I'm saying is that
3 based on the question in the data request, I can't tell
4 from just looking at the exhibit what portion of it
5 would be actual, what portion would be forecast, but I
6 do know there's another data request that the company
7 has responded to, and has kept up, that is a combination
8 of actual and pro forma, and it generally shows by the
9 end of the 2013 we will be spending in excess of 99
10 percent of the expected amount for the project.

11 JUDGE MOSS: The point being in response to the
12 questions, it's a mix of actual numbers and forecasted
13 numbers?

14 THE WITNESS: I suspect it is. I do not know
15 that.

16 JUDGE MOSS: You don't even know if the early
17 numbers are actuals?

18 THE WITNESS: Correct.

19 JUDGE MOSS: Does that get the answer you're
20 looking for?

21 MS. GAFKEN: I think we can move on.

22 JUDGE MOSS: Okay.

23 BY MS. GAFKEN:

24 Q. Do you know whether the company updated the
25 response to public counsel data request No. 70, which is

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1 the cross exhibit that we were just looking at, 60-CX?

2 A. Whether or not there was an update supplied?

3 Q. That's correct.

4 A. I'm only aware that there's just the one,
5 because it came through as a cross exhibit.

6 Maybe I'm not following your question. Sorry.

7 Q. I was simply asking whether you knew whether the
8 company had updated the response to public counsel data
9 request 70.

10 A. I'm not aware that we have.

11 I do not believe so.

12 Q. I just have one more area to ask you about. If
13 you would go back to your rebuttal testimony, MRT-2T,
14 again at page 2, this time looking at lines 11 through
15 12.

16 A. Page 2?

17 Q. Yes. Lines 11 through 12. There you testify
18 that the PacifiCorp contractor is contractually
19 obligated to achieve substantial completion by
20 February 2014 and final completion by May 2014. Is that
21 correct?

22 A. That's correct.

23 Q. What happens if the contractor fails to meet
24 those deadlines?

25 A. As is typical with many of our construction

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1 contracts, we have liquidated damages that are built
2 into them.

3 Q. Have you ever had a situation where a contractor
4 has failed to meet their deadline?

5 A. We've had situations where we've invoked
6 liquidated damages. In this case I've previewed the
7 critical path schedule and everything looks like it's on
8 track.

9 MS. GAFKEN: Thank you very much. That's all I
10 have.

11 JUDGE MOSS: Okay. Very good.

12 Does the bench have anything for Mr. Tallman?

13 COMMISSIONER GOLTZ: I have a couple questions.

14 JUDGE MOSS: Yes.

15 COMMISSIONER GOLTZ: So I understand you are
16 referring to Exhibit MRT-6C CX, and in the response to
17 public counsel data request 70, which is on page 2 of
18 the exhibit, sub B, you say please refer attachment
19 PC 70-1 and confidential attachment PC 70-2. Are those
20 what's on page 5 and page 6?

21 THE WITNESS: That's the way I interpreted it,
22 and I'm going by the cross exhibit that was sent over in
23 preparation for the hearing. If you go to the data
24 response, there's a number of files that are embedded in
25 the response.

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1 COMMISSIONER GOLTZ: I guess I'm just asking you
2 if the attachment, which is page 5, and is labeled
3 attachment PC 70-B, is the same as what is referred to
4 in the response as PC 70-1, 70-2.

5 THE WITNESS: It's one of those, and then
6 PC 70-1 or PC 70-2, there are a couple of files that are
7 embedded in that response, so --

8 COMMISSIONER GOLTZ: If that's the case, isn't
9 the response in sub C the answer to the question as to
10 which are forecast and which are actual on page 2?

11 THE WITNESS: You're correct.

12 COMMISSIONER GOLTZ: In jurisdictions, in other
13 jurisdictions where you may have a forward looking test
14 year, and you assume similar calendaring as you have in
15 this case, and you had a plant like the one at issue
16 that's going into service months and months after the
17 end of the case, how is the amount to go into rate base
18 determined? Is it based on just estimates?

19 THE WITNESS: Well, it depends on the
20 jurisdiction. Of course to the extent you're using a
21 forward test period, but yes, if it was a forward test
22 period, then it would be based on the pro forma view of
23 the project.

24 I believe Mr. Griffith this morning brought up
25 other ways to deal with these situations, such as a

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1 tariff rider approach. So there's different approaches
2 that you can take.

3 COMMISSIONER GOLTZ: But in some of the
4 jurisdictions, the commissions just accept the estimate
5 like you have in this document?

6 THE WITNESS: Yes, that's my understanding. And
7 then when there's a final accounting, appropriate
8 adjustments are made going forward.

9 COMMISSIONER GOLTZ: Is that the way it's done
10 in other jurisdictions, there's a forecast and then if
11 you don't spend all that money you would adjust it
12 downwards somehow?

13 MR. CEDARBAUM: If you know.

14 THE WITNESS: I'm a little bit over my ski tips
15 on this one, so I'm going to refer to another witness.
16 I'll have to think about who that might be. But to the
17 extent you would pursue another rate docket going
18 forward, then I believe it would get picked up.

19 COMMISSIONER GOLTZ: Okay. But you're not our
20 best witness on that?

21 THE WITNESS: I'm probably not. I'm operator
22 hydro and wind assets.

23 COMMISSIONER GOLTZ: Okay. Thank you.

24 COMMISSIONER JONES: Good afternoon,
25 Mr. Tallman.

1 One question on the Merwin fish collector
2 project. We do not have a forward test year, we have a
3 modified historical test year. So in general, what
4 should be the cutoff date for projects for rate-based
5 additions like this be set in your view? Date of
6 filing, date of responsive testimony? And why? Or
7 should we have some other standard, what some people
8 call a bright line standard? Any thoughts on that?

9 THE WITNESS: I'll give you my thoughts on this
10 project. I believe other witnesses have covered the
11 company's position. But in this case, you know, we are
12 saying that this project should go in, because it's an
13 important project. I think there's some facts about
14 this project that make it important to note.

15 First of all, it's a very important project for
16 customers, in that this fish collector project at
17 Merwin, coupled with the Swift fish collector, are the
18 linchpins to our success in achieving a 50-year hydro
19 license on our Lewis River production projects, which
20 secures 50 years worth of emission-free, low cost
21 hydropower, which in this case is included in the
22 production cost modeling that's included on a pro forma
23 basis for the net power cost model, which is again also
24 based on pro forma views.

25 So I think the Merwin fish collector serves a

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1 special place for the company in the sense that it's
2 very important for the benefit of customers. And the
3 benefit of that license is being included in the case.

4 Now, with that, you know, I would also say that
5 by the end of this year, we expect to expend 99.8
6 percent of the cost of this project, and our current
7 forecast, in my rebuttal testimony, is within \$200,000
8 of my direct testimony. So we're very confident in our
9 forecast, very confident in the schedule. I've reviewed
10 the critical path schedule recently.

11 And it's a project that needs to get done, will
12 get done, and is first and foremost scheduled to be done
13 so that we can meet our environmental obligations to our
14 agencies, because we have salmon and steelhead runs that
15 are returning at the end of the year, and we need to be
16 able to operate our fish trap, collect the fish
17 appropriately.

18 COMMISSIONER JONES: Regarding the FERC license,
19 is there any specific date by which FERC requires you to
20 complete this project per the approved license
21 application in 2008?

22 THE WITNESS: Yes. Originally it was by the end
23 of 2013. We had a delay in the project due to
24 unforeseen conditions. We had to work with our
25 contractor and that's what resulted in the most recent

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1 dates.

2 We did make a filing with FERC, and FERC's
3 response is that -- I have to remember, because I just
4 read it this morning -- but April 24th is when we need
5 to have the project in operation, and we also in
6 companion with that, we need to have our fish traps
7 operational by the end of this year -- shortly
8 thereafter. Excuse me.

9 COMMISSIONER JONES: I'm sorry. So you said
10 you're reasonably confident of your budget. Now, the
11 total estimated budget for this project in three phases
12 is approximately 57 million. Correct?

13 THE WITNESS: Correct. And I'm very confident.

14 COMMISSIONER JONES: You're very confident.

15 THE WITNESS: Yes.

16 COMMISSIONER JONES: Have phases one and two
17 tracked actual expenditures to budget pretty much on
18 target?

19 THE WITNESS: Well, the project as a whole, it's
20 very much on budget. When we had to reconfigure the
21 project and reestablish the guaranteed contractual dates
22 with the contractor, it set in motion a new schedule.
23 And that negotiation took place after I filed my direct
24 testimony. So I think my rebuttal testimony is the most
25 current and accurate information, and as a whole, the

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1 project is on schedule and on budget.

2 COMMISSIONER JONES: In your rebuttal testimony
3 you say this project has been approved by NOAA, U.S.
4 Fish and Wildlife Service and the Washington Department
5 of Fish and Wildlife.

6 THE WITNESS: Correct.

7 COMMISSIONER JONES: One last question on I
8 think the last page of your rebuttal testimony. This
9 relates more to the O & M expenses for Merwin and Swift.
10 This is Swift, I think. You made a big reduction in the
11 estimate of electricity use from like 776,000 down to
12 344,000.

13 THE WITNESS: Correct.

14 COMMISSIONER JONES: Why such a big difference?

15 THE WITNESS: Well, just to be honest, we got it
16 wrong the first time.

17 This is a massive structure. It's about 170
18 long, 60-feet wide, has 12 pumps, that's trying to
19 simulate a river and generate 600 cubic feet per second
20 of water. We overestimated the extent that the loads
21 within the entire structure would occur at the same
22 time.

23 So it turned out after actual operation for, I
24 believe we had eight months of actual, four in my
25 rebuttal testimony, that the number of pumps that we

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1 needed to create the false river, if you will, was
2 lower. The amount of diversity amongst the other loads
3 within the structure was higher than expected. And then
4 finally when we incorporated variable frequency drives
5 to control the pumps, and so we were able to do --
6 achieve greater conservation of energy through the use
7 of that equipment. And so we overestimated.

8 And, you know, I distinguish that from our other
9 cost estimates, because this is a unique asset within
10 our company. It's the first time that we had gone into
11 operation. The other cost estimates we have are things
12 that we're doing all the time. There are fish supplies,
13 use of contractors to help us with our fish collection
14 activities, and we're highly informed based on our
15 knowledge of the other fish hatcheries that we operate
16 on the Lewis River which are staffed by Department of
17 Fish and Wildlife as our contractor. So we're well
18 informed there. But we did miss the mark on the
19 electricity, which is a good thing for customers. It's
20 lower.

21 COMMISSIONER JONES: When I first read that,
22 Mr. Tallman, I thought, boy, the retail price of
23 electricity is going down.

24 THE WITNESS: Well, we have a contract so we are
25 a retail customer of Cowlitz for this load, and so we

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1 have a contract, and it's subject to the normal tariffs.

2 COMMISSIONER JONES: Thank you.

3 That's all I have.

4 JUDGE MOSS: All right? Any redirect?

5 MS. WALLACE: Just a few questions. Actually,
6 maybe just one.

7 But I do want to note that Mr. Dalley is here
8 and available. He's both the director of regulation and
9 revenue requirement, and he'd be happy to come back up
10 and answer any questions about future periods and how
11 pro forma capital additions are handled in other states.

12 REDIRECT EXAMINATION

13 BY MS. WALLACE:

14 Q. In your rebuttal, you update the cost of the
15 Merwin fish collector on page 3, lines 12 through 13.
16 The current cost production is actually about 220,000
17 less than the projection in the company's initial
18 filing. Correct?

19 A. That's correct.

20 Q. And what percentage of those costs have already
21 been paid as of today?

22 A. As of -- well, through July, it's been about 50
23 million. Through the end of the year, it will be about
24 99.8 percent of that 56.8 million, or 6 million.

25 Q. Thank you, Mr. Tallman.

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1 JUDGE MOSS: Okay. Very good.

2 Something else, Ms. Gafken?

3 MS. GAFKEN: No more questions, but I believe
4 that I failed to move my cross exhibits into the record.

5 JUDGE MOSS: All right. We will consider that
6 you have done so now. Any objection?

7 MS. WALLACE: Yes, Your Honor.

8 JUDGE MOSS: What's the objection?

9 MS. WALLACE: To MRT-6C, the response to PC data
10 request 70, I think you could probably tell from
11 Mr. Tallman's responses that he wasn't the author of
12 this response, and wasn't named as the sponsor as well,
13 and this regards to McDougal's testimony and would have
14 been more appropriately directed towards Mr. McDougal.

15 JUDGE MOSS: Right. Said the sponsor was to be
16 determined, and it's a company response to a data
17 request, and I can't see going through the exercise of
18 having Mr. McDougal brought back to prove it up. Let's
19 just overrule the objection. There will be admitted as
20 marked.

21 MS. GAFKEN: I didn't refer to it during the
22 cross-examination, but I would like to offer
23 Exhibit MRT-5CX, also a data request.

24 JUDGE MOSS: All right. Yeah, I thought you
25 were offering both of them. That's fine. Those are

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1 data requests responses from the company, and they are
2 pertinent to the subject matter of the testimony, so
3 they should they should be in the record. That fine.

4 With that, Mr. Tallman, we appreciate your time
5 with us on the stand.

6 THE WITNESS: Thank you.

7 (Exhibit MRT-5C CX, MRT-6C CX were admitted.)

8 JUDGE MOSS: It looks to me like if we manage
9 ourselves carefully, we should be able to finish with
10 PacifiCorp's witness subject to the reserve we have on
11 Crane and Ralston this afternoon. So I'm going to ask
12 everyone to be cognizant of my goal as we call
13 Mr. Stuver to the stand. I'm not saying we can't run
14 past 5:00 a little bit.

15 MS. WALLACE: Before we start, Mr. Tallman be
16 excused?

17 JUDGE MOSS: Yes.

18 DOUGLAS K. STUVER

19 Witness herein, having been first duly sworn on
20 oath, was examined and testified as follow:

21 JUDGE MOSS: Please be seated.

22 Preliminaries?

23 MS. WALLACE: He doesn't have any corrections.

24 JUDGE MOSS: Mr. Stuver, public counsel has
25 indicated ten minutes of cross for you.

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1 Ms. Gafken, would you like to proceed?

2 MS. GAFKEN: Yes, Your Honor.

3 CROSS-EXAMINATION

4 BY MS. GAFKEN:

5 Q. Afternoon, Mr. Stuver.

6 A. Good afternoon.

7 Q. Please refer to your rebuttal testimony,
8 Exhibit DKS-3T, page 3, lines seven through 14.

9 A. Okay.

10 Q. There you testify that PacifiCorp has funded the
11 pension plan and other post retirement benefits in
12 excess of expenses covered in rates. Correct?

13 A. Yes.

14 Q. The excess investment being such the balance in
15 asset accounts exceeds the balance in liability
16 accounts, which in turn means that PacifiCorp funded the
17 pension and other post retirement obligations in excess
18 of long-term liabilities for those benefits. Is that
19 correct?

20 MS. WALLACE: I'm going to object to that
21 question, because it has a couple of assumptions in it
22 before we get to the ultimate question. If we could
23 maybe break it down into parts, that might be helpful.

24 MS. GAFKEN: Sure.

25 JUDGE MOSS: Go ahead.

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1 BY MS. GAFKEN:

2 Q. The excess investment means that the balance in
3 asset accounts exceed the balance in liability accounts.
4 Is that correct?

5 A. Yes.

6 Q. And does that in turn mean that PacifiCorp
7 funded the pension and other post retirement obligations
8 in excess of the long-term liabilities for those
9 benefits?

10 A. Yes. I mean, maybe just to summarize,
11 PacifiCorp has funded its pension plan in excess of its
12 expense, and when you look at all of the assets and all
13 of the liabilities on PacifiCorp's balance sheet, it's
14 in a net asset position. That net asset position
15 represents those excess contributions.

16 Q. Is the amount of those excess contributions
17 approximately 237 million?

18 MS. WALLACE: Do you have a page reference
19 perhaps?

20 MS. GAFKEN: Actually, it's a Mr. Coppola
21 exhibit that I find easier to refer to, but it's SC-11
22 if you have that.

23 THE WITNESS: Yeah. And I'm familiar -- I'll
24 refer to my own testimony as well -- that there's an
25 exhibit that shows at a total company level the prepaid

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1 pension asset is 237 million. The Washington allocated
2 share of that prepaid pension asset is 13.3 million.

3 The other thing to note with that, though, is
4 there are deferred tax liabilities that go against that
5 prepaid pension asset, so there's approximately
6 6 million of deferred tax liabilities on a Washington
7 allocated basis. So in total, if you net the deferred
8 tax liabilities with the prepaid pension asset, it's
9 approximately \$7.4 million that's been added to
10 Washington rate base related to this item.

11 BY MS. GAFKEN:

12 Q. The deferred taxes that you mentioned, is that
13 for the pension benefits or the other derivative assets,
14 or both?

15 A. This is specific to the pension and post
16 retirement benefits. And the reason for that is you're
17 only able to deduct for tax purposes what you've
18 contributed, so to the extent that you've contributed
19 some amount different than what you've expensed, there
20 will be a different -- a deferred tax balance arises
21 from that.

22 Q. Would you clarify your last answer?

23 A. Sure. So in terms of the deferred taxes, I was
24 explaining why that's relevant in terms of a rate base
25 adjustment. And it's actually a net reduction to rate

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1 base that the deferred tax piece contributes.

2 What happens is for tax purposes you're able to
3 deduct what you contribute to the pension plan, and
4 because we've contributed in excess of what we've been
5 able to expense, we have a prepaid balance on our books.
6 That in turn has created a deferred tax liability. So
7 we're netting the deferred tax liability and the prepaid
8 pension asset as we arrive at what the appropriate
9 amount should be in Washington rate base.

10 Q. And, I'm sorry, that doesn't apply to the
11 derivative, the other derivative assets, just the
12 pension, the prepaid pension?

13 A. The derivative assets, along with the regulatory
14 assets that go with the derivative assets -- let me
15 think about that for a second.

16 So I think the answer there is the derivative
17 assets themselves have not gone through the income
18 statement. We've created no taxable income related to
19 these derivative accounts, the reason being that we get
20 regulatory accounting treatment for the derivative
21 activity, so that there's no real tax impact, per se,
22 for those derivatives.

23 Q. Please refer back to your rebuttal testimony,
24 DKS-3T, page 4, line 11.

25 A. Okay.

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1 Q. There you point out that Mr. Coppola stated that
2 PacifiCorp reclassified 45 accounts in the working
3 capital calculation. Is that correct?

4 A. Yes.

5 Q. Do you dispute that 45 accounts were
6 reclassified in the working capital calculation?

7 A. I guess it depends on your definition of
8 "accounts." We have FERC accounts and we have general
9 ledger accounts; the general ledger accounts that are
10 what Mr. Coppola is referring to. The number of FERC
11 accounts is much fewer. I believe it's roughly seven
12 that were affected.

13 Q. So seven FERC accounts were reclassified?

14 A. Roughly, yes.

15 Q. Do you know if there were 45 general ledger
16 accounts that were adjusted?

17 A. I believe that count is approximately correct.

18 I guess one thing I'd like to add on the
19 reclassification. Mr. Coppola took the position that
20 current assets and current liabilities were the sole
21 items that would qualify as working capital. And our
22 view is that -- and I believe staff supports and has
23 actually created this view or method that the commission
24 endorses, which is that you're not, per se, trying to
25 identify specific and only current assets and current

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1 liabilities, you're trying to identify which assets and
2 liabilities have utilized investor capital to fund those
3 activities, and that that is in turn creating a
4 financing need on the company, or the cost to the
5 company, and that's what we're seeking to be reimbursed
6 for.

7 Q. Is it the company's position that deferred
8 assets or noncash assets should be included in the
9 working capital calculation?

10 A. Can you clarify what you mean by "deferred
11 assets"?

12 Q. Deferred assets on the books of the company.

13 A. I'm sorry. Can you point me to what deferred
14 assets specifically you're referring to?

15 Q. Yes. For example, FERC account 182.3.

16 MS. WALLACE: Could you tell me what you're
17 looking at?

18 MS. GAFKEN: This is a DR response that's not in
19 the record. It's a DR response to public counsel data
20 request 74.

21 MS. WALLACE: Thank you.

22 THE WITNESS: I have that in my direct exhibits
23 as well, so I know which account you're referring to.

24 So 182.3 is regulatory assets. Those comprise a
25 variety of items. They are items that are generally

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1 already receiving a return, some investment return, and
2 therefore we do not classify those items as part of
3 investor-supplied working capital.

4 Our position there is that if the asset already
5 is earning a return through some carrying charge, then
6 there's not a basis to also include it in rate base and
7 effectively, you know, earn a second return on that.

8 BY MS. GAFKEN:

9 Q. So I think I understood you to say that if an
10 item already earns a return, that it's not included in a
11 working capital calculation, so you don't then earn a
12 return on it through the rates. Do I understand
13 correctly?

14 A. Mostly, yes. What I was saying is if there's an
15 item that's already earning interest, or earning a
16 return such as a regulatory asset with a carrying
17 charge, we don't consider that an item that should be
18 part of investor-supplied working capital, because by
19 counting it as investor-supplied working capital it
20 would be in rate base and in turn would earn a return.

21 Q. So pension investments that are earning a
22 return, is that not how you think of earning a return?

23 A. I think we're talking about two different things
24 when we talk about pension investments. I mean, we're
25 talking about a prepaid pension asset, which that is

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1 money that the company has funded to a separate trust,
2 that trust then invests the money and that is apart from
3 the company's activity.

4 The company's activity really with pensions
5 consists of two things. We have the expense that we
6 incur on the books, and we have the contributions. The
7 prepaid pension asset is really the difference between
8 those, meaning the contribution that has been made in
9 excess of expense.

10 I'll just add too that when you talk about the
11 pension returns, those pension returns affect both the
12 contribution level of the company in the future as well
13 as the pension expense of the company in the future. So
14 it affects both parts of the equation. In other words,
15 it affects the expense and the contribution level and
16 nets out.

17 Q. The prepaid assets, the contributions, those do
18 earn a return?

19 A. No. There is zero interest income on the
20 company's books related to our prepaid pension asset.
21 It is a nonearning asset on the company's books today.
22 In fact, that's how we discovered the need to make this
23 adjustment, was in comparing our regulated returns to
24 our financial returns, trying to identify sources of
25 those differences, this item was one of the things that

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1 was revealed in that process.

2 Q. Just to be clear -- I apologize, I caught a cold
3 on Friday. Bad timing.

4 Just to be clear, the pension assets go into
5 pension funds?

6 A. Well, we may be mixing terms here. The
7 company's cash is contributed to a pension trust.
8 Within that pension trust the money is then invested in
9 stocks and bonds. So it doesn't -- it doesn't become a
10 pension asset until it comes out of the company's funds
11 and goes into the pension trust.

12 Q. What's the timing of that happening?

13 A. We make contributions to our pension trust
14 generally in the first eight months of the year on a
15 somewhat radical basis each month.

16 Q. Are assets in the pension trust shown on the
17 company's books?

18 A. No, they're not. We show on the company's books
19 an accrual representing the underfunded position of the
20 plan, and we show a regulatory asset on the company's
21 books. The net of those represents the prepaid pension
22 asset.

23 MS. GAFKEN: Thank you, Mr. Stuver. I have no
24 further questions.

25 JUDGE MOSS: Anything else from the bench for

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1 Mr. Stuver?

2 Okay. Mr. Jones?

3 COMMISSIONER JONES: Good afternoon, Mr. Stuver.

4 THE WITNESS: Good afternoon.

5 COMMISSIONER JONES: In general, do you still
6 prefer a lead-lag approach versus investor-supplied
7 working capital as a more accurate gauge of working
8 capital to be included in rate base?

9 THE WITNESS: You know, in general, I would say
10 yes. The lead-lag method itself, though, does not
11 directly quantify the prepaid pension asset. So if we
12 were to apply the lead-lag, there would be the lead-lag
13 and then there would be a separate item that we would
14 seek to include in rate base for the prepaid pension.

15 COMMISSIONER JONES: No. I'm just talking about
16 the accuracy of determining working capital to be
17 included in rate base.

18 THE WITNESS: We do the lead-lag in five of our
19 six states, and this is our preferred.

20 COMMISSIONER JONES: Right.

21 THE WITNESS: We've adopted the
22 investor-supplied working capital in this case because
23 in the last order that was what we understood as the
24 commission preference for computing investor-supplied
25 working capital.

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1 COMMISSIONER JONES: Right. I've gone back to
2 our 2006 order. I don't think there was a preference in
3 that order, we were agnostic about it, but we did want
4 you to refine your studies in both instances and bring
5 them to us.

6 THE WITNESS: Commissioner, if I could add. I
7 think it was in the 2010 case that I was referring to.

8 COMMISSIONER JONES: Okay.

9 THE WITNESS: I've got some specific language if
10 you'd like.

11 COMMISSIONER JONES: That's all right. I think
12 I remember that one too. But I went back to look at the
13 '06 order, but I will review the 2010 order as well.

14 Can you go to DKS-2. Do you have that in front
15 you have? The spreadsheet, these adjustments to the
16 working capital calculation, I just have a couple of
17 questions on the spreadsheet.

18 THE WITNESS: Okay.

19 COMMISSIONER JONES: First of all, this is a
20 very big number, system-wide, the incremental addition
21 to rate base. Do I read this properly, it's either 493
22 million or 369 million system-wide, is that correct, on
23 an ISWC basis?

24 THE WITNESS: That's correct. 493.

25 COMMISSIONER JONES: What is the difference

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1 between those two numbers, where you see adjusted
2 balances and then incremental increase to rate base?
3 What is the difference between those two line items?

4 Do you see where I am?

5 THE WITNESS: Not yet.

6 COMMISSIONER JONES: Okay. In the top box,
7 where you go through OPEB, and derivatives, and then you
8 have the current asset column, the current liability,
9 investments, invested capital column, then you have a
10 column called ISWC.

11 THE WITNESS: Can I hold up a page and see if
12 we're on the page 1?

13 COMMISSIONER JONES: Yes. That's it.

14 Can you find the column ISWC?

15 THE WITNESS: Yes.

16 COMMISSIONER JONES: If you get to the bottom
17 there, aren't there two numbers, 493 million, 369
18 million, roughly?

19 THE WITNESS: Right.

20 COMMISSIONER JONES: Those are big numbers. Are
21 those system-wide numbers? Am I reading those
22 correctly, that this is the impact on rate base
23 system-wide?

24 THE WITNESS: Right. The 493 is the system-wide
25 number, and then when that gets allocated to Washington

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1 it becomes 28.5.

2 COMMISSIONER JONES: What's the difference, just
3 for my reference, between the 28.5 and the 21.5 that you
4 see impact to Washington?

5 THE WITNESS: The very top number, that's the
6 amount before we're proposing any adjustments. So
7 basically in this case we've adopted the method that was
8 used in the 2010 case with all of the same
9 classifications of the numbers as what appeared in the
10 2010 case, but we've made certain reclassifications, and
11 that's what the \$20.8 million represents are the
12 reclassifications from what was ordered in the 2010
13 case. So what we've tried to do is --

14 COMMISSIONER JONES: Okay.

15 THE WITNESS: You follow that?

16 COMMISSIONER JONES: I think I understand.

17 Just the last question with regards to the --
18 and you may have answered this already in terms of FERC
19 Form 1. And it's this difference I'm trying to
20 reconcile between, quote, current and noncurrent issues.

21 We generally at the commission has used FERC
22 Form 1, the Uniform System of Accounts, in regulatory
23 accounting.

24 THE WITNESS: Yes.

25 COMMISSIONER JONES: But here we appear to be

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1 departing from that. And I know you've reached
2 agreement with staff on this, but I'm just trying to get
3 a sense of why the Uniform System of Account Standards
4 are not appropriate for these two particular -- at least
5 for the OPEB items, for the pension-related items.

6 THE WITNESS: Sure.

7 Actually, in my opinion we haven't departed from
8 the FERC Uniform System of Accounts. You know, what we
9 have done is take our FERC balance sheet and just look
10 at each of the assets and liabilities on our FERC
11 balance sheet and assign them either to investments,
12 current assets, current liabilities, or invested
13 capital. So, you know, all we have done really is take,
14 as presented on our FERC balance sheets, certain amounts
15 that we believe in the last case were misclassified and
16 correct those classifications in this case.

17 COMMISSIONER JONES: Okay. Thank you.

18 JUDGE MOSS: Okay.

19 Redirect?

20 MS. WALLACE: Just a few clarifying questions.

21 REDIRECT EXAMINATION

22 BY MS. WALLACE:

23 Q. Mr. Stuver, Ms. Gafken asked you a question
24 earlier whether pension assets exceed long-term
25 liabilities. To clarify, PacifiCorp's pension funds are

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1 not currently overfunded. Correct?

2 A. Correct. We're actually underfunded. And,
3 actually, by over \$300 million.

4 Q. And when PacifiCorp makes the contributions to
5 the pension fund, once that money is in the pension
6 fund, it is for the sole benefit of the retirees.
7 Correct?

8 A. Correct. It's no longer part of the company's
9 funds.

10 Q. And it can't be returned to the company?

11 A. No.

12 Q. When it earns a return as part of the pension
13 fund, that return also goes to the benefit of the
14 retirees. Correct?

15 A. Correct.

16 Q. And I think we have some confusion about things
17 being reclassified. When we're talking about
18 investor-supplied working capital, we have two kinds of
19 classifications, don't we? We have the FERC Uniform
20 System of Account classifications?

21 A. Right.

22 Q. And then we have classifications within the
23 investor-supplied working capital model. Is that
24 correct?

25 A. Yes. We take balances in our FERC accounts and

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1 we assign them to the different categories within the
2 investor-supplied working capital model.

3 Q. And when you take the account and assign it
4 within a certain category in the investor-supplied
5 working capital model, that doesn't mean that the FERC
6 accounting classification changes. Correct?

7 A. Correct.

8 Q. It remains the same?

9 A. Yes.

10 MS. WALLACE: I think that's all I have.

11 Thank you very much.

12 JUDGE MOSS: All right. That would appear to
13 bring your testimony, Mr. Stuver, to a conclusion, for
14 the time being at least, so you may step down.

15 That took a little longer than I anticipated. I
16 have calculated here that we have about three to three
17 and a half hours of cross-examination remaining. We
18 have to come back tomorrow anyway. Would you all prefer
19 to stop now or continue on for a few minutes? We could
20 take another 30 to 40 minutes I think to finish these
21 last two company witnesses. What's your preference?

22 CHAIRMAN DANNER: We can do Steward in five it
23 looks like.

24 JUDGE MOSS: Well, that's predicted. There was
25 ten minutes predicted for this witness and it took 30.

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1 We're going to go ahead and break now.

2 So maybe the most efficient thing to do, because
3 Mr. Ralston will be contacted by telephone, and he's an
4 hour ahead of us, we can have him first, and then we'll
5 take up the Crane dispute and do whatever we need to do
6 there. Following that, we'll have Wilson and Steward
7 from the company, and then we will launch into the staff
8 witnesses after that.

9 Okay? Good game plan?

10 Any last-minute business, Mr. Purdy?

11 MR. PURDY: Yes, Your Honor. Is it still your
12 anticipation that the final panel, Mickelson, Steward,
13 Eberdt, Daeschel, would go on roughly at 3:00?

14 JUDGE MOSS: I'm thinking mid-afternoon is
15 probably a likely time for that. Mr. Eberdt has got
16 some conflict in the morning, doesn't he?

17 MR. PURDY: He does. He's available at 3 and
18 after.

19 JUDGE MOSS: We'll work that out. We'll make it
20 work.

21 Anything else?

22 Let's reconvene at 9:30 tomorrow morning. See
23 you then. Have a pleasant evening.

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C E R T I F I C A T E

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3 STATE OF WASHINGTON

4 COUNTY OF KING

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6 I, SHERILYNN V. MCKAY, a Certified Shorthand
7 Reporter in and for the State of Washington, do hereby
8 certify that the foregoing transcript, taken on
9 August 26, 2013, is true and accurate to the best of my
10 knowledge, skill and ability.

11 IN WITNESS WHEREOF, I have hereunto set my hand and
12 seal August 30, 2013.

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SHERILYNN V. MCKAY, RMR, CRR, CCR 3236

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