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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 V

Pages 354 - 590

EVIDENTIARY HEARING BEFORE
ADMINISTRATIVE LAW JUDGE DENNIS L. MOSS

9:34 a.m. - 4:36 p.m.

August 27, 2013

Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive Southwest
Olympia, Washington 98504-7250

REPORTED BY: SHERILYNN V. MCKAY, RMR, CCR #3236
Buell Realtime Reporting, LLC
1411 Fourth Avenue
Suite 820
Seattle, Washington 98101
206.287.9066 | Seattle
360.534.9066 | Olympia
800.846.6989 | National
www.buellrealtime.com

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A P P E A R A N C E S

ADMINISTRATIVE LAW JUDGE:

DENNIS L. MOSS
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
1300 S. Evergreen Park Drive, S.W.
P.O. Box 47250
Olympia, Washington 98504
dmoss@utc.wa.gov

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION:

DANIEL W. DANNER, CHAIRMAN
JEFFREY GOLTZ, COMMISSIONER
PHILIP B. JONES, COMMISSIONER

FOR WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION:

ROBERT D. CEDARBAUM, ESQ.
ASSISTANT ATTORNEY GENERAL
1400 S. Evergreen Park Drive, S.W.
Olympia, Washington 98504
bcedarba@wutc.wa.gov

PUBLIC COUNSEL:

LISA W. GAFKEN, ESQ.
ASSISTANT ATTORNEY GENERAL
800 Fifth Avenue
Suite 2000, TB-14
Seattle, Washington 98104
lisa.gafken@atg.wa.gov

FOR THE ENERGY PROJECT:

BRAD M. PURDY, ESQ.
ATTORNEY AT LAW
201 N. 17th Street
Boise, Idaho 83792
bmpurdy@hotmail.com

FOR BOISE WHITE PAPER:

JESSE E. COWELL, ESQ.
DAVISON VAN CLEVE, PC
333 S.W. Taylor Street
Suite 400
Portland, Oregon 97204
jec@dvclaw.com

0356

1 FOR PACIFICORP:

2 KATHERINE A. McDOWELL, ESQ.
3 McDOWELL RACKNER & GIBSON, P.C.
4 419 S.W. 11th Avenue
5 Suite 400
6 Portland, Oregon 97205
7 katherine@mcd-law.com

8 - and -

9 SARAH WALLACE, SENIOR COUNSEL
10 PACIFIC POWER LEGAL
11 825 N.E. Multnomah Street
12 Suite 1800
13 Portland, Oregon 97232
14 sarah.wallace@pacificcorp.com

15

- - -

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10	EXHIBIT	OF	AD	DESCRIPTION
11	CAC-4CX		372	PacifiCorp's Response and Confidential Attachment Boise 5.10-1 to Boise White Paper, LLC's Data Request 5.10 re: Workpapers Supporting Quoted Coal Prices and Mine Capacities
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3	KAW-5CX	442	Cost of Service Analysis for the Electric and Natural Gas Industries An Historical Review of Decisions by the Washington Utilities and Transportation Commission 1978-1994 (11/94)
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7	KAW-6CX	442	Excerpt of Electric Utility Cost Allocation Manual (1/1992)
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11	KAW-8CX	442	PacifiCorp Response to Staff Data Request 237 (5/1/13)
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13	DCG-4CX	493	Opening Meeting Memo in Docket UE-112226 (4/12/12)
14	DCG-5CX	493	Staff Response to PacifiCorp Data Request No. 1.21 (7/10/13)
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16	DCG-6CX	493	Staff Response to Public Counsel Data Request No. 1 (7/10/13)
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22	MCD-12CX	539	Excerpt of Prefiled Responsive Testimony of Michael C. Deen in Docket UE-11190 (1/6/12)
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1 MCD-18CX 558 Excerpt of Transcript of
2 Proceedings:
3 Cross-Examination Hearing in
4 Docket UE 245 (Public Utility
5 Commission of Oregon)
6 (8/16/12)

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

2 Good morning, everyone. I hope everyone is well
3 rested and prepared for an efficient hearing proceeding
4 today.

5 We have Mr. Ralston. Are you on the phone?

6 MR. RALSTON: Yes, I am.

7 JUDGE MOSS: Okay. Very good.

8 We're going to have first Mr. Ralston appear on
9 the phone for some questions from Commissioner Jones, or
10 other commissioners if they wish, and we'll see if that
11 in turn prompts anything from counsel.

12 So, Mr. Ralston, it's sort of an odd procedure
13 to go through, but for purposes of the formalities, I
14 will ask you to rise wherever you are and raise your
15 right hand.

16 DANA M. RALSTON

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

19 THE WITNESS: I do.

20 JUDGE MOSS: You may resume your seat, if you
21 actually stood up -- I never know -- and don't really
22 care.

23 So anything preliminary?

24 MS. WALLACE: No, Your Honor.

25 JUDGE MOSS: All right. Very good.

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1 So Commissioner Jones, I believe the floor is
2 yours.

3 COMMISSIONER JONES: Thank you.

4 Can you hear, Mr. Ralston?

5 THE WITNESS: Yes, I can.

6 COMMISSIONER JONES: So I will be asking you a
7 few questions on your testimony DNR-1T, on the Bridger
8 turbine upgrade.

9 So you are vice president of the company and
10 oversee all the thermal plans for pacific power. Right?

11 THE WITNESS: That's correct.

12 COMMISSIONER JONES: So a little bit on this
13 issue of what you refer to as the SSR, sub-synchronous
14 resonance. So in your testimony, you describe the
15 possibility of, quote, catastrophic damage to the
16 turbine shaft caused by an electrical property between
17 the turbine and the transmission system through the
18 step-up generator that you refer to as SSR, and that you
19 terminated previous contracts issued in December of 2010
20 with a subsidiary of Hitachi. Is that a fair summary?

21 THE WITNESS: Yes, sir.

22 COMMISSIONER JONES: Just in general, how often
23 do you conduct studies on your thermal use, coal strip,
24 Bridger, and as you upgrade turbines, the possible
25 impact on the transmission system and the possibility of

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1 catastrophic damage?

2 THE WITNESS: Well, when we do do studies on the
3 turbine upgrades, and we don't have any in the plans
4 right now. We've looked at the other issues going
5 around with those.

6 I do not -- I can't answer if we had turbine
7 upgrade at coal strip. When we did the other units, SSR
8 was not an issue because of transmission configuration.
9 SSR is very unique. It's kind of a western United
10 States-China issue, where you have large, long
11 transmission lines with generation a long way from the
12 load.

13 COMMISSIONER JONES: Did this phenomenon have
14 any relationship to the catastrophic damage to the
15 stator unit, unit four at coal strip, that occurred at
16 July this year?

17 THE WITNESS: No, I don't believe so.

18 COMMISSIONER JONES: Are there other fossil
19 units around the country, not just owned and operated by
20 PacifiCorp, but others that have encountered this issue?

21 THE WITNESS: I believe, and I'm not actually
22 sure on this, I believe the Mojave station had an issue
23 on it years ago, and I know the Navajo station down in
24 Arizona have an issue with SSR and has blocking filters.

25 COMMISSIONER JONES: You said your GE, the

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1 General Electric, provided a fix to this issue, and
2 that's what you're pursuing now with a blocking filter
3 at the generator step-up transformer. Right?

4 THE WITNESS: That's correct.

5 COMMISSIONER JONES: You're in the process of
6 installing all three sections, low, intermediate and
7 high pressure, at unit two. Right?

8 THE WITNESS: Yes, they have been installed.

9 COMMISSIONER JONES: Did you provide this
10 analysis to our commission staff, or to our commission,
11 either separately or as part of an IRP filing process?

12 THE WITNESS: I can't answer that. I don't
13 believe it was requested, but I do not know that.

14 COMMISSIONER JONES: Maybe the company could
15 respond for the record on that.

16 JUDGE MOSS: You want that to be a bench
17 request?

18 COMMISSIONER JONES: Yes.

19 JUDGE MOSS: That will be Bench Request 6.

20 COMMISSIONER JONES: Mr. Ralston, you state that
21 this has a present value revenue requirements of net
22 consumer benefit of 28.9 million. Right?

23 THE WITNESS: Correct.

24 COMMISSIONER JONES: Do you still stand by that
25 number?

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1 THE WITNESS: Yes, sir.

2 COMMISSIONER JONES: You also state the total
3 cost of the project is 30.9 million. Has the project
4 been completed and placed in service as of May 2013?

5 THE WITNESS: Yes, it has.

6 COMMISSIONER JONES: How did the actual
7 expenses, the budget estimate of 30.9 million, compare
8 to the actual expenditures incurred up to the in-service
9 date?

10 THE WITNESS: I believe it's slightly higher. I
11 can't tell you exactly at the moment what the exact
12 number is, but it's slightly higher than 30.9. Not very
13 much.

14 COMMISSIONER JONES: And just, finally, this is
15 a 12-megawatt upgrade. Correct?

16 THE WITNESS: Yes. PacifiCorp's share.

17 COMMISSIONER JONES: So this is in service and
18 at least over the past few months has been providing
19 service to PacifiCorp's customers?

20 THE WITNESS: Correct.

21 COMMISSIONER JONES: Those are all the questions
22 I have.

23 THE WITNESS: All right. Thank you.

24 JUDGE MOSS: Anybody?

25 Apparently not.

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1 All right, Mr. Ralston. We very much appreciate
2 you being available to us today for the testimony you
3 have given, and you may be excused, subject to further
4 phone call from your attorney. Thank you very much.

5 THE WITNESS: Thank you.

6 JUDGE MOSS: Now, I believe the next course of
7 business here is to take up the matter of Crane,
8 Ms. Crane. Counsel resolved that overnight or do I need
9 to resolve it?

10 I need to resolve it. All right. I get a hand
11 signal from the counsel there. All right. Well, I am
12 prepared to resolve it.

13 Ms. Crane, I'll need you to come take the stand,
14 please. As you get yourself situated there, I'll remind
15 you that you remain under oath.

16 THE WITNESS: Yes, sir.

17 JUDGE MOSS: I have had an opportunity to review
18 the contested exhibits. I may have actually reviewed
19 more than what's contested, I'm not sure.

20 Are all of the cross exhibits proposed by Boise
21 White Paper contested, or just some of them?

22 MS. McDOWELL: No, Your Honor, not all of them
23 are contested.

24 JUDGE MOSS: Let's start with 3-CX.

25 MS. McDOWELL: I would say that we -- this is a

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1 little bit difficult.

2 JUDGE MOSS: Your mic may not be on.

3 MS. McDOWELL: Some of our objections depend on
4 how the exhibit is going to be used. I mean, obviously
5 objecting in advance or stipulating in advance is one
6 thing. Another thing is saying I don't stipulate, I
7 want to see how it's used, I may have objections
8 depending on how it's used. So this exhibit falls into
9 that context. We don't stipulate it. On the other
10 hand, depending on how it's used, we may not object to
11 it.

12 Does that -- that is the normal course here,
13 that exhibits are, you know, used, we understand the
14 context and the relevance and how they're being used,
15 and at that point we assess whether it's being used in a
16 relevant and appropriate way or not. So I think that's
17 the difficulty that we're being presented here. We're
18 being asked in advance of their use to say that they're
19 relevant, and --

20 JUDGE MOSS: My preference is to resolve that
21 upfront so we don't have to spend a lot of unnecessary
22 time going through stuff that we're going to say, oh,
23 you can't do that.

24 MS. McDOWELL: I understand that.

25 JUDGE MOSS: I'm going to ask Boise White Paper

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1 to explain to me how it intends to use Exhibit 3-CX.
2 This is actually a company response to a data request,
3 including the rebuttal testimony of Mr. Specketer in
4 this jurisdiction in a prior proceeding.

5 Actually, I don't even need to hear from you on
6 this one, Boise White Paper. I'm not going to allow
7 this. I'm not going to allow this witness to sponsor
8 the testimony of another witness who is not present to
9 testify and be cross-examined, so this exhibit is not
10 going to be admitted.

11 So let's move on to the next one, which is 4-CX.

12 MS. McDOWELL: The next one we don't have any
13 objection to.

14 JUDGE MOSS: That's probably a good thing,
15 because I was going to overrule your objection if you
16 did.

17 MS. McDOWELL: So far I'm batting a thousand.

18 JUDGE MOSS: I don't mean to cut people off. I
19 certainly will entertain argument, but I just -- some of
20 these are just clear-cut to me. Actually these two.
21 The others are not. So you'll have an opportunity to
22 argue.

23 5-CX is Ms. Crane's testimony from a prior
24 proceeding in the state of Utah. Mr. Cowell, I need you
25 to explain to me how Boise White Paper intends to use

1 this exhibit. I have read it, I'm familiar with its
2 contents.

3 MR. COWELL: Your Honor, with pretty much
4 everything that we're now going to discuss, our premise
5 is that Ms. Crane testified as to the reasonableness and
6 prudence of Bridger coal costs, and she also expressly
7 testified toward, as she put it, the demonstration of --
8 or the absence of low cost comparable market coal as a
9 substitute for Bridger coal.

10 So all of the rest of these exhibits that we're
11 going to be discussing go toward -- walking into that
12 door that's been opened: Are their costs reasonable and
13 prudent based on other options that are out there.

14 And so to start with the testimony from Utah --

15 JUDGE MOSS: Well, let me just stop you right
16 there. Reasonableness, prudence and the lack of market
17 cost data is not the issue that you raised in this
18 proceeding. The issue that you raised in this
19 proceeding is whether the company should be required to
20 reflect the price of its fuel for this plant on the
21 basis of market cost or the actual cost as determined in
22 an alternative fashion under the affiliate transactions
23 standard that is developed in the MEHC acquisition
24 settlement, at least insofar as this commission is
25 concerned.

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1 It appears to me from reading all this testimony
2 that the Bridger coal is handled the same way in all the
3 jurisdictions, and it's treated as an operating cost,
4 and somehow treated in the rate base and so forth, which
5 is what this testimony concerns. You need to explain to
6 me if you want me to admit any of these how they relate
7 to that specific issue, whether we should use the
8 affiliate transaction requirement and change the way we
9 have been reflecting this in the company's cost and
10 rates.

11 MR. COWELL: Your Honor, I guess just to start,
12 Mr. Deen did submit testimony in their responsive
13 testimony phase, and Mrs. Crane's testimony followed
14 after. And so I guess from a fundamental perspective we
15 believe we have the right to, in cross-examination,
16 challenge these very broad assertions that the actual
17 pricing that rate payors will have to pay for in the
18 rates was reasonable and prudent. That's a very broad
19 statement. That there was an absence of other options
20 available to PacifiCorp, that again is very broad. And
21 that was made after our responsive testimony. So that
22 what we're trying to get in the record now are prior
23 testimony from Ms. Crane and actual work papers produced
24 by the company in this docket that would show that
25 that's not wholly accurate, those statements.

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1 JUDGE MOSS: If you wanted to raise new issues,
2 such as the reasonableness and prudence of the cost of
3 the coal that the company has reflected in its filing,
4 that could have been done by filing a motion, seeking
5 leave to file surrebuttal testimony, and would not be an
6 effort undertaken on cross-examination in our hearing
7 when the company is really essentially taken by
8 surprise.

9 Therefore I don't think I really need to hear
10 from PacifiCorp. I will exclude these exhibits. That's
11 5, 7, and 8-CX.

12 MS. McDOWELL: Your Honor --

13 JUDGE MOSS: I'm sustaining your objection to
14 them.

15 MS. McDOWELL: And I'm not going to argue it
16 further.

17 JUDGE MOSS: That's a good thing.

18 MS. McDOWELL: I'm accepting your ruling.

19 JUDGE MOSS: Always best.

20 MS. McDOWELL: I'm asking you to also take a
21 look at GND 12-and GND-13, which were exhibits of
22 Mr. Duvall. Ms. Davison referenced these yesterday as
23 exhibits that related to coal issues.

24 We suggested to Ms. Davison that while we
25 objected to them on similar grounds that they should be

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1 in any event directed to Ms. Crane because they dealt
2 with coal issues, not general power cost issues. So I
3 believe, and Mr. Cowell can confirm this, that he
4 intends, or Boise intends, to use these exhibits in
5 their cross-examination of Ms. Crane, and we would
6 object to them on the same basis.

7 JUDGE MOSS: Do you intend to use these
8 exhibits?

9 MR. COWELL: Your Honor, I guess if we can't
10 challenge the assertion that costs are reasonable and
11 prudent, then --

12 JUDGE MOSS: Not in this case. You can do so in
13 the next case. I encourage you to do so if you believe
14 that to be true. I notice that your client or your
15 clients in some of these other proceedings have
16 challenged that, and that's fine. It should be done in
17 appropriate circumstances. Unfortunately for you,
18 raising the issue at this point in the hearing is too
19 late, and I'm not going to allow it.

20 MR. COWELL: Just to clarify, do I need to move
21 for CAC-4CX or has that been admitted?

22 JUDGE MOSS: We'll just going ahead and deem
23 that having been moved in. We'll admit that.

24 (Exhibit CAC-4CX was admitted.)

25 MR. COWELL: I guess in light of that --

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1 JUDGE MOSS: And 3. I already ruled on 3.

2 MR. COWELL: Right.

3 I guess in light of that, Your Honor, I would
4 not have any questions for Ms. Crane.

5 JUDGE MOSS: Thank you very much, Mr. Cowell. I
6 appreciate that.

7 So, Ms. Crane, you have once again been called
8 to the stand without questions from the parties, but
9 I'll ask if there are any questions from the bench.

10 THE WITNESS: I'm batting a thousand.

11 JUDGE MOSS: Apparently not.

12 Thank you very much for joining us again this
13 morning.

14 THE WITNESS: No problem.

15 JUDGE MOSS: This will bring us then to Wilson.
16 Good morning. Please raise your right hand.

17 ERICH D. WILSON

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

20 THE WITNESS: I do.

21 JUDGE MOSS: Please be seated.

22 Anything preliminary for Mr. Wilson?

23 MS. WALLACE: No, Your Honor.

24 JUDGE MOSS: Nothing.

25 We have public counsel has indicated 15 minutes

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1 for Mr. Wilson. Ms. Gafken?

2 MS. GAFKEN: Yes.

3 CROSS-EXAMINATION

4 BY MS. GAFKEN:

5 Q. Good morning, Mr. Wilson.

6 A. Good morning.

7 Q. PacifiCorp has included \$146,265 in this case
8 for executive compensation. Is that correct?

9 A. Can you be more specific as regards the
10 executive compensation?

11 Q. So that the amount of executive compensation
12 that PacifiCorp is including in rates for this case, is
13 146,265. Is that correct?

14 A. Again, could you be more specific with regards
15 to executive compensation?

16 Q. Well, if you would turn to your exhibit EDW-2.

17 A. Under my direct testimony?

18 Q. That's correct.

19 A. Okay. I'm there.

20 Q. If you'd like at page 7.

21 A. Okay.

22 Q. Do you see the amount 146,265?

23 A. On the Washington allocation, I do, yes, on the
24 far right column.

25 Q. Is that the amount that the company would like

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1 to include in its rates?

2 A. Yes.

3 Q. PacifiCorp defines the term "executive" as named
4 executive officers. Is that correct?

5 A. That is correct. It's reflective of the
6 individuals we report in our annual 10-K filing, which
7 are three presidents and CEOs and our chief financial
8 officer.

9 Q. Is that definition applicable for the purpose of
10 categorizing executive pay or is that your general
11 definition for executive?

12 A. That is our definition for executive, and those
13 again are the only ones that we deem executive officers
14 of the organization as ruled under SEC, and they're in
15 turn filed under our 10-K.

16 Q. I believe you just testified that there are four
17 NEOs?

18 A. That is correct.

19 Q. Would you please refer to cross exhibit
20 EDW-6C CX.

21 A. Just to confirm, that's related to data request
22 177.

23 Q. Yes. You anticipated my next question.

24 So you do recognize the exhibit as PacifiCorp's
25 request of public counsel data request 177?

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1 A. I do.

2 Q. In that response, PacifiCorp provided a list of
3 executives defined as director or higher level employee
4 in response to a request from public counsel. To be
5 clear, public counsel asked for that definition in the
6 data request.

7 A. That's correct. I did specify that it would not
8 be our deemed executive officers, but being responsive
9 to the request did include a listing of all directors
10 and up within the organization, excluding the four named
11 executive officers that had already been reported on.

12 Q. Exhibit 4 NEOs are not in Exhibit EDW-6CCX?

13 A. That is correct.

14 Q. Would you accept subject to check PacifiCorp's
15 181 directors defined as director or higher level
16 employee as shown in cross exhibit EDW-6CCX?

17 A. Subject to check, yes, I would.

18 Q. The way that I got that number was looking at
19 Excel, and there were 181 cells that were filled in.

20 A. The same way I would if I was checking it.

21 JUDGE MOSS: I got to learn that Excel. I would
22 have counted them one at a time.

23 THE WITNESS: I think it's math. We learned
24 that yesterday.

25 MS. GAFKEN: In the words of Mr. Elgin.

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1 BY MS. GAFKEN:

2 Q. The compensation for the employees shown on
3 Cross Exhibit EDW-6CCX is not included in PacifiCorp's
4 calculation for executive compensation. Is that
5 correct?

6 A. That's correct.

7 Q. Is the compensation for the employees listed in
8 Cross Exhibit EDW-6CX included in PacifiCorp's labor
9 expense?

10 A. Not all of it is included. This response that I
11 provided is for total compensation, which is comprised
12 of base wages, the annual incentive award, which is that
13 which is included in the filing. But this is also
14 inclusive of any participation in our long-term
15 incentive plan, which we have made a conscious decision
16 not to include in this filing or any filing since 2006.

17 Q. I guess we haven't visited this Exhibit yet. If
18 you would turn to your rebuttal testimony at EDW-3T. If
19 you'd go to page 9.

20 A. Okay. Which row?

21 Q. Lines three through five.

22 A. Okay. I'm there.

23 Q. You're critical of the analysis that public
24 counsel undertook in calculating our adjustment to
25 executive compensation, in particular that the approach

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1 was too narrow. Is that correct?

2 A. That is correct. I do take that position.

3 JUDGE MOSS: Ms. Gafken, I'm going to have to
4 ask you a question so that I'm clear in my own mind, and
5 that the record is clear. You have referred to
6 executive compensation both in terms of the four NEOs,
7 or named executive officers, and also in connection with
8 this Exhibit 6CCX, which apparently is not within the
9 company's definition of executive compensation. So when
10 you refer to executive compensation in your questions,
11 you need to be clear which one year talking about.

12 MS. GAFKEN: Yes. I guess I wasn't 100 percent
13 clear, because that wasn't exactly the point I was
14 making.

15 JUDGE MOSS: Okay. Let's try again. Restate
16 your question or ask another question.

17 BY MS. GAFKEN:

18 Q. Just to be clear, the numbers that appear in
19 Exhibit EDW-6CCX are not included in the executive
20 compensation calculation or adjustment that the company
21 is proposing?

22 A. They are not. The amount, or the representation
23 of the information on 6CCX is representative of all
24 directors, and up, within the organization, excluding
25 the four named executive officers.

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1 Q. Thank you.

2 A. So am I back on page 9, line three.

3 Q. Yes.

4 A. Okay.

5 Q. We're now turning to your criticism of public
6 counsel's calculation of our adjustment to executive
7 compensation.

8 A. Okay.

9 Q. PacifiCorp provided analysis of compensation for
10 its top 25 paid positions, according to the company's
11 preferred compensation methodology, in answer to a data
12 request from public counsel. Is that correct?

13 A. That is correct.

14 Q. If you would turn to Exhibit EDW-5CCX.

15 A. Okay. I'm there.

16 Q. Do you recognize the exhibit as the company's
17 response to public counsel data request 176?

18 A. I do. And it's reflective of columns A through

19 H. Correct? As the headers across the top?

20 Q. Yes.

21 A. Yes.

22 Q. For the columns, you were referring to page 2 of
23 the exhibit?

24 A. Yes.

25 Q. Let's refer to page 1 for the moment. Looking

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1 at page 1, would you confirm that the response states
2 that the market midpoint for the top 25 paid positions
3 is calculated using the methodology described in your
4 direct and rebuttal testimonies?

5 A. That's correct.

6 Q. In column G, on page 2, that's the column that's
7 reflective of the market midpoint?

8 A. That's reflective of the market average for
9 total cash compensation, which is again, as I mentioned
10 earlier, a combination of base wages plus their
11 incentive opportunity.

12 Q. In column B, on page 2 of Exhibit-5CCX, that
13 reflects the salaries that PacifiCorp pays?

14 A. Column B is representative of the 2012 calendar
15 year earnings from both base pay and the annual
16 incentive for each of these top 25 individuals.

17 Q. By annual incentive, I just want to be clear,
18 because there's two components there: The AIP, which I
19 understand to be part of the base pay or the
20 compensation package that is included in rates, and then
21 there's another incentive that is excluded from rates.
22 Which are you referring to?

23 A. I'm referring to the annual incentive, which is
24 a component of the market average for total
25 compensation. The other incentive plan that I believe

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1 you're referring to is the aforementioned long-term
2 incentive plan that we do not seek recovery from our
3 customers for. And the representation in column B is
4 again the annual incentive plan contribution plus the
5 base wages earned in calendar year 2012.

6 Q. Looking again at page 2 of Exhibit 5-CCX.
7 Column H is the difference between columns B and G. Is
8 that correct?

9 A. That is correct.

10 Q. Would you agree that Cross Exhibit EDW-5CCX
11 shows that in aggregate the top 25 positions are paid
12 above the market midpoint?

13 A. I wouldn't take that position. I would agree
14 that of the 25 listed here there are eight of which are
15 deemed having received compensation in 2012 less than
16 are deemed competitive market position. However, I
17 believe it's important to appreciate that the market is
18 not a scientific result, it is -- it's an art based upon
19 an assessment of all of our competitors within the labor
20 markets in which we compete.

21 More importantly, this is a listing of the top
22 25, for all intents and purposes, single-incumbent
23 positions within the organization that tend to be the
24 more senior, the more experienced, and oftentimes the
25 higher performers and the individuals that can influence

0382

1 the results of the business. So it's not uncommon or
2 uncharacteristic to have some at, above, or below the
3 deemed market, which is reflective of column H here in
4 this table.

5 Q. But in aggregate, there is a positive number.
6 Would you agree with that?

7 A. In aggregate, there is a positive number, I
8 would agree to that, yes.

9 Q. Still staying with page 2 of Exhibit EDW-5CCX,
10 lines one through four, are those the NEO's that we
11 discussed earlier?

12 A. Yes. Those are the named executive officers,
13 yes.

14 Q. Would you agree that Exhibit EDW-5CCX shows that
15 two of the four NEOs are paid above the market midpoint?

16 A. I would agree that line one and line four are
17 demonstrating a difference above the market competitive
18 compensation for those two position; however, I think as
19 one good example here, line one is showing a difference
20 of 72,000 --

21 MS. WALLACE: This is actually a confidential
22 exhibit, so if we're going to get into any of the
23 numbers, we need to be careful about what is
24 confidential or not.

25 JUDGE MOSS: You can just refer to the number

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1 without stating it, and we can look at it, see what
2 you're talking about.

3 THE WITNESS: Okay. I will retract my example
4 that I was going to give. Disregard.

5 BY MS. GAFKEN:

6 Q. If you can give the example without -- referring
7 to the line and column, that would be fine. If not, we
8 can move --

9 JUDGE MOSS: He can refer to the line and
10 column, that's what he needs to do, just don't give us
11 the number.

12 THE WITNESS: For example, the line item is
13 reflective of an individual within our organization who
14 has been a part of this industry for over 35 years, has
15 worked in most capacities within our organization, and
16 in turn brings a significant value to both the business,
17 and in turn our customers, based upon his breadth of
18 knowledge in the organization and industry. So having a
19 compensation deemed above market in that instance is not
20 inappropriate in my viewpoint.

21 BY MS. GAFKEN:

22 Q. Would you please refer to Exhibit EDW-4CCX.

23 I guess I should have stated at the outset of
24 the questioning, I don't think we need to actually go
25 into any of the confidential information in any of the

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1 exhibits.

2 A. Okay. Thank you. And I'm at this exhibit.

3 Q. Do you recognize the exhibit as PacifiCorp's
4 supplemental response to public counsel data request
5 No. 11?

6 A. Yes, I do.

7 Q. Would you confirm that the company's response to
8 the data request is that the MEHC chairman, Mr. Abel,
9 determines NEO salary?

10 A. That is correct. He does determine the salary
11 for the four named executive officers, as well as the
12 incentive award.

13 Q. And he doesn't necessarily take into account
14 or -- the salaries aren't necessarily based on the
15 market midpoint?

16 A. That is correct. As I stated in the executive
17 compensation report that the commission sought from the
18 company back in response to the 2011 filings, I do
19 articulate there that the chairman does make a
20 determination discretionarily as it relates to the base
21 and executive compensation for the four named executive
22 officers, based upon his knowledge of the market, but
23 not utilizing true market data, and also reflecting
24 their performance and value that they bring to the
25 organization.

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1 Q. Thank you, Mr. Wilson.

2 MS. GAFKEN: Those are all the questions that I
3 have for this witness.

4 I would like to move at this time that EDW-4
5 CCX, EDW-5CCX, and EDW-6CCX be entered in the record.

6 MS. WALLACE: No objection.

7 JUDGE MOSS: No objections, those will be
8 admitted as marked.

9 (Exhibits EDW-4CCX, EDW-5CCX, EDW-6CCX were
10 admitted.)

11 JUDGE MOSS: And no other party has indicated
12 cross. Do we have questions from the bench?

13 Commissioner Jones.

14 COMMISSIONER JONES: Just a couple.

15 Do you or Mr. Abel employ a human resources or
16 an executive compensation consultant to determine salary
17 levels of the NEO?

18 THE WITNESS: No, we do not.

19 COMMISSIONER JONES: So it's totally at the
20 discretion of the MEHC chairman in the annual review for
21 both base and AIP?

22 THE WITNESS: That is correct.

23 COMMISSIONER JONES: Do you use a consulting
24 service to provide services on either human resources or
25 any sort of compensation beyond the NEOs to the company?

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1 THE WITNESS: Yes. We do.

2 COMMISSIONER JONES: What is that company?

3 THE WITNESS: We use a variety of organizations
4 to determine the compensation levels for all employees,
5 excluding the named executive officers.

6 So we utilize services from Towers Watson, Aon
7 Hewitt, Mercer, for examples of those entities that we
8 use. They research the market and provide confidential
9 salary survey data that we tap into through market pay,
10 which I referenced in my testimony.

11 COMMISSIONER JONES: In your study, and in your
12 response to a question, you referred to the term labor
13 markets in which we compete for the NEO. We talked
14 about the unique strengths of one particular officer.

15 When you look at a labor market, what are you
16 looking at? Are you looking at West Coast, within the
17 WAC region, or are you looking Pacific Northwest or
18 nationwide?

19 THE WITNESS: It depends on the position,
20 Mr. Jones. If we were to look at the top level
21 positions, positions within the support functions such
22 as human resources, information technology, we would
23 look at national data; however, in the instance of
24 operationally focused positions, we will tend to look at
25 geography or territory, which is where we'd be

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1 attracting from. Predominately we're looking at
2 national data these days, markets based on the mobility
3 of the workforce.

4 COMMISSIONER JONES: Are you looking both at
5 investor utilities and PUDs and munis or just investor
6 owned?

7 THE WITNESS: All.

8 COMMISSIONER JONES: All.

9 THE WITNESS: All. Yes, sir.

10 COMMISSIONER JONES: Thank you.

11 COMMISSIONER GOLTZ: So turn to Exhibit 5CCX.
12 Do you happen to know offhand of the 25 positions listed
13 on page 2 of that exhibit how many vacancies there have
14 been in the last five years?

15 THE WITNESS: I would not know that.

16 COMMISSIONER GOLTZ: Have there been some?

17 THE WITNESS: Yes, there have been some, within
18 the last five years, yes.

19 COMMISSIONER GOLTZ: How do you recruit to fill
20 those vacancies?

21 THE WITNESS: A variety of different methods we
22 undertake. We have a staffing organization within
23 PacifiCorp that commences the sourcing, and we look at
24 advertisements. In some instances, unique situations,
25 we'll look at a third-party resource more commonly

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1 called a head hunter to help source for those positions.
2 So it really depends on the position and the challenge
3 we're facing with regards to that labor pool for that
4 type of skill set.

5 COMMISSIONER GOLTZ: Do you happen to know in
6 the past five years how -- there's been some vacancies,
7 but are those caused by retirements or are those caused
8 by going to other entities, other utilities? Do you
9 know?

10 THE WITNESS: It's actually a combination, a
11 variety of different things. There have been a few
12 retirement situations, we've also had had individuals
13 promoted to other positions within the organization.

14 COMMISSIONER GOLTZ: I'm talking about other
15 organizations. How many of those positions are vacant
16 because people left to go to a competitor -- not a
17 competitor, but another utility, for example.

18 THE WITNESS: I don't know specifically the
19 answer to how many may have gone to a competing utility.
20 I will say from a broad perspective, encompassing the
21 entire workforce, we tend to run at a turnover rate in
22 probably the eight to ten range, eight to ten percent
23 range. I'm not sure if I'm specifically answering your
24 question. To the best of my knowledge.

25 COMMISSIONER GOLTZ: The premise of doing market

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1 analysis of what our utilities are paying, given the
2 specter of losing good people to other utilities, and I
3 just was wondering if that happens in the real world.

4 THE WITNESS: It does.

5 COMMISSIONER GOLTZ: You don't know of anyone
6 from PacifiCorp that went to another utility?

7 THE WITNESS: A name doesn't resonate, but I'm
8 aware of many instances beyond this list that have gone
9 to competing entities.

10 COMMISSIONER GOLTZ: Thank you.

11 CHAIRMAN DANNER: Do you feel if you did not
12 have an incentive program for the larger pool of folks
13 that will be under it, would that in your mind affect
14 the retention and recruitment?

15 THE WITNESS: I think it would greatly. I think
16 it would also place a tremendous amount of inappropriate
17 and undue pressure on our customers.

18 The way in which we've structured our
19 compensation program is again the complement of a base
20 incentive at the market average. So in order to attempt
21 to attract anywhere close to that type of talent, if we
22 did not offer an incentive program, we'd be geared to
23 offering an entirely base-oriented program. Not a great
24 deal of flexibility in that type of program. And that
25 would be costs that would be borne by the customers, and

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1 very likely not seen as improvements or incentivize the
2 work force to challenge themselves and push forward.

3 CHAIRMAN DANNER: In other words, if you did not
4 have the incentive, you would have to raise the base pay
5 to be competitive so you wouldn't be losing employees.

6 THE WITNESS: That's a correct statement. If
7 you don't mind, I would like to add to that also, just
8 within the last few years, I think it's very evident
9 that having the incentive program has been very
10 beneficial, given the economic challenges we've faced.

11 We have not distributed the full incentive
12 allocation in those years based upon being considerate
13 of the economic conditions and the performance of the
14 business. If you have an entirely base-oriented program
15 only, that's -- I wouldn't necessarily say impossible to
16 undertake that flexibility, but extremely challenging.

17 CHAIRMAN DANNER: My question really is you'd
18 have to increase the base, and by doing so, are we
19 talking a zero sum game here? Is the base salary and
20 the incentive salary equal to what the base would be if
21 you did not have incentive?

22 THE WITNESS: That would be my proposal, if we
23 were to not offer the incentive, yes.

24 CHAIRMAN DANNER: How would that base compare
25 with salaries at other utilities that are comparable?

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1 THE WITNESS: We would have to increase the base
2 to the total competitive compensation level, so it would
3 exceed the base wages of other entities who offer an
4 incentive program.

5 CHAIRMAN DANNER: And in your mind, does the
6 incentive program truly incentivize good performance?
7 In other words, is it a carrot to better performance by
8 the people that you're trying to --

9 THE WITNESS: Very much so. It's not an
10 entitlement. It's truly an incentive to earn
11 competitive compensation.

12 CHAIRMAN DANNER: Is there a percentage of
13 employees who are eligible for incentive pay who do not
14 receive it?

15 THE WITNESS: Very much so, yes. We have
16 roughly 2500 employees that participate in the annual
17 incentive plan, and on any given year there are a number
18 of individuals that receive less than or zero based upon
19 their performance, and there are those that receive in
20 excess of their target as well.

21 CHAIRMAN DANNER: Are you aware of other
22 utilities who do not have the incentive program?

23 THE WITNESS: Not to my knowledge any longer.
24 It is very common practice.

25 CHAIRMAN DANNER: Thank you.

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1 JUDGE MOSS: I have a clarifying question,
2 Mr. Wilson. I'm looking at your rebuttal testimony,
3 EBW-3T, at page 5 and 6. The question there concerns
4 public counsel's proposed adjustment to the compensation
5 allocation of selected MEHC officers, which public
6 counsel proposes to remove \$138,121. Do you see that?

7 THE WITNESS: I do. Row 20, page 5? Yes.

8 JUDGE MOSS: Yes. When you turn over to page 6,
9 you give your response there to this issue in lines one
10 through 12, and I was struck by the fact that you say
11 here that as part of the MEHC acquisition, PacifiCorp
12 was structurally realigned, the top level CEO position
13 was removed, along with the expenses related to that
14 position, but yet we see Mr. Reiten shown as the
15 president and CEO of PacifiCorp. So I'm confused by the
16 testimony here.

17 THE WITNESS: Okay.

18 JUDGE MOSS: Has that been reinstated?

19 THE WITNESS: No. Mr. Reiten holds the title of
20 president and CEO of PacifiCorp.

21 The reference here was to the chief executive
22 officer, Mr. Hansen, who was in that role, who was
23 responsible for the entire PacifiCorp organization. So
24 comparable to the role that Mr. Abel plays currently, we
25 no longer have that position, and those expenses of

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1 Mr. Hansen were borne by the customers in their
2 entirety, whereas what my intent here was was to
3 demonstrate that the customers are benefiting from this
4 new structure by seeing only a portion of an allocated
5 expense passed on to them based upon Mr. Abel's support
6 of the organization versus the way in which we were
7 structured previously.

8 MS. McDOWELL: So the adjustment that the public
9 counsel is proposing here, for example, would affect
10 Mr. Abel's --

11 THE WITNESS: Allocated compensation.

12 JUDGE MOSS: But not Mr. Reiten.

13 THE WITNESS: Not Mr. Reiten. That's correct.

14 JUDGE MOSS: That clarifies that.

15 THE WITNESS: Sorry for the confusion.

16 JUDGE MOSS: No, that's all right. I just was
17 struck by the way you phrased it here, there was no CEO,
18 but I just knew there was.

19 THE WITNESS: Understood, understood.

20 JUDGE MOSS: Thank you for that clarification.

21 THE WITNESS: I appreciate the question. Thank
22 you.

23 JUDGE MOSS: I think we're finished with
24 questions from the bench.

25 Is there any further? Anything from the

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1 company?

2 MS. WALLACE: Just a couple questions.

3 REDIRECT EXAMINATION

4 BY MS. WALLACE:

5 Q. In response to Ms. Gafken's questions, you
6 talked about total compensation being above market in
7 some cases. I just wanted to clarify, when you
8 responded that compensation is above market, you were
9 referring to the market midpoint. Correct?

10 A. I was referring to the market average or
11 midpoint for total compensation for selected
12 individuals.

13 Q. So the market is a range of values. Correct?

14 A. That is correct.

15 Q. And so when you said above the market, you meant
16 above the market midpoint, and not above the top point
17 of that range of values. Correct?

18 A. Yes. I apologize if I wasn't clear. It was --
19 I was referring to above the market average, or the 50th
20 percentile of the market.

21 MS. WALLACE: Thank you.

22 JUDGE MOSS: Mr. Wilson, I believe that
23 completes your time with us on the witness stand, and --
24 I'm sorry. I apologize. I should have looked to my
25 right before I looked to my left.

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1 CHAIRMAN DANNER: Always.

2 THE WITNESS: I was going to stop you. I saw
3 him.

4 COMMISSIONER JONES: I'm still a little confused
5 about the board governance of MEHC and PacifiCorp.

6 THE WITNESS: Okay.

7 COMMISSIONER JONES: Is Mr. Abel the chairman of
8 the board of PacifiCorp or the board -- he's the board
9 chair of MEHC, of course.

10 THE WITNESS: That's correct. He is the board
11 chair of MEHC, and is responsible for PacifiCorp in its
12 entirety.

13 COMMISSIONER JONES: In its entirety. So he is
14 the -- there is no board, because it's not publicly
15 listed. Right?

16 THE WITNESS: That is correct. There is no
17 board at the PacifiCorp level.

18 COMMISSIONER JONES: So Mr. Abel is, in effect,
19 he's like the board of directors, one person for
20 PacifiCorp?

21 THE WITNESS: To my understanding.

22 COMMISSIONER JONES: Got it, yes.

23 JUDGE MOSS: Was something prompted by that?

24 FURTHER REDIRECT EXAMINATION

25 BY MS. WALLACE:

0396

1 Q. Mr. Wilson, isn't there a list of board of
2 directors that's filed in our SEC forms?

3 A. 10-K?

4 Q. Yes.

5 A. Yes, there is.

6 Q. Including individuals other than Mr. Abel?

7 A. There is a listing of Board of Directors, but
8 there's not -- maybe where I was interpreting Mr. Jones'
9 question, is there a formal board of directors
10 commensurate or similar to a public entity, and not at
11 PacifiCorp's level.

12 Q. Right. But those individuals do participate in
13 decision making?

14 A. They do, they do. Sorry if I misunderstood your
15 question.

16 JUDGE MOSS: Now I'll look around the entire
17 room. I'm sure.

18 Mr. Wilson, thank you very much for your time.
19 You may step down.

20 THE WITNESS: Appreciate it.

21 JUDGE MOSS: Ms. Steward is next, and public
22 counsel has indicated five minutes. Do you have still
23 have that?

24 MS. GAFKEN: It will be brief.

25 JUDGE MOSS: Okay. Very good.

0397

1 Ms. Steward, welcome back.

2 JOELLE R. STEWARD

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

5 THE WITNESS: I do.

6 JUDGE MOSS: Thank you. Please be seated.

7 Anything preliminary?

8 MS. WALLACE: No.

9 JUDGE MOSS: Ms. Gafken, proceed.

10 CROSS-EXAMINATION

11 BY MS. GAFKEN:

12 Q. Good morning, Ms. Steward.

13 A. Good morning.

14 Q. PacifiCorp's normalized sales in this test year
15 are lower than the test year normalized sales in
16 PacifiCorp's last general rate case. Is that correct?

17 A. I don't recall off the top of my head. I was
18 not involved in the last general rate case.

19 Q. Do you know if PacifiCorp has forecasted lower
20 sales in 2013 from what it achieved in the 2012 test
21 year normalized sales?

22 A. I believe so, based on the data responses we
23 provided to staff, I believe, which is one of your cross
24 exhibits.

25 Q. Let's go ahead and turn to Cross Exhibit

0398

1 JRS-15 CX. Do you recognize that exhibit as
2 PacifiCorp's response to public counsel data request
3 103?

4 A. Yes.

5 Q. Does the information in Exhibit JRS-15 CX show
6 the customer count for 2013?

7 A. No. This shows the customer count on page 2 of
8 6 for the test period that goes through June of 2012.

9 Q. I'm sorry. I had my years confused.

10 If you will turn to Exhibit JRS-16 CX.

11 A. Yes.

12 Q. Now, this is the exhibit that shows the
13 projected revenues for years 2013 and 2014. Is that
14 correct?

15 A. Correct. This is a forecast that was done at
16 the time of this data request with the information
17 available at the time of this data request, which looks
18 like it was in March.

19 And this forecast is developed based on a
20 forecast of both the number of customers as well as a
21 forecast of usage, which is very different than how
22 Mr. Dittmer calculated his normalized revenue. He only
23 looked at the number of customers in one month.

24 When we do forecasts, it's important that we
25 look at both of the number of customers as well as usage

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1 over the 12-month period, because those two can change
2 at different rates.

3 MS. GAFKEN: I think that's all that I have.

4 JUDGE MOSS: All right.

5 MS. GAFKEN: I'd like to move the cross exhibits
6 into the record.

7 MS. WALLACE: No objection.

8 JUDGE MOSS: Hearing no objection, those be
9 admitted as marked.

10 (Exhibits JRS-15 CX and JRS-16 CX were admitted.)

11 JUDGE MOSS: Are there questions from the bench?

12 COMMISSIONER GOLTZ: Will Ms. Steward be
13 appearing as part of the panel as well?

14 JUDGE MOSS: I believe that's correct.

15 COMMISSIONER JONES: Just quickly, Ms. Steward,
16 you heard my question yesterday to the other witness on
17 how difficult it is to annualize something on the
18 revenue side. So my question to you is the same. Why
19 is it so difficult?

20 THE WITNESS: To -- well, it's not -- the way
21 we've done it it's not difficult. The way Mr. Dittmer
22 did it, it does create complications. And I can show
23 you quite simply my biggest issue with that.

24 If you look at my JRS-4, it's our -- how we
25 calculate -- this is our billing determinant. So to get

0400

1 to our present revenues, our normalized revenues, we
2 take the actual units during that test period of those
3 12 months times the present price. So to use
4 Mr. Dittmer's normalized revenues, we would actually
5 have to back into all those billing units, so it would
6 no longer be based on actual, and it would not be based
7 on a forecast.

8 So to back into all those billing units can be
9 quite messy, it can be controversial, because it would
10 impact those revenues. Well, we would have to try to
11 get to that same revenue using the current prices. So
12 it ends up with kind of a mismatch.

13 We really need to look at both usage, in
14 addition to the number of customers, because most of our
15 revenue is recovered from usage, not a fixed monthly
16 customer charge.

17 COMMISSIONER JONES: Okay. But conceptually it
18 can be done, but you're just saying it's messy?

19 THE WITNESS: Correct.

20 COMMISSIONER JONES: Okay. Thank you.

21 JUDGE MOSS: Nothing else? All right.

22 Anything from the company?

23 MS. WALLACE: No. Thank you.

24 JUDGE MOSS: Ms. Steward, thank you for being
25 with us and giving your testimony today. You may step

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1 down. You'll be recalled I guess later today.

2 All right. Let's move on then to Ms. Reynolds
3 for the staff.

4 DEBORAH J. REYNOLDS

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. Thank you.

9 The company indicates it has 30 minutes of cross
10 for you, Ms. Reynolds, so we'll see if there are any
11 preliminary matters, and then we will proceed with that.

12 Mr. Cedarbaum, are there any preliminary
13 matters?

14 MR. CEDARBAUM: Yes, Your Honor. My
15 understanding is that Ms. Reynolds has a correction to
16 make to footnote eight on page 6 of her testimony.

17 JUDGE MOSS: Page 6, footnote eight.

18 THE WITNESS: That's correct. Please strike
19 page 91 at the end of footnote eight, and replace it
20 with: WCA allocation factors tab open parenthesis
21 electronic version only close parenthesis. That's all
22 my corrections.

23 JUDGE MOSS: Okay.

24 MR. CEDARBAUM: Should she repeat that, Your
25 Honor?

0402

1 COMMISSIONER GOLTZ: If the court reporter got
2 it, I'm good.

3 JUDGE MOSS: I have it. I just hope we don't
4 have to go look for it.

5 Thank you. Is that it?

6 MR. CEDARBAUM: Yes.

7 JUDGE MOSS: The witness is ready for cross
8 then. So who's up?

9 MS. McDOWELL: I'm up. Thank you, Your Honor.

10 It seems like it would be helpful from our end
11 if you would repeat the correction.

12 MS. WALLACE: I'm sorry. We didn't catch it.

13 JUDGE MOSS: But you don't have any computers,
14 you can't look it up anyway.

15 THE WITNESS: Page 6, striking the reference to
16 page 91.

17 MS. WALLACE: So in footnote eight?

18 THE WITNESS: In footnote eight, and replacing
19 it with WCA allocation factors tab electronic version
20 only, in parenthesis.

21 JUDGE MOSS: I presume that cuts your
22 cross-examination in half?

23 MS. McDOWELL: We'll see what we can do.

24 DIRECT EXAMINATION

25

0403

1 BY MS. McDOWELL:

2 Q. Good morning, Ms. Reynolds.

3 A. Good morning.

4 Q. Can you turn to page 5 of your testimony,
5 please.

6 A. Indeed.

7 Q. Specifically I wanted to ask you a question
8 about your testimony on lines 13 and 14 reflecting a
9 cutoff date for capital investments. Do you see that?

10 A. I do.

11 Q. It's correct, isn't it, that under the staff's
12 proposal any resource not in service as of January 11th,
13 2013, which was the filing date of this rate case,
14 should be excluded from rates? Is that correct?

15 A. That's correct.

16 Q. Under that proposal, staff's position is to
17 reject two of the five major pro forma adjustments for
18 new investment in this case. Is that correct?

19 A. I think actually staff proposal is to address
20 those issues in an ERF following this case.

21 Q. But not to include them in this case?

22 A. Yes.

23 Q. So your proposal removed the capital costs
24 associated with those projects from this case. Correct?

25 A. Yes.

0404

1 Q. Staff did not remove the additional capacity or
2 generation from the pro forma net power costs in this
3 case related to particularly the Jim Bridger, to
4 upgrade, did it?

5 MR. CEDARBAUM: Your Honor, I would object to
6 the extent that it goes beyond the technical scope of
7 this witness' testimony. She's the staff policy
8 witness. She had the general understanding. As to
9 specific numbers, following them through the staff case,
10 she may or may not know that. So I would object, I
11 guess, unless there's foundation, or allow her to defer
12 to another witness.

13 JUDGE MOSS: I think it's a fair question, and
14 if she can't answer it, she'll simply say so.

15 BY MS. McDOWELL:

16 Q. Do you need me to repeat the question?

17 A. Go ahead.

18 Q. So my question was staff did not remove the
19 additional capacity or generation from the pro forma net
20 power costs in this case related to the Jim Bridger 2
21 upgrade. Correct?

22 A. I would defer the specifics of that question to
23 Mr. Gomez, but that is correct.

24 Q. So your answer is you're not exactly sure what
25 the numbers are, but you are aware of the fact that

0405

1 those benefits remain in the net power cost?

2 A. Yes.

3 Q. Were you here this morning when Mr. Ralston
4 testified?

5 A. Yes.

6 Q. Is it your understanding that turbine upgrade is
7 now in service?

8 A. Yes.

9 Q. So you don't dispute that as of today the Jim
10 Bridger turbine upgrade is used and useful for serving
11 Washington customers?

12 A. No.

13 Q. Can you turn to your Exhibit 2 to your
14 testimony, which is the letter from the former governor
15 to the commission.

16 A. Any particular page?

17 Q. Would you take a look at the second paragraph of
18 that letter.

19 A. Yes.

20 Q. There, the former governor stated that it is
21 important that Washington's regulatory climate
22 encourages prudent and necessary investment in the
23 infrastructure needed to ensure a reliable energy system
24 and maximizes the opportunity for energy efficiency and
25 the clean -- and the use of clean and renewable energy.

0406

1 Do you see that?

2 A. I do.

3 Q. Now, in your testimony at page 11, I believe you
4 testified that your ERF proposal is designed to address
5 this concern. Is that correct?

6 A. You mean page 10?

7 Q. I would say, yes, it's the discussion on both
8 pages 10 and 11. I was specifically I think directing
9 your attention to page 11, because that's where you
10 reference the Governor's letter in the context of your
11 ERF proposal.

12 MR. CEDARBAUM: I'm sorry --

13 JUDGE MOSS: For the record, we're looking at
14 page 11, lines one through five.

15 MR. CEDARBAUM: Is your question, though,
16 directly tied to the second paragraph of the Governor's
17 letter, the first sentence only, or --

18 MS. McDOWELL: My question was is the staff's
19 ERF proposal designed to address the concerns raised in
20 the Governor's letter.

21 THE WITNESS: It is designed to raise the
22 concerns in the Governor's letter, and starting on
23 actually page 10, at line 21, we propose, or line 20, we
24 proposal ERF filing because we believe it would capture
25 the company's capital additions placed into service in

0407

1 2013, and would reduce regulatory lag.

2 MS. McDOWELL: Thank you.

3 BY MS. McDOWELL:

4 Q. So I want to ask you a little bit about the
5 details of your proposal, which I think you describe on
6 pages 12 and 13, and specifically beginning on line six
7 of page 12, there you indicate that the proposal would
8 have the company file an ERF within two months of the
9 filing of its 2014 commission basis report. Is that
10 correct?

11 A. Yes, that's what it says.

12 Q. The company files that commission basis report
13 within four months of the end of the utility's fiscal
14 year. Is that your understanding?

15 A. I believe that's generally correct.

16 Q. So for PacifiCorp, that means that the company
17 files its commissioner basis report by the end of April.
18 Does that sound right?

19 A. Subject to check.

20 Q. So assuming that that timing takes us to
21 April for the commission basis report, the filing of the
22 commission basis report, and then in two months we're at
23 June 2014, approximately?

24 A. It says within two months. So it could be any
25 time.

0408

1 Q. So sometime between April and June, as long as
2 it would take the company to take the results of the
3 commission basis report and turn it into a filing.
4 Correct?

5 A. Well, I want to clarify that we didn't want to
6 require you to file your commission basis report any
7 earlier than you already do, but this wasn't intended --
8 the commission basis report must be filed by April. It
9 doesn't say that it can't be filed earlier, and staff
10 has no problem with you filing it earlier, and filing
11 this enhanced commission basis report earlier as well.

12 Q. So in the normal course, it's filed within four
13 months of the end of the fiscal year because it relies
14 on the data from the preceding year, and presumably it
15 takes some time to process that data. Correct?

16 A. Yes. If you're relying on the full calendar
17 year data, that's true.

18 Q. And typically a commission basis report would
19 rely on a the full year of data. Correct?

20 A. It typically does, but I think it can -- I mean,
21 previously the commission required semi-annual
22 commission basis reports.

23 Q. So sticking with kind of the normal course of
24 events, the company filing in April, and then putting
25 together an ERF filing based on that, then that takes us

0409

1 to June. And then your testimony here is on line 20
2 that the staff would review that filing on an expedited
3 basis with the goal of rates becoming effective within
4 four to six months. Do you see that?

5 A. Yes, I do see that. But again it was not
6 staff's intention to be setting up an additional delay.
7 These were the outside estimates of how quickly this
8 could happen, not the inside estimates.

9 Q. I see. But just working with those outside
10 estimates, you would be looking at an ERF order by
11 approximately the end of 2014 under this schedule?

12 A. Under the outside estimate, yes.

13 Q. And I think your testimony is that the company
14 might be able to expedite some of those timelines. Is
15 that correct?

16 A. Absolutely.

17 Q. So are you aware that the suspension period to
18 generate cases in Washington is 11 months?

19 A. Yes. Ten months, technically.

20 Q. Ten months plus the 30-day initial tariff
21 suspension.

22 A. Yes.

23 Q. The initial tariff period. Correct?

24 A. Correct.

25 Q. So if the company filed another general rate

0410

1 case early in 2014 to recover the investments, if they
2 were excluded from this case, the company would also be
3 looking at an order around the end of the year.

4 Correct? Eleven months, assuming they filed in January,
5 11 months would take you to the end of the year.

6 Correct?

7 A. That's true.

8 Q. So in the case of the Jim Bridger 2 upgrade,
9 under either scenario, I guess the outside scenario for
10 the ERF that you put out in your testimony, or the
11 filing of a rate case, it looks like the company would
12 be able to get those investments in rates sometime
13 around the end of 2014. Does that sound like the timing
14 to you?

15 A. Well, yes, that's true for those outside
16 estimates, but I also think that the company would be
17 able to file an alternative expedited rate filing that
18 might depend on the July to June period, file that in
19 January, and have rates maybe four months later, if not
20 sooner.

21 Staff was not, again, intending to establish any
22 stay-out kind of provisions with this. It was intended
23 to be responsive to the Governor's letter and to
24 company's concern around regulatory lag.

25 Q. I appreciate that.

0411

1 Ms. Reynolds, the foundations for an ERF filing
2 in your mind are commission basis report filings and
3 then a four- to six-month review period for staff? Is
4 that correct?

5 A. Yes. At most.

6 Q. So in any event, whether you could expedite that
7 or not, sometime into 2014 before the company would be
8 seeing the Jim Bridger 2 investment and rates. Correct?

9 MR. CEDARBAUM: Objection. Asked and answered.

10 JUDGE MOSS: Go ahead and answer it, please.

11 THE WITNESS: Yes.

12 BY MS. McDOWELL:

13 Q. In the case of the Jim Bridger 2 turbine
14 upgrade, given the fact that the resource is already in
15 service, you would have by that time this resource in
16 service and providing benefits in that power cost for
17 between 12 and 18 months under any of the scenarios
18 we're talking about. Correct?

19 A. No, not under any of the scenarios that we're
20 talking about. I would think it's considerably shorter
21 under the limited -- under the inside estimate of time.

22 Q. So it's currently in service. Right? It went
23 into service in May?

24 A. It is, but the filing date -- the filing of a
25 rate case is completely within the company's control.

0412

1 When you choose to file and what you choose to propose
2 are completely within your control.

3 Q. Well, there are certain rules and regulations
4 around that. Correct? I mean, you can't have two going
5 on at once, can you?

6 A. No, you can't.

7 Q. It's true in this circumstance the company had a
8 stay-out that prohibited it from filing until January of
9 this year. Correct?

10 A. Yes. But during the collaborative that we
11 conducted, staff urged the company to file an ERF and
12 the company did not do so. That's reflected in the
13 minutes to the collaborative that were filed as a cross
14 exhibit on Ms. White.

15 Q. So you were a witness in Puget's ERF filing.
16 Correct?

17 A. I was a witness in the decoupling portion of
18 that filing, to be clear.

19 Q. And one of the issues in that case was Puget's
20 earnings attrition. Correct?

21 A. Yes.

22 Q. And in this case, do you recall that the
23 commission used the term "attrition" broadly to mean any
24 situation in which a rate regulated business fails to
25 earn its allowed earnings? Does that sound familiar?

0413

1 A. It does sound familiar. Could you have -- is
2 that in the cross exhibit or in a --

3 Q. It's actually in the order. I can hand that
4 order to you if that would be helpful.

5 A. Thank you. That would be helpful. I didn't
6 bring all --

7 JUDGE MOSS: I'm having a little difficulty
8 hearing you. If you could pull the mic a little bit
9 closer or raise your voice a little bit, that would be
10 helpful.

11 THE WITNESS: I can do that.

12 BY MS. McDOWELL:

13 Q. I'd like to direct your attention to page 9 of
14 order seven in Puget's ERF docket, which is UE-121697,
15 et al., and it's specifically page 9, note 23.

16 Would you like me to repeat my question?

17 A. It states you used the term, the commission uses
18 the term broadly to mean any situation in which a rate
19 regulated business fails to achieve its allowed
20 earnings. That footnote?

21 Q. Yes.

22 A. Yes.

23 Q. And just to be clear, Puget did not file an
24 attrition study in that case. Correct?

25 A. That is correct. But they did provide

0414

1 supporting testimony, and the commission I believe
2 actually found that there was ample evidence of
3 attrition on the record.

4 Q. So can you turn to Cross Exhibit DJR-5CX.

5 A. Do you mean KLE-7CX?

6 Q. I mean DJR-5CX. Do you have that?

7 A. I believe that was renumbered.

8 Q. Maybe I've got the wrong numbering then. I
9 should be referring to 6CX. Is that what you just asked
10 me? Excuse me for the confusion. I have the wrong
11 number in my notes. DJR-6X. Do you have that?

12 A. The testimony of Mr. Schooley?

13 Q. Yes. The testimony of Mr. Schooley in that
14 case.

15 I wanted to direct your attention to the last
16 page of that exhibit, page 10 of 10. Do you have that?

17 A. Yes, I do.

18 Could you clarify for me what this is from?
19 This particular page. I don't --

20 Q. This is an exhibit to Mr. Schooley's testimony
21 that was filed on May 8th, 2013.

22 A. The exhibit reference seems to have been covered
23 over by the sticker possibly. I just --

24 Q. He refers to his exhibit on -- I'll find you the
25 page. The exhibit is referred to on page 5 of his

0415

1 testimony, and he refers to it as TES-3.

2 A. Thank you.

3 Q. Does that help?

4 A. Yes.

5 Q. Okay.

6 MR. CEDARBAUM: Your Honor, staff will have an
7 objection to this exhibit. I'm sort of waiting for a
8 question on the substance of it. I wonder if we should
9 just take it up right now.

10 JUDGE MOSS: I think we should take up the
11 objection right now, Mr. Cedarbaum.

12 MR. CEDARBAUM: Staff does object on the basis
13 of relevance. This is testimony of another staff
14 witness who's not a witness in this case regarding
15 PacifiCorp. It is testimony involving a settlement of
16 another company based on other fact situations that are
17 not before the commission today, and by definition,
18 settlements are not presidential with respect to any
19 underlying facts and methodologies within that case.
20 Certainly they can't be presidential outside of that
21 case as well. So we object on the basis of relevance.

22 MS. McDOWELL: So, Your Honor, Mr. Schooley was
23 a policy witness for the staff in the Puget ERF case.
24 There's been testimony in this case about ERF filings.
25 Based on the filing that Puget just made and was

0416

1 approved, the issue of attrition is a relevant issue in
2 that case and this case. This is Mr. Schooley's exhibit
3 that talks about Puget's attrition. That's the question
4 I wanted to ask her. She was a witness in this case. I
5 think as the policy witness in this case, she can refer
6 and answer questions on this to the extent that she's
7 able.

8 JUDGE MOSS: You can ask her any questions you
9 want to, and she can refer to something in
10 Mr. Schooley's testimony in she chooses to in her
11 answer, but I'm not going to let the exhibit in, and I
12 sustain the objection. 6-CX will not be admitted.

13 BY MS. McDOWELL:

14 Q. So, Ms. Reynolds, are you familiar with the
15 evidence of attrition that was presented in the recent
16 Puget ERF case?

17 A. At a very high level.

18 Q. Were you aware of evidence that demonstrated
19 that Puget had not achieved its rate of return from 2006
20 to 2012?

21 MR. CEDARBAUM: Your Honor, again, I'll object.
22 These are questions involving another company, in a case
23 that was settled. I don't see the relevance. We're
24 talking about PacifiCorp today.

25 I think the company is perfectly entitled to

0417

1 refer to the commission's order in that case, or any
2 other order for any principles or arguments it wants to
3 make, but the facts of another docket that was settled
4 are not relevant to this proceeding.

5 JUDGE MOSS: I'm inclined to agree with
6 Mr. Cedarbaum. If you want to refer to the order and
7 the results of that case in some fashion in questioning
8 Ms. Reynolds, that would be perfectly appropriate. But
9 the underlying evidence in that case is simply not
10 relevant here, and I won't allow it.

11 BY MS. McDOWELL:

12 Q. So, Ms. Reynolds, do you have Mr. Griffith's
13 testimony in this case?

14 A. Yes, I do.

15 Q. Now, page 3 of his testimony, table one --

16 MR. CEDARBAUM: Can you just give me a chance
17 to --

18 MS. McDOWELL: Of course.

19 MR. CEDARBAUM: Thank you.

20 BY MS. McDOWELL:

21 Q. Did you have that?

22 A. I do.

23 Q. Now, this table has PacifiCorp's return on
24 equity numbers from its commission basis reports from
25 2006 to 2012. Have you reviewed this chart previously?

0418

1 A. I have reviewed this chart.

2 Q. Doesn't this demonstrate that PacifiCorp has
3 suffered significant attrition between 2006 and 2012?

4 MR. CEDARBAUM: I'll object to the
5 characterization of "significant." The numbers are
6 there, whether that's significant or not, I don't know.

7 JUDGE MOSS: All right. Well, let's rephrase
8 the question without the qualifying term.

9 BY MS. McDOWELL:

10 Q. Doesn't this suggest that PacifiCorp has
11 suffered earnings attrition between 2006 and 2012?

12 A. I can't respond yes or no to that question, and
13 I will tell you why. That's because staff looked at
14 this table and then went and pulled commission basis
15 reports and the numbers didn't match. So then we were
16 confused about what this table showed or didn't show.

17 Q. These are the unadjusted results. Is that
18 correct? You're not familiar?

19 A. I don't know where these numbers Mr. Griffith
20 presents came from, but they don't match the commission
21 basis reports on file with the commission.

22 Q. So did you consider PacifiCorp's earnings
23 attrition in making your policy determinations in this
24 case?

25 A. Well, sadly, there was no evidence in the direct

0419

1 case. This testimony that we're looking at is rebuttal
2 testimony.

3 Q. And isn't it true that Mr. Reiten's testimony in
4 this case indicated that the company had earned a return
5 of three to four percent in the last -- you know, based
6 on the returns, you know, the adjusted returns in this
7 case?

8 A. I don't recall that, no.

9 Q. So I do have the commission basis reports here.
10 I wonder if I could hand them to you to refresh your
11 recollection and demonstrate how those numbers do tie.

12 MS. WALLACE: These were included in
13 Mr. Griffith's work papers.

14 MR. CEDARBAUM: They were not distributed as
15 cross exhibits. The witness apparently will be asked
16 detailed questions about reports not having been
17 provided them sooner than the company's cross exhibit.
18 I just think this is improper.

19 MS. McDOWELL: You know, one way we could do
20 this is simply offer these work papers as additional
21 exhibits so that we would have the basis for these
22 numbers that she's just indicated that she didn't
23 understand how they tied. I can go through the cross,
24 but we can also just offer the work papers.

25 MR. CEDARBAUM: I'm sorry. I know it seems like

0420

1 I'm getting in the way here too much.

2 The company has rebuttal, the opportunity of
3 rebuttal; the only party in this case that gets this
4 chance. If they wanted to put on the testimony and
5 evidence, they should have done it there. But to do it
6 through Ms. Reynolds during the hearing is just not in
7 line with the commission's procedure. It violates that
8 procedure. And I just think this is improper and should
9 not be allowed.

10 THE WITNESS: Perhaps I --

11 MS. McDOWELL: I'm sorry?

12 THE WITNESS: Perhaps I can clarify. I'm not
13 suggesting that those numbers are not in the commission
14 basis reports at all. I'm suggesting -- what I'm
15 stating is it would be the normalized results that would
16 be meaningful, and that is not what Mr. Griffith
17 presented here.

18 JUDGE MOSS: I think that's about as clear as
19 we're going to get, because I'm going to sustain
20 Mr. Cedarbaum's objection. We're not going to have the
21 commission basis reports introduced as an exhibit at
22 this stage when they could have easily been introduced
23 as an exhibit to Mr. Griffith's testimony giving staff
24 time to prepare for this.

25

0421

1 BY MS. McDOWELL:

2 Q. So can I just ask you one last set of questions.

3 Can you turn to page 10 of your testimony, please.

4 A. Yes.

5 Q. It's true, isn't it, that the ERF proceeding you
6 address here is designed to address the issue of
7 regulatory lag? Is that right?

8 A. Yes.

9 Q. And isn't it true that the use of end-of-period
10 rate base is also a tool to address regulatory lag?

11 A. Yes, that's stated in the commission's order
12 where they list all the tools to address regulatory lag.

13 Q. And in this case the company proposed to use
14 end-of-period rate base but the staff has objected to
15 that proposal. Correct?

16 A. Again, we proposed that you use an ERF instead
17 of end of period.

18 Q. Now, at page 13, you indicate that, quote, as
19 urged by the Governor's January 2013 letter to the
20 commission, staff is supportive of progressive ideas in
21 rate making. Do you see that?

22 A. I do.

23 Q. As we discussed earlier, staff rejects two of
24 PacifiCorp's five capital additions in this case.

25 Correct?

0422

1 A. Yes, we do. But --

2 Q. You reject the use of end-of-period rate base
3 for PacifiCorp too, don't you?

4 A. Neither of those things are mentioned in the
5 Governor's letter.

6 Q. But doesn't the staff position on those matters
7 combined with the other items that have been discussed
8 over the last day ensure that the continuation of
9 under-earning and additional rate cases for PacifiCorp?

10 A. I don't believe so. Actually I think that
11 staff's proposal is consistent with prior commission
12 rate making practice, and actually proposes a tool in
13 the ERF that's much more consistent, apparently, with
14 what PacifiCorp has in other states, which are described
15 in the attachment to Mr. Griffith's testimony.

16 Q. And in the attachment to the Governor's letter,
17 doesn't that summary specifically refer to the use of
18 attrition pro forma and other adjustments to better
19 match up investment and recovery? That's page 3 of the
20 Governor's letter.

21 MR. CEDARBAUM: Can you specifically point to a
22 number?

23 MS. McDOWELL: It's page 3 of the Governor's
24 letter, item two, bullet three.

25

0423

1 BY MS. McDOWELL:

2 Q. Are you with me now? You indicated that the
3 Governor's letter said nothing about the use of
4 pro forma adjustments for new investment, and isn't it
5 true that in this particular summary, it does refer to
6 the use of attrition, pro forma and other adjustments to
7 better match up investment and recovery?

8 A. It does. And it really suggests that the
9 commissioners should do a rule making and standardize
10 the way it approaches those kinds of adjustments. But
11 given the commission's acceptance of the ERF in the
12 recent Puget docket, we felt that that was an even
13 stronger direction to staff that we ought to look for
14 other ways we could use that particular tool, and that's
15 the expedited rate filing, which is item one.

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

17 JUDGE MOSS: All right. We have a short cross
18 indicated by Ms. Gafken. Do you still have some
19 questions?

20 MS. GAFKEN: No, Judge Moss.

21 JUDGE MOSS: All right. Fine.

22 Before we continue to questions from the bench,
23 I just want to make a remark. We've had several
24 instances during the cross-examination of this witness
25 when there have been references to this exhibit, which I

0424

1 question the integrity of as an evidentiary exhibit in a
2 record such of this, which is this letter from Governor
3 Gregoire in January of this year, and a letter also from
4 then Chairman Goltz.

5 I just wanted to be clear. I've been in this
6 business for 30 some years, and I have appeared before
7 in various capacities a number of regulatory agencies
8 and have served this one for the past 15 years. One of
9 the things that makes that service acceptable to me as a
10 public servant is that this is an independent agency.
11 This agency is not directed by the Governor's office.

12 Parties, including staff, should look to the
13 pronouncements of this commission in its orders, its
14 rules, its interpreting policy statements or as
15 otherwise may occur for guidance as to appropriate
16 regulatory rate making process, not to this letter.

17 Thank you.

18 Are there questions from the bench?

19 COMMISSIONER GOLTZ: No.

20 COMMISSIONER JONES: No.

21 JUDGE MOSS: Any redirect? I guess not.

22 MS. WALLACE: We didn't --

23 JUDGE MOSS: You have redirect?

24 MR. CEDARBAUM: I have a few questions.

25 Also, there were other cross exhibits circulated

0425

1 to Ms. Reynolds. I don't know if they're not being
2 offered. That's fine.

3 MS. McDOWELL: We're not going to offer them.

4 JUDGE MOSS: Are you offering any of these?

5 Okay. So none of these will be offered.

6 MR. CEDARBAUM: I just have a few questions.

7 REDIRECT EXAMINATION

8 BY MR. CEDARBAUM:

9 Q. Ms. Reynolds, you indicated in questions from
10 the company that the Jim Bridger turbine upgrade at
11 Unit 2 is in service as of May of this year, and use and
12 useful for service. Do you recall that?

13 A. Yes.

14 Q. Is it unusual for companies such as this company
15 or other regulated companies to add plant throughout the
16 year and it is use and useful for service in the state
17 of Washington?

18 A. Not at all.

19 Q. That could occur between rate cases. Is that
20 right?

21 A. Absolutely.

22 Q. So the staff treatment of the Jim Bridger
23 upgrade would be no different in that regard?

24 A. That's correct.

25 Q. You were also asked some questions about the

0426

1 timing of an ERF, and you discussed with the company
2 what I took to be kind of the outside limit or worst
3 case scenario in terms of the timing. You would
4 envision an ERF proposal being processed quicker than
5 that. Is that correct?

6 A. Yes.

7 Q. And could that occur so that rates would be in
8 effect in the fall of 2014?

9 A. Yes. Or even sooner.

10 Q. If they're in effect in the fall or sooner, they
11 would be in effect prior to the heating season for the
12 company?

13 A. That's correct.

14 Q. Is that an important element?

15 A. It is an important element.

16 Q. Why?

17 A. Because the company has seasonal load, and so an
18 adjustment to rates has a bigger effect on the company's
19 income in the fall than it would in the spring.

20 MR. CEDARBAUM: Thank you. That's it.

21 JUDGE MOSS: Anything?

22 All right. Thank you very much, Ms. Reynolds.

23 We appreciate you being here to give your testimony
24 today.

25 It's long overdue, I apologize, but we need to

0427

1 take a break. Let's take ten minutes, and try to be
2 back by about five after the hour. If I'm reading that
3 clock correctly. It's five after. Make that a quarter
4 after. I can't see the clock from this angle very
5 clearly, obviously.

6 (A break was taken from 11:04 a.m. to 11:18 a.m.)

7 JUDGE MOSS: While we're paused here, we're
8 going to change the witness order and Mr. McGuire
9 following Ms. White, and then we'll have Mr. Gomez.

10 Commissioner Jones has an obligation that will
11 take him away from the hearing room for a couple of
12 hours this afternoon. That's why we're doing that.

13 MS. McDOWELL: Your Honor, just to clarify. We
14 do not have any cross for Mr. McGuire.

15 JUDGE MOSS: I didn't think there was any cross
16 for him. There may have been some questions from the
17 bench, specifically from Mr. Jones.

18 MS. McDOWELL: Before we convene, I just wanted
19 to respond briefly to your comments before the break
20 that PacifiCorp meant no disrespect to this commission,
21 and did not mean to imply in any way that we don't think
22 the commission should act in a fully independent and
23 traditional manner.

24 We were simply responding to the policy issues
25 that have been a part of the last two case, the Avista

0428

1 case, and then the Puget case, and the Governor's
2 letter, which was attached as an exhibit and referenced
3 in the policy testimony of Ms. Reynolds. So we were
4 simply responding to the issues that we thought were in
5 front of the commission here today, and did not mean to
6 imply any disrespect to the commission by doing so.

7 JUDGE MOSS: And I'm sorry if my comments
8 conveyed the idea that we thought the company or anyone
9 was being disrespectful of the commission.

10 I think it's important, though, to make the
11 point, because the independence of an agency such as
12 this one is important to everyone, including the
13 regulated entities. Rating agencies comment on that
14 from time to time. And so I think it's important that
15 we not lose sight of that, because we've seen now in a
16 couple of cases some hints at least that are perhaps
17 unfortunate in the context of what we do and how we do
18 it. So it's an adjudicatory model that we follow, it
19 depends on independence, and any lack of that can
20 certainly help the company, but it can certainly harm
21 the company too.

22 So hopefully that provides more context for my
23 comments. I was simply trying to point out the
24 importance of maintaining the integrity of the process.

25 MS. McDOWELL: I appreciate that.

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1 JUDGE MOSS: I've been at it a long time, so I
2 kind of take it personally.

3 MS. McDOWELL: And I've been at it a long time,
4 and I agree absolutely with your perspective.

5 JUDGE MOSS: I'm glad to hear that. I think
6 that's probably as much colloquy as we need to have on
7 that subject.

8 With that, I believe we can proceed with the
9 cross-examination of Ms. White.

10 If you'd rise and raise your right hand.

11 KENDRA A. WHITE

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, Mr. Cedarbaum?

17 MR. CEDARBAUM: Just to remind everyone that we
18 did predistribute a revised page 4 this morning of
19 Ms. White's testimony. So as long as everyone has that,
20 there are no other changes.

21 JUDGE MOSS: And the bench has that.

22 MR. CEDARBAUM: She's available for questioning.

23 JUDGE MOSS: Thank you very much. The company
24 has indicated about a half an hour for Ms. White.

25 MS. WALLACE: Hopefully less.

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1 CROSS-EXAMINATION

2 BY MS. WALLACE:

3 Q. Good morning, Ms. White.

4 Ms. White, staff's primary proposal regarding
5 the interjurisdictional allocation methodology in this
6 case is to continue the status quo by maintaining use of
7 a previously approved west control area or WCA
8 methodology. Isn't that right?

9 A. Yes, that's right.

10 Q. And to develop your testimony, it appears that
11 you did some research regarding papers and manuals
12 related cost of service studies. Is that correct?

13 A. Yes.

14 Q. So, for example, on page 16, footnote 30 --

15 JUDGE MOSS: Ms. Wallace, while she's looking,
16 I'm going to ask you to moderate your pace a little bit.
17 I'm always guilty of speaking too fast, but it's a
18 burden on the reporter, so --

19 MS. WALLACE: I understand.

20 JUDGE MOSS: That's all right.

21 BY MS. WALLACE:

22 Q. You cite to Mr. Jim Lazar's review of the cost
23 of service decisions. Is that right?

24 A. Yes.

25 Q. On that same page, footnote 32, you cite to

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1 NARUC's Electric Utility Cost Allocation Manual. Is
2 that correct?

3 A. Yes.

4 Q. So given the fact that you cite to sources
5 discussing cost of service studies to support your
6 position on interjurisdictional allocations, is it fair
7 to say that you believe that the principles underlying
8 cost of service studies and the principles underlying
9 interjurisdictional allocation methodologies should be
10 consistent?

11 A. Generally, I believe they should be. And to
12 clarify, the reason I use cost of service studies is my
13 background research is there are very few studies on
14 interjurisdictional allocation.

15 Q. And in this case, the company's proposal is to
16 use demand and energy ratings of 38 percent demand, 62
17 percent energy. Is that correct?

18 A. Yes.

19 Q. For the control area generation west or CAGW
20 factor?

21 A. Right.

22 Q. Is it your understanding that the reason for the
23 company's proposed change to the CAGW factor is to
24 create consistency with the company's cost of service
25 study?

0432

1 A. Yes.

2 Q. In this case, the parties accepted the company's
3 cost of service study for determining rate spread and
4 rate design. Is that right?

5 A. Yes, as part of their settled position.

6 Q. Now, regarding your concerns with the system
7 overhead or SO factor which is used to allocate
8 administrative and general expenses, you created an
9 analysis in your Exhibit KAW-4 to support your
10 contention that the use of gross plant balances is
11 inferior to the use of net plant balances. Is that
12 correct?

13 A. Yes.

14 Q. Specifically if you can look at pages 1 and 2.
15 Your theory is that gross plant over allocates costs for
16 slower growing jurisdictions. Is that right?

17 A. Yes.

18 Q. On these two pages you present your analysis of
19 plant additions for production and transmission in
20 Washington, the WCA, and the company's non-WCA states.
21 Is that correct?

22 A. Yes.

23 Q. Can you tell me how you calculated plant
24 additions in the WCA for these pages?

25 A. I cannot, though I can point to the calculations

0433

1 being from -- derived from the company's response to our
2 data request No. 82.

3 Q. I do have your work papers that I examined in
4 looking through your charts. Are you willing to accept
5 subject to check that when you did this you calculated
6 the WCA by adding plant additions for transmission and
7 production, depending on which chart we're looking at,
8 for Washington, California, Oregon and in some cases
9 Montana?

10 A. Subject to check, yes.

11 Q. And for the non-WACA states you calculated for
12 Wyoming, Idaho, Utah, and in some cases Arizona?

13 A. Subject to check.

14 Q. And so in calculating the WCA, you did not
15 include any transmission or production plant costs from
16 Wyoming, Utah, Idaho. Correct?

17 A. Yes, subject to check.

18 Q. I handed you before we started Exhibit RBD
19 No. 2, which is the company's WCA report. Would you
20 turn to page 2.

21 MR. CEDARBAUM: Can you just give me a second.

22 JUDGE MOSS: We have a couple of "D" witnesses
23 here. Which one is it?

24 MS. WALLACE: RBD, Dalley.

25 JUDGE MOSS: Thank you. I do everything by

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1 surname.

2 MS. WALLACE: It probably isn't critical to have
3 it in front of you. I'm sorry to get you guys going
4 over there.

5 MR. CEDARBAUM: Do you have a page number?

6 MS. WALLACE: It's page 2.

7 BY MS. WALLACE:

8 Q. The first paragraph under generating resources,
9 the report states that the WCA, west control area,
10 includes the Jim Bridger generating plant. Correct?

11 A. Is that No. 2?

12 Q. Yes. Generating resources.

13 A. Yes.

14 Q. Could you tell me where the Jim Bridger plant is
15 located?

16 A. I believe that it's located in the east area
17 control area. I'm not sure precisely which state.

18 Q. Are you willing to accept subject to check that
19 it's located in Wyoming?

20 A. Yes.

21 Q. And it's actually part of the company's west
22 control area?

23 A. Sure.

24 Q. I think what that indicates, that it's included
25 in the west control area.

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1 A. In terms of allocation, yes.

2 Q. Yes. And actually, physically, that includes
3 the west control area.

4 So in your exhibit, when you did these
5 calculations, you didn't include any of the plan
6 additions in Idaho or Wyoming in your WCA calculations.
7 Correct?

8 A. Subject to check.

9 Q. And so none of the investments in our Jim
10 Bridger plant would be reflected in the west control
11 area for these exhibits?

12 A. Again, subject to check.

13 Q. Are you willing to accept subject to check the
14 transmission lines connecting Jim Bridger to the
15 Washington service territory go through both Wyoming and
16 Idaho?

17 A. Yes.

18 Q. And for the transmission plant additions on
19 page 2, subject to check, your WCA calculations wouldn't
20 have included any of those transmission additions.

21 Correct?

22 A. Yes. Subject to check.

23 Q. Thank you.

24 One last question about the SO factor and then
25 we'll move on. Are any production or transmission plant

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1 additions allocated using the SO factor?

2 A. I do not believe so.

3 Q. Thank you.

4 Now I'm going to turn to page 3, lines 15 to 18
5 of your testimony. You state that sufficient time was
6 not available in this case for a comprehensive review of
7 WCA allocation methodology. Is that correct?

8 A. Yes. And this specific portion of my testimony
9 is referring to the report that we're requesting, which
10 is limited to the allocation of general plant and
11 general administrative and general expenses.

12 Q. Are you familiar with the collaborative process
13 that took place in 2012 as a result of the settlement in
14 PacifiCorp's 2011 general rate case?

15 A. Yes.

16 Q. Could you please turn to the cross exhibit
17 marked KAW-7CX.

18 A. Those are the meeting minutes?

19 Q. Yes. That was my next question.

20 Did you have the opportunity to review this
21 exhibit?

22 A. I did.

23 Q. The first meeting was held April 5th, 2012. Is
24 that right?

25 A. Yes.

0437

1 Q. And the final meeting was held on October 25th,
2 2012?

3 A. Yes.

4 Q. So the parties actively engaged in the
5 collaborative process for seven months. Is that right?

6 A. I would have to do the math, but that sounds
7 about right.

8 Q. And during the collaborative process, the
9 company conducted several analyses that were requested
10 by the parties related to the WCA allocation
11 methodology. Is that correct?

12 A. I'm not aware of any of those, but that is
13 likely.

14 Q. If you can turn to page 3, there's an example,
15 where in the third paragraph it indicates that
16 PacifiCorp would perform a unit cost analysis, and in
17 the sixth it indicates it provided analysis of how
18 primary WCA factors have changed over the five-year
19 trial period.

20 A. Yeah, I do recall those. I just didn't know who
21 requested those. I do remember seeing the results of
22 those analyses.

23 Q. Okay. Thank you.

24 So it's reasonable to conclude that during this
25 seven-month collaborative process, the parties discussed

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1 the WCA allocation methodology in depth, including
2 performing any analysis that the company -- I mean
3 parties might be interested in related to the
4 methodology -- sorry. I lost my train of thought.

5 So a review of these minutes show that the WCA
6 allocation methodology was done in depth, including
7 specific analyses conducted at the request of parties.
8 Correct?

9 MR. CEDARBAUM: Your Honor, I'll object to the
10 form of the question. "In depth"? I don't know what
11 that means. I don't know if the witness knows what that
12 means. If you want to ask factual questions about what
13 happened, that's fine, but characterization of what
14 happened, I think, is improper form.

15 JUDGE MOSS: You can restate the question
16 without the characterization and ask her what she is
17 knows about.

18 MS. WALLACE: I was trying to avoid walking
19 through the minutes and discussing each time we about
20 it. But you have it, I know you've reviewed it, so I
21 won't do that anyway.

22 BY MS. WALLACE:

23 Q. In one of these analyses that we just looked at
24 on page 3, that included looking at the SO factor,
25 correct, and the CAGW factor?

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1 A. Yes.

2 Q. Two of the factors discussed in your testimony?

3 A. Correct.

4 Q. Thank you.

5 MS. WALLACE: That's all I have right now.

6 Thank you.

7 JUDGE MOSS: Looking at cross, it appears there
8 is no other cross-examination indicated for Ms. White,
9 but there may be questions from the bench.

10 COMMISSIONER JONES: Just a quick one.

11 Ms. White, have you had a chance to review

12 RBT -- Mr. Dalley's rebuttal testimony?

13 THE WITNESS: I have.

14 COMMISSIONER JONES: Now, you take the
15 commission in your case, in the responsive testimony,
16 that the SO factor might unreasonably shift costs. You
17 have come up with this net SNP factor proposal. Right?

18 THE WITNESS: Correct. Although I would like to
19 clarify. That's a staff secondary recommendation, and
20 the system net plan allocation factor is a currently
21 existing allocation factor used for other cost
22 categories.

23 COMMISSIONER JONES: Why do you think -- it
24 appears from the unrebutted testimony that the SL factor
25 is used in the other five jurisdictions. So would you

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1 just summarize why you think the, as an alternative,
2 that the system net plant would be a better alternative.

3 THE WITNESS: Absolutely. It's my understanding
4 that the 2010 protocol that the other states use is --
5 had resulted from negotiations, so it's possible that
6 the SO allocation factor was one of the places where
7 states agreed essentially that it would result in
8 generally fair allocations. And we're using the WCA
9 allocation methodology, so we believe it's appropriate
10 to look at the allocation factors individually for
11 Washington and make sure that they're still a fair
12 representation in Washington.

13 COMMISSIONER JONES: Okay. But you would still
14 prefer a comprehensive approach instead of doing SG, SO,
15 and the various allocation factors, you still support a
16 more comprehensive approach in whatever fashion would
17 be --

18 THE WITNESS: Right. Staff's primary
19 recommendation is to have a report specifically looking
20 at the allocation of general plant and general ANG.

21 COMMISSIONER JONES: That's all I have.

22 Thank you.

23 JUDGE MOSS: Anything else from the bench? No.
24 Okay.

25 All right. Well, Ms. White, I believe then that

0441

1 -- oh.

2 MS. WALLACE: I would move these cross exhibits
3 in the record, KAW-5CX to CAW-8CX. I'm not moving to
4 include KAW-9CX.

5 JUDGE MOSS: Any objection, Mr. Cedarbaum?

6 MR. CEDARBAUM: I'm sorry. Which ones are you
7 offering?

8 MS. WALLACE: All but 9-CX.

9 JUDGE MOSS: Five, six, seven, eight.

10 MR. CEDARBAUM: Staff has no objections to 5, 6,
11 and no objections to 7, as long as it's limited to
12 allocation factor issues. There are other items in
13 these minutes involving power cost, Aurora model, other
14 topics that are beyond the scope of Ms. White's
15 testimony. So as long as it's limited to the scope of
16 her testimony, we have no objection.

17 JUDGE MOSS: Okay.

18 MR. CEDARBAUM: Is 8 being offered?

19 JUDGE MOSS: Eight is being offered.

20 MR. CEDARBAUM: We'd object to 8. This is a
21 company response to a staff data request, that was not
22 prepared by her. It also is irrelevant to her
23 testimony.

24 The staff's case involves asking the commission
25 to require a comprehensive review of the allocation

0442

1 factor methodology. This discusses what the company
2 does in other jurisdictions, so it's not relevant to
3 this witness' testimony, and it's not her response. So
4 I'd object to 8.

5 MS. WALLACE: Your Honor, if I may. It's
6 referred to by Ms. White on page 25 in her testimony,
7 and I have questions that I can ask her about it, but I
8 was trying to avoid having to do it on the stand.

9 JUDGE MOSS: You've anticipated my concerns. If
10 the witness herself referred to it, I think I'll just
11 take your word for that rather than looking at page 25.
12 Then certainly I think it is appropriate to let it in,
13 Mr. Cedarbaum.

14 MR. CEDARBAUM: That was my oversight. I did
15 not remember that.

16 JUDGE MOSS: I understand.

17 MR. CEDARBAUM: I apologize.

18 JUDGE MOSS: That's fine. So let's go ahead and
19 admit KAW-5 through 8-CX.

20 (Exhibits KAW-5CX, KAW-6CX, KAW-7CX, KAW-8CX were
21 admitted.)

22 MS. WALLACE: Thank you, Your Honor.

23 JUDGE MOSS: Did you have some redirect?

24 MR. CEDARBAUM: I would one question.

25 REDIRECT EXAMINATION

0443

1 BY MR. CEDARBAUM:

2 Q. Ms. White, you were asked one question about
3 KAW-4, and both pages have a reference to DR 82. I
4 think you indicated that's the company's response to
5 staff data request 82.

6 A. Yes.

7 Q. So you relied upon the company's response to
8 create this exhibit?

9 A. I did.

10 Q. You were asked about your calculations, so did
11 you just take information from the company's exhibit or
12 did you actually make the calculation?

13 A. I actually created that exhibit in partnership
14 with another staff member. He was the one that was
15 primary author of that, so I believe he would be better
16 able to answer that question.

17 MR. CEDARBAUM: Thank you. That's it.

18 JUDGE MOSS: Okay. Very good.

19 Ms. White, we appreciate your time with us on
20 the stand, and you may step.

21 As Mr. McGuire makes his way to the witness
22 stand, I just want to make a comment for the benefit of
23 all assembled on the exhibits. As I was looking at
24 KAW-4, I was having a little bit of trouble because it
25 apparently perhaps originally was produced in color,

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1 whereas all I have black and white.

2 When we get these bar charts and they've been
3 reproduced perhaps more than once, it's hard for us to
4 read them and tell which one is which. I think in this
5 case I'm guessing that Washington is the leftmost bar in
6 each instance, WCA is the center bar, and non-WCA is the
7 right bar. Is that correct?

8 MR. CEDARBAUM: I think that's correct. Perhaps
9 it would be helpful if after the hearings are over we
10 just provide a substitute exhibit that is color coded.

11 JUDGE MOSS: As long as we understand that
12 that's what the three bars represent, that's fine. I
13 don't think it will be necessary to do a supplemental
14 exhibit. I just wanted to point that out. It's a
15 problem that we run into from time to time because we've
16 all become so accustomed to having color.

17 MS. WALLACE: Your Honor, I do have the work
18 paper, which is the attachment from WUTC, which it does
19 clarify that we just gave the state's information, and
20 to make that chart it was added together to make the
21 bars. A calculation was required. I don't know if
22 that's helpful.

23 JUDGE MOSS: I don't think we need that. Thank
24 you.

25 Mr. McGuire, welcome.

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1 CHRISTOPHER R. McGUIRE

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

4 JUDGE MOSS: Please be seated. And I believe we
5 have some questions from Commissioner Jones.

6 COMMISSIONER JONES: Judge Moss, related to the
7 cross exhibit, what is it, CRM-3CX, have we made a
8 decision on this being in or out?

9 JUDGE MOSS: Which one?

10 COMMISSIONER JONES: 3CX for McGuire.

11 MS. WALLACE: It was stipulated that we would
12 waive cross-examination for admission of the exhibits,
13 but we can perform cross if that's what you would like
14 to have occur.

15 MR. CEDARBAUM: Your Honor, well, we had an
16 agreement of counsel there would be no cross.

17 MS. WALLACE: I said it was stipulated.

18 MR. CEDARBAUM: If it was going to be cross,
19 then there will be objections.

20 COMMISSIONER JONES: Okay.

21 MS. WALLACE: What I'm trying to say -- I don't
22 know if that didn't come out right -- but that was my
23 understanding as well.

24 COMMISSIONER JONES: Thank you. That's all I
25 need to know.

0446

1 Mr. McGuire, welcome.

2 THE WITNESS: Thank you.

3 COMMISSIONER JONES: Good morning.

4 So I'm going to ask questions mainly about the
5 Merwin project and the Bridger Unit 2 upgrade. The
6 first one is more of a general question. But on page 9
7 of your testimony, CRM -- what is it -- CRM-1T, you talk
8 about why it is appropriate to use January 11th, 2013 as
9 the so-called cutoff date for capital additions. That
10 is the position of staff. Correct?

11 THE WITNESS: Yes.

12 COMMISSIONER JONES: The position of public
13 counsel, as I understand it, is end of February?
14 Correct?

15 THE WITNESS: That's the way I understand it as
16 well, yes.

17 COMMISSIONER JONES: I think you listened to
18 Mr. Tallman's testimony, and you heard me ask me
19 questions of Mr. Ralston today, so the position of the
20 company is another position. Correct?

21 THE WITNESS: That's correct.

22 COMMISSIONER JONES: So here on page 9 you state
23 words like limited resources, continuing evolving cases,
24 as reasons to reject both the Merwin project and the
25 Bridger unit to upgrade. But hasn't this always been

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1 the case for staff in reviewing capital projects with
2 multi-year construction timelines?

3 THE WITNESS: I believe it has, yes.

4 COMMISSIONER JONES: So what is the real issue
5 here? Is the real issue lack of resources by staff, and
6 this evolving nature of the case, or is it the
7 possibility of wide variations from actual to budgeted
8 estimates? Or both?

9 THE WITNESS: I think it's probably a little bit
10 of both. I think stepping back and approaching it a
11 little more broadly, staff's position in this case was
12 that we would like to start to coalesce around some
13 general ideas that all parties seem to agree with.

14 And the Governor's letter was brought up, and,
15 you know, some of the words that were used from -- in
16 the Governor's later and in Mr. Griffith's testimony and
17 in Mr. McDougal's testimony is predictability and
18 consistency. As you note, there has been in the past
19 wide variation in commission application of known and
20 measurable standards.

21 In this case, I'm proposing to limit the scope
22 of possibilities of what we would consider when we're
23 talking about pro forma plans. And I'm trying to
24 propose something here that is practical and meets these
25 desired outcomes of multiple parties.

0448

1 COMMISSIONER JONES: So as I understand your
2 answer, it's a little bit of both, and you're asking the
3 commission for what I would regard as a bright line
4 test?

5 THE WITNESS: That's exactly right, yes.

6 COMMISSIONER JONES: So you would like us to
7 opine on a bright line test?

8 THE WITNESS: I would.

9 If I could just add, I think that it's relevant
10 in this case particularly because there have been an
11 ERF, and when there's an ERF proposal, we need to have a
12 cutoff date. Where that cutoff date is, there's
13 obviously a lot of disagreement about where it should
14 be, but I don't think that there is disagreement that
15 there ought to be one. So given an ERF, I think it's
16 particularly important that we do draw a bright line.

17 COMMISSIONER JONES: Well, let's talk about a
18 couple of standards. Used and useful improvements. Are
19 you in this case, are you contesting the prudence of the
20 Merwin fish collector or just remaining silent at this
21 time?

22 I think Ms. Williams in JMW-1T basically
23 remained silent on this but it's based on your
24 recommendation. Correct?

25 THE WITNESS: That's correct.

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1 COMMISSIONER JONES: So your recommendation to
2 us is to not address the prudence of this project at
3 this time?

4 THE WITNESS: That's correct.

5 COMMISSIONER JONES: Did you and Ms. Williams go
6 through a thorough review of the documents as evidenced
7 yesterday by Mr. Tallman on the Merwin project, as well
8 as for the Bridger project?

9 THE WITNESS: Thorough, I don't -- it's a
10 qualifying word that I can't -- I -- we looked at the
11 documents, but I would say, no, a thorough review was
12 not conducted.

13 COMMISSIONER JONES: You heard the questions
14 back and forth with Tallman and Ralston on these
15 projects, did you not?

16 THE WITNESS: I did.

17 COMMISSIONER JONES: I think no parties contest
18 that the project went into service, at least the Bridger
19 Unit 2 upgrade went into service in the year 2013, is
20 used and useful. I think Ms. Reynolds admitted that on
21 the stand. Right?

22 THE WITNESS: That's right.

23 COMMISSIONER JONES: There's no question about
24 use and useful standard for the Bridger Unit 2. Right?

25 THE WITNESS: That's correct. But that's

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1 dependent on when we're evaluating the case, what the
2 timeline -- what the cutoff date is.

3 If we're evaluating the case from a cutoff date
4 of January of 2013, then at that point in time, no, it
5 was not used and useful. But, yes, you're correct in
6 stating that it is currently today used and useful.

7 COMMISSIONER JONES: Yes, I should have
8 clarified that for the purposes of your recommendation
9 of the case, January 11th versus today, August, what is
10 it, August 27, it's a different timeline.

11 But back to the Merwin fish collector project.
12 You also reserved judgment, and Ms. Williams did, on the
13 prudence of that project. Correct?

14 THE WITNESS: Correct.

15 COMMISSIONER JONES: That project, with three
16 phases as Mr. Tallman indicated yesterday, will go into
17 service finally sometime in the spring of 2014. Right?

18 THE WITNESS: That's the company's prediction,
19 yes.

20 COMMISSIONER JONES: For the Bridger Unit 2
21 upgrade, there were questions today of Mr. Ralston. So
22 did you receive documentation on the cost effectiveness
23 of that project and the various issues involved in the
24 Unit 2 upgrade as part of an IRP filing or another
25 filing with the commission?

0451

1 THE WITNESS: I received some documentation
2 through this filing, yes.

3 COMMISSIONER JONES: Is there any difference in
4 the way you would treat coal fire, a fossil fire
5 project, a turbine upgrade for Bridger, as opposed to a
6 Merwin fish collector hydro project, either under a use
7 or useful standard or a prudence standard?

8 THE WITNESS: There may be reason for that, yes.
9 I think that they're very different types of
10 investments. The fish upgrades in this particular case
11 came about as a result of FERC relicensing processes,
12 so in some sense these are our required additions and
13 they're not revenue producing. Bridger, on the other
14 hand, was not required, and the company has submitted an
15 economic analysis of that investment with this filing.

16 So I look at -- I'm going to step back here and
17 sort of look at this issue a little bit more broadly. I
18 think for investments like Bridger, the company decides
19 to make that investment because it makes financial sense
20 to them at the time, irrespective of what we decide to
21 do here, in terms of recovery through rates. The
22 project, looking at the economic analysis, is what --
23 will pay for itself regardless of recovery of
24 depreciation expense.

25 Projects like that, in my opinion, are more --

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1 or less likely, rather, to cause issues with regulatory
2 lag, because the company has an opportunity to make a
3 return, because the investment was worthwhile, so to
4 speak. If it were not, then the company presumably
5 would not have moved forward with that investment.

6 COMMISSIONER JONES: And by the efficiency of
7 the Unit 2 upgrade at Bridger, you're talking about the
8 fact that it's a 12-megawatt addition with no increased
9 fuel input, and it's based on the efficiency of the
10 turbine itself producing kilowatt hours. Correct?

11 THE WITNESS: That's correct.

12 COMMISSIONER JONES: Those are all the questions
13 I have.

14 Thank you.

15 COMMISSIONER GOLTZ: I haven't planned on any,
16 but I'll follow up with one question. Are you saying on
17 the Bridger plant that basically the company's
18 calculation of the benefits and costs of making that
19 investment would necessarily take into account a certain
20 amount of regulatory lag?

21 THE WITNESS: I don't know that the portrayal of
22 costs takes into account regulatory lag explicitly. So
23 that's not what I'm saying. I'm saying that an
24 investment such as Bridger that has demonstrable
25 benefits is not likely or as likely as an investment

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1 that does not have monetary benefits to make economic
2 sense in and of itself.

3 COMMISSIONER GOLTZ: Let me ask you a different
4 question on how this review of projects whose in-service
5 dates postdate the filing date. You received from the
6 company their case, and in there will be a certain
7 amount of cost information for a project that's not yet
8 in service.

9 THE WITNESS: Correct.

10 COMMISSIONER GOLTZ: And I assume that you
11 receive also at that time some estimated costs for their
12 costs -- that either have been incurred or not yet
13 quantified, or they haven't yet been incurred.

14 THE WITNESS: Sure.

15 COMMISSIONER GOLTZ: As the case goes on from
16 the filing date through the filing of staff responsive
17 testimony, rebuttal testimony, through discovery, I
18 assume that more information comes in to make it more
19 complete. Is that true?

20 THE WITNESS: That's correct, yeah.

21 COMMISSIONER GOLTZ: So how do you or how does
22 staff go about getting this other information? Let me
23 flip that. How does the company go about getting you
24 more information? Is it just in response to data
25 requests, where you'd say, hey, give us an update, or

0454

1 are they forthcoming and saying, hey, just want you to
2 know we just put in the new widgets and here's the cost?

3 THE WITNESS: No. The former. We ask a data
4 request, and we request that they update that particular
5 data request as new information becomes available.

6 COMMISSIONER GOLTZ: And that happens in this
7 case?

8 THE WITNESS: It did.

9 COMMISSIONER GOLTZ: And what does that
10 information look like, responses to those cost updates?

11 THE WITNESS: It was a spreadsheet form, so the
12 original spreadsheets would have a certain amount of
13 dollars that were actuals, and then after a known cutoff
14 date would have projected expenditures, and that line of
15 known would move later and later through time as the
16 rate case progresses.

17 COMMISSIONER GOLTZ: Were you able to determine
18 or did you determine that the actuals for these two
19 projects, when they came in, matched pretty well with
20 the estimates? Or did you make that comparison?

21 THE WITNESS: You know, I don't remember
22 offhand. I didn't make -- I made the comparison
23 qualitatively. And I recall that there were substantial
24 differences in some months between projected and
25 actuals, but I don't have the numbers in front of me, so

0455

1 I can't give you some quantitative number.

2 COMMISSIONER GOLTZ: Maybe separately from the
3 Merwin and the Bridger projects, as it progressed
4 through the proceeding, can you give us some idea of the
5 magnitude of the projected costs compared to the --
6 the ratio of projected costs to the actual costs? In
7 other words, are we talking 20 percent, ten percent,
8 five percent, two percent, or can you say?

9 THE WITNESS: No. I believe, and again I'm
10 going to be speaking from memory so this will be subject
11 to check, but I believe for Merwin we were upwards of
12 80. So we're not talking about two or three. We're
13 talking about -- I would admit that it would be a
14 majority of the plan in both of these circumstances for
15 both of these projects.

16 COMMISSIONER GOLTZ: That's at the time you
17 filed your testimony?

18 THE WITNESS: Yes, that was especially true for
19 Bridger, obviously, though, because it was in service in
20 May, whereas Merwin is not even expected to be in
21 service until February of 2014 and beyond. So with
22 Bridger, the known expenses were, yeah, a majority of
23 the total expected project expenditures at the time that
24 the I filed my testimony at least.

25 COMMISSIONER GOLTZ: So tell me a little bit

0456

1 more about how the process works. Was the company
2 person that you're dealing with on Merwin and Bridger,
3 are you guys talking on the phone, clarifying these
4 things as you're moving through the process, or is it
5 all just a data request, data request response, paper
6 process?

7 THE WITNESS: It is almost entirely a data
8 request process. There may be a couple of clarifying
9 questions that I will ask if there is no need to develop
10 a record for -- for clarifying questions, I should say,
11 I will pick up the phone, but in general, it will be
12 through data request.

13 COMMISSIONER GOLTZ: In either of Bridger or the
14 Merwin projects, is there any concern that some of the
15 expenditures were not prudently incurred?

16 THE WITNESS: No, there was not. I will clarify
17 that by saying that a thorough review was not done
18 because we determined early in the process that these
19 two investments were not ripe for this rate case. So,
20 but yes --

21 COMMISSIONER GOLTZ: You're saying that compared
22 to the other ones, the other three with Merwin and
23 Bridger, you're saying that the review of the merits of
24 the costs was more thorough in those than in these?

25 THE WITNESS: Yes.

0457

1 COMMISSIONER GOLTZ: Even for the ones -- I'm
2 not talking about forecasted, I'm talking about the
3 actual costs that were included in their case, you're
4 saying even that review was less intense?

5 THE WITNESS: Yes. I mean, as evidenced through
6 testimony from staff, witness Williams, there was a
7 thorough prudency evaluation for those three
8 investments, and that prudency evaluation was not
9 conducted for Merwin and Bridger.

10 COMMISSIONER GOLTZ: And the prudency evaluation
11 is not just the overall prudency, but the actual cost of
12 the project?

13 THE WITNESS: Exactly.

14 COMMISSIONER GOLTZ: I have nothing further.

15 Thank you.

16 JUDGE MOSS: Anyone else?

17 COMMISSIONER GOLTZ: I was trying to get us to
18 noon, Judge Moss.

19 JUDGE MOSS: I can accomplish that.

20 No, actually, I think we're going to continue on
21 into the lunch hour a little bit, but first we need to
22 see if there's anything else from counsel.

23 MS. WALLACE: If I could ask just a couple
24 questions.

25 JUDGE MOSS: Yes, after the bench questions we

0458

1 allow that.

2 MS. WALLACE: Thank you very much.

3 CROSS-EXAMINATION

4 BY MS. WALLACE:

5 Q. Mr. McGuire, good afternoon.

6 A. Good afternoon.

7 Q. In response to Commissioner Jones, you indicated
8 that regulatory lag isn't as much of the concern for the
9 Jim Bridger turbine upgrade because it will pay for
10 itself, even if not included in the rates. Is that
11 correct?

12 MS. WATSON: Excuse me, Ms. Wallace. I don't
13 think your microphone is on.

14 BY MS. WALLACE:

15 Q. In response to Commissioner Jones, you indicated
16 that regulatory lag isn't as much of a concern for the
17 Jim Bridger turbine upgrade because it will pay for
18 itself even if it's not -- the investment isn't included
19 in rates. Correct?

20 A. I didn't say pay for itself. I don't believe I
21 said those words. If I did, then that's fine, but I can
22 qualify what I meant.

23 Q. Okay.

24 A. In that there are benefits associated with those
25 investments, monetary benefits to the company which

0459

1 presumably offset the cost that the company incurs.

2 Q. But in this case, aren't the monetary benefits
3 of the turbine upgrade being passed through to customers
4 through our pro forma net power costs?

5 A. Currently, yes, but that is not staff's
6 recommendation to continue keeping those costs or those
7 benefits in net power costs, and you can ask those
8 questions of Mr. Gomez, as he will be right here after
9 lunch.

10 Q. Staff is planning to change its position and now
11 state that those should be removed from net power cost
12 on --

13 A. You should ask those questions of Mr. Gomez,
14 yes.

15 Q. Okay. Thank you.

16 But currently, based on the company's proposal,
17 they're both -- the cost of the investment for the
18 turbine upgrade would be included in rates as well as
19 the economic benefits of the upgrade?

20 A. It would. I'm in agreement that if Bridger is
21 taken out of rates it should also be taken out of the
22 power cost model.

23 MS. WALLACE: Thank you.

24 JUDGE MOSS: Mr. McGuire, I think that concludes
25 the examination, and you may step down from the stand.

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1 We appreciate you being here with us this morning.

2 The next witness is Williams, for whom no cross
3 is indicated. And it's my understanding the bench has
4 no questions for Williams either, so that's since the
5 prefile material has been stipulated in.

6 We're going to press ahead a little bit into the
7 luncheon hour and complete, assuming nothing
8 extraordinary, Ms. Erdahl and Mr. Zawislak. Ms. Huang
9 is another witness for whom no cross was indicated -- it
10 was indicated but waived.

11 I don't know, does the bench have any questions
12 for her?

13 COMMISSIONER GOLTZ: For Ms. Huang, yes.

14 JUDGE MOSS: Okay. So we'll have those three
15 witnesses then, and hopefully complete that, and then
16 we'll break for lunch, and the restaurants will be less
17 crowded.

18 So let's have Ms. Erdahl.

19 BETTY A. ERDAHL

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

22 THE WITNESS: Yes, I do.

23 JUDGE MOSS: Please be seated. Thank you.

24 Public counsel has indicated about five minutes
25 of cross for Ms. Erdahl. Ms. Gafken, do you still have

0461

1 questions for this witness?

2 MS. GAFKEN: Yes, it should be very brief.

3 CROSS-EXAMINATION

4 BY MS. GAFKEN:

5 Q. Good afternoon, Ms. Erdahl.

6 A. Good afternoon.

7 Q. Please turn to your testimony, BAE-1T. If you'd
8 go to page 6, there's testimony beginning on line 21 and
9 wrapping over to page 7, line two.

10 A. Okay.

11 Q. There you testify that PacifiCorp's
12 end-of-period rate base proposal violates the matching
13 principle. Correct?

14 A. Correct.

15 Q. In order to afford violating the matching
16 principle when using end-of-period raise base revenues
17 and expenses must also be adjusted to reflect end of
18 period values. Is that correct?

19 A. That's correct.

20 Q. Are you familiar with the adjustments public
21 counsel proposed for Mr. Dittmer's testimony to match
22 end-of-period revenues and depreciation expense with the
23 use of end-of-period rate base?

24 A. Yes, I read his testimony.

25 Q. Do those adjustments allow for proper matching

0462

1 of rate-based revenues and expenses?

2 A. I cannot say. Staff did not make an adjustment
3 such as that, and it's unclear whether the revenue
4 calculation is appropriate or not.

5 Q. And end-of-period rate base is one mechanism
6 that can be used to address regulatory lag. Is that
7 correct?

8 A. Yes, it is.

9 MS. GAFKEN: Thank you. I have no further
10 questions.

11 JUDGE MOSS: Thank you.

12 Anything from the bench? Nothing.

13 Ms. Erdahl, I suppose that was mercifully brief
14 for you.

15 THE WITNESS: Thank you.

16 JUDGE MOSS: I think that concludes our
17 examination. Thank you for your testimony this
18 afternoon.

19 THE WITNESS: You're welcome.

20 JUDGE MOSS: We'll have Ms. Huang next.

21 JOANNA HUANG

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

24 THE WITNESS: I do.

25 JUDGE MOSS: Please be seated. Thank you.

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1 I'll give you a moment to get yourself situated
2 there.

3 Do you want to do anything preliminary with
4 Ms. Huang?

5 MR. CEDARBAUM: Not that I'm aware of.

6 JUDGE MOSS: She can wave or something. All
7 right.

8 I believe we have some questions from you from
9 Commission Goltz.

10 COMMISSIONER GOLTZ: Thank you.

11 I just have a couple of questions about
12 adjustment 6.3 and depreciation rates. So if you could
13 turn to page 8 of your testimony, JH-1T.

14 THE WITNESS: Page what?

15 COMMISSIONER GOLTZ: Page 8. So that shows a
16 list of contested adjustments that you explained are
17 contested only due to differences in the allocation
18 factors used to derive Washington allocated costs. Is
19 that correct?

20 THE WITNESS: Yes.

21 COMMISSIONER GOLTZ: One of the items is
22 adjustment 6.3, proposed depreciation rates.

23 THE WITNESS: Yes.

24 COMMISSIONER GOLTZ: And in footnote one, you
25 state that staff's adjustment 6.3 reflects the revised

0464

1 depreciation rates proposed by the company in docket
2 UE-130052 and that docket is still pending before the
3 commission. Correct?

4 THE WITNESS: Yes.

5 COMMISSIONER GOLTZ: And staff used those
6 revised depreciation rates, used in the company's direct
7 case, are acceptable for appropriate and reasonable for
8 rate making purposes in this proceeding?

9 THE WITNESS: Yes.

10 COMMISSIONER GOLTZ: But in the rebuttal filing,
11 is it true that witness Mr. McDougal made three
12 revisions to adjustment 6.3, and one of them is a
13 reflection of depreciation expenses on an annualized
14 basis be consistent with the company end-of-period rate
15 base rather than the average or monthly averages?

16 THE WITNESS: Yes.

17 COMMISSIONER GOLTZ: Staff opposed reflection of
18 rate base on an end-of-period basis. So is it correct
19 to say that staff does not agree with the annualized
20 depreciation expense revision?

21 THE WITNESS: Staff agree with AMA instead of
22 end-of-period adjustment on the depreciation.

23 COMMISSIONER GOLTZ: Right. But they made -- in
24 other words, but in the footnote you agree with the
25 revisions in the staff's -- pardon me, in the company's

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1 direct case, or the rates used in the company's direct
2 case, and on rebuttal haven't they changed somewhat?

3 THE WITNESS: I don't disagree with the public
4 counsel's adjustment. I disagree with company's
5 original proposal using end-of-period adjustment. So
6 what we do in this adjustment is we just -- I just match
7 with Betty Erdahl's adjustment and Chris McGuire
8 adjustment, using AMA instead of end of period. That's
9 all I want to say here.

10 COMMISSIONER GOLTZ: So do I understand
11 correctly that Mr. McDougal used updated depreciation
12 rates in his rebuttal testimony?

13 THE WITNESS: He did.

14 COMMISSIONER GOLTZ: Are those acceptable to
15 staff? In other words, your footnote talks about the
16 direct case. I'm trying to sort of update it to the
17 company's rebuttal case.

18 THE WITNESS: The rebuttal case reduce the
19 depreciation adjustment from 792 down to like 345,000
20 decrease. So I agree with the company's adjustment to
21 reflect the newer depreciation rate.

22 COMMISSIONER GOLTZ: Mr. McDougal also testifies
23 that if further depreciation rate changes are made by
24 other jurisdictions, the company is proposing to defer
25 any additional reductions to depreciation expense. Does

0466

1 staff have a position with that proposal?

2 THE WITNESS: No, I don't.

3 COMMISSIONER GOLTZ: Okay. I have nothing
4 further.

5 Thanks.

6 JUDGE MOSS: All right. Well, there are no
7 questions from counsel for you.

8 Anything, Mr. Cedarbaum?

9 MR. CEDARBAUM: (Shakes head.)

10 JUDGE MOSS: Ms. Huang, thank you for being here
11 today. We appreciate your testimony, and you may step
12 down.

13 THE WITNESS: Thank you.

14 JUDGE MOSS: We have Mr. Zawislak next.

15 TIMOTHY W. ZAWISLAK

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

18 JUDGE MOSS: Thank you. Please be seated.

19 MR. CEDARBAUM: Your Honor, my understanding is
20 the witness has a couple of corrections to make. If he
21 could be permitted to did that.

22 JUDGE MOSS: That would be just fine.

23 Go ahead, Mr. Zawislak, make your corrections.

24 THE WITNESS: Sure, okay, thank you.

25 In my Exhibit TWZ-1T, at page 3, line 10, it

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1 states that the commission has adopted, and I would like
2 that to be reworded to "the commission has accepted."

3 And then the same type of correction on page 6,
4 and the line number is line 13 on page 6. Instead of
5 "adopted by the commission," it should be "accepted by
6 the commission." And those are my two changes.

7 Thank you.

8 JUDGE MOSS: All right. Thank you.

9 With that, I believe public counsel has
10 indicated five minutes of cross. Is that right,
11 Ms. Gafken?

12 MS. GAFKEN: Yes.

13 CROSS-EXAMINATION

14 BY MS. GAFKEN:

15 Q. Good afternoon.

16 A. Good afternoon.

17 Q. In your direct testimony, you agree with
18 PacifiCorp's adjustment to the working capital model.
19 Is that correct?

20 A. Yes.

21 Q. And the working capital model was proposed by
22 staff in PacifiCorp's 2010 rate case in docket
23 UE-100749. Correct?

24 A. That's correct.

25 Q. And the working capital model that staff

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1 proposed was accepted in docket UE-100749. Correct?

2 A. Correct.

3 Q. Is it true that most, if not all, of the
4 accounts that PacifiCorp has reclassified in this case
5 with respect to its working capital calculation existed
6 at the time docket UE-100749 was being considered?

7 A. Yes.

8 MS. GAFKEN: I have nothing further.

9 Thank you.

10 JUDGE MOSS: All right. Anything from the
11 bench?

12 CHAIRMAN DANNER: Yesterday Commissioner Jones
13 asked a company witness about the use of
14 investor-supplied working capital in other states they
15 use lead-lag studies, and I know that in the past we
16 have accepted ISWC. What is your view about lead-lag?
17 Would that be an appropriate methodology here in
18 Washington?

19 THE WITNESS: From my experience, I haven't been
20 involved with a lead-lag study, and I would say that the
21 investor-supplied working capital methodology is the
22 most appropriate because it focuses on that part of
23 working capital that is supplied by investors.

24 The lead-lag, I think part of the problem that
25 has been perceived in the past with that is that it

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1 doesn't focus on who provided the working capital versus
2 rate payors versus investors, and so from my experience,
3 the investor-supplied working capital is the most
4 appropriate methodology, and, in fact, the lead-lag was
5 not proposed in this case, and so I didn't have an
6 opportunity to review that.

7 CHAIRMAN DANNER: No, you know, this is more of
8 just sort of a thinking-out-loud kind of question,
9 because I know it is used in every other state in this
10 jurisdiction. In fact, it's widely used in the company
11 service territory, it's widely used by other utilities,
12 and we're kind in a minority, and I'm just, you know,
13 just as a larger issue wanted to find out your views on
14 that. I think we can save that discussion for another
15 day.

16 Thank you for your comments.

17 COMMISSIONER JONES: Good afternoon. It's past
18 the noon hour. I won't delay too much here, just a
19 couple of questions. Did you hear my colloquy with
20 Mr. Stuver yesterday?

21 THE WITNESS: I did. I was in the room.

22 COMMISSIONER JONES: I'm still trying to sort
23 out this issue of, quote, current versus noncurrent
24 issues in FERC Form 1 and the Uniform System of
25 Accounts. Can you clarify that for me? I do have a

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1 concern if we are moving away from Uniform System of
2 Account Standards for this sort of regulatory
3 classification.

4 Could you just state your opinion on that again?
5 I think you referred to it in your testimony, either on
6 page 3 or 4. Maybe page 3. Maybe you didn't. Or maybe
7 you just referred for Mr. Stuver's characterization of
8 that and support his testimony.

9 THE WITNESS: I think it may be helpful in this
10 regard to refer to my, both my exhibits TWZ-2 and TWZ-3.
11 TWZ-2 is a summary of essentially the FERC Form 1
12 balance sheet.

13 COMMISSIONER JONES: Okay.

14 THE WITNESS: In the column D listed as total
15 company balance sheet, June 30th, 2012, AMA, you could
16 see the balance sheet is in balance. There's assets on
17 the top and then liabilities and equity on the bottom,
18 and so approximately 20 billion in assets and 20 billion
19 in liabilities and equity.

20 So from my perspective, looking at
21 investor-supplied working capital, what is referred to
22 as the balance sheet method, it really stems from the
23 use of the FERC Form 1, although the refinements that
24 Mr. Stuver proposed really drill down deeper into the
25 sub accounts and the general ledger accounts, and so he

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1 was able to identify some accounts that were possibly
2 overlooked in the past that were not earning a return,
3 and otherwise should earn a return because of the
4 investors had supplied the capital for those
5 investments.

6 COMMISSIONER JONES: Just to clarify,
7 Mr. Zawislak, under the column B account series, those
8 are FERC account numbers?

9 THE WITNESS: Correct.

10 COMMISSIONER JONES: Okay. I think I asked
11 Mr. Stuver this question yesterday, but I'll ask you as
12 well. The proposed adjustment, if you refer to his
13 DKS-2 -- do you have that in front of you?

14 THE WITNESS: I do. I can access that. I have
15 that.

16 COMMISSIONER JONES: So the impact on rate is
17 28.5 billion, which you agree. Right?

18 THE WITNESS: Yes.

19 COMMISSIONER JONES: The impact system-wide is
20 493 million, is it not?

21 THE WITNESS: That's correct.

22 COMMISSIONER JONES: So my question is more of a
23 general one. This is a big adjustment. So did staff
24 come up with this on its own, or was this brought to
25 your attention by the company in this rate case?

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1 THE WITNESS: In this rate case, the company
2 supplied a work paper in support of Mr. Stuver's
3 exhibit, and the work paper essentially took the
4 investor-supplied working capital calculation from the
5 2010 litigated case and updated it with the new test
6 period for June 2012, period ending.

7 So essentially they actually provided both what
8 the methodology was at the time of the 2010 rate case
9 and then an additional tab in the work paper provided
10 what the result was based on the refinements that
11 Mr. Stuver proposed. In my testimony, I summarize those
12 two refinements as post retirement benefits and
13 derivatives. So I just generally summarize the two
14 groups.

15 COMMISSIONER JONES: Okay. I think I understand
16 your answer. So that's all I have. Those are all my
17 questions.

18 JUDGE MOSS: Anything else?

19 I just have a point of curiosity on this. I
20 recognize your answer is subject to the understanding
21 that investor-supplied working capital is one of several
22 available methodologies to do this. They are
23 conceptually different, they produce different results.
24 So I'm not trying to ask you to make any sort of
25 apples-to-apples comparison.

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1 I'm just curious as to we're talking about
2 \$28,500,000 in working capital allocated to the state of
3 Washington. Do you know how that stacks up against the
4 working capital allowances in the other jurisdictions?

5 THE WITNESS: I do not. I have not.

6 JUDGE MOSS: I wouldn't necessarily expect you
7 to, I just thought you might.

8 Thank you very much.

9 THE WITNESS: Sure.

10 JUDGE MOSS: Okay. Anything? No. All right.
11 Very good.

12 Thank you for being with us this afternoon, and
13 with that, you can step down from the stand.

14 THE WITNESS: Thank you.

15 JUDGE MOSS: Now, in terms of our rest of our
16 schedule. Nightingale, there's no cross indicated, and
17 I don't believe there's anything from the bench. The
18 same with Watkins, same with Dittmer. So what we're
19 going to do then is we'll just acknowledge for the
20 record that those prefiled testimonies and exhibits have
21 been accepted into the record.

22 After lunch we'll take up Mr. Gomez, the staff
23 power cost witness, and then we've got a couple of
24 witnesses, public counsel and Boise. Mr. Eberdt,
25 there's no cross indicated, but he'll be part of the

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1 panel on the settlement of rate spread rate design and
2 cost of service.

3 So that's our plan for the afternoon, and with
4 that, unless there's something the parties wish to bring
5 up at this moment, we can take our luncheon recess, and
6 let's be back at 1:30.

7 (A luncheon recess was taken from 12:20 p.m. to
8 1:32 p.m.)

9 JUDGE MOSS: Let's be back on the record.

10 Before we turn to Mr. Gomez, before the next
11 witness, I have a bench request. I've previously
12 discussed with the counsel for the company that my
13 numbers are all askew on these things because we had
14 some early bench requests that we decided not to make
15 exhibits.

16 In any event, under the system I'm using, this
17 will bench request No. 7. The bench request I guess is
18 primarily directed to Ms. Kendra White, but the company
19 may need to take a hand in getting what the commission
20 wants, and may of course file its own response, in any
21 event, as may any party.

22 But what we're concerned about, what we'd like
23 to have, is be sure that we have an accurate portrayal
24 of what is currently in the record as Exhibit KAW-4,
25 which shows the plant additions for Washington,

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1 Washington control area, and non-Washington control
2 area. There seemed to be a little bit of confusion
3 about that. And, for example, it seemed like perhaps
4 Jim Bridger was not properly accounted for in this
5 chart, and perhaps some associated facilities or plant.
6 So, in any event, we'd like to have that exhibit updated
7 to reflect the accurate information.

8 I don't know if Ms. White currently has all the
9 accurate information she needs, or might have some
10 questions for you, or whether you would just work with
11 her in whatever capacity is needed to get that to the
12 commissioners or for the record for our purposes.

13 Thanks very much.

14 Now, with that, I believe we are ready for
15 Mr. Gomez.

16 Please raise your right hand.

17 DAVID GOMEZ

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

20 THE WITNESS: I do.

21 JUDGE MOSS: Thank you. Please be seated.

22 Anything preliminary?

23 MR. CEDARBAUM: Not that I know of.

24 JUDGE MOSS: Very good. Everybody did a good
25 job getting all the scrivener's errors and so forth

0476

1 taken care in advance.

2 We cross indicated 45 minutes from PacifiCorp
3 and ten minutes from public counsel, and apparently that
4 is still the case. So I'll turn to the company first.

5 MS. McDOWELL: Thank you, Your Honor.

6 CROSS-EXAMINATION?

7 BY MS. McDOWELL:

8 Q. Good afternoon, Mr. Gomez.

9 A. Good afternoon.

10 Q. Could you turn to page 10. I want to direct
11 your attention to pages 12 to 14, please. Are you with
12 me?

13 A. Yes.

14 Q. There you testify that situs allocation of the
15 QF contracts protects Washington rate payors from uneven
16 and policy-driven differences among the states regarding
17 the acquisition and pricing of QF power. Do you see
18 that?

19 A. Yes, I do.

20 Q. So I just wanted to ask you as a predicate
21 matter, before I get into some of the questions I have
22 about the policy differences, isn't it true that no
23 matter how QT contracts are allocated to Washington,
24 this commission has the authority to protect Washington
25 customers from unreasonable QF costs through the

0477

1 prudence review process? Does the commission always
2 retain that authority?

3 A. Yes. However under the WCA allocation
4 methodology, it is already an established treatment for
5 those costs; of course the QF PPAs, which is what you're
6 referring. And the commission's decision in the past,
7 or at least the commission's current treatment for QF
8 power costs is situs allocation.

9 Q. Correct. I'm going to ask you about that. But
10 first I just wanted to get clear that no matter how the
11 commission decides that issue, the commission retains
12 the ability to review any QT contract for prudence.

13 Correct?

14 A. Yes.

15 Q. If it determines it's overpriced or otherwise
16 imprudent it can disallow it. Correct?

17 A. Yes.

18 Q. So on the policy set of issues that you
19 reference here I wanted to ask you about, were you here
20 yesterday when Mr. Duvall testified?

21 A. Yes.

22 Q. Do you recall that he testified that in his
23 opinions the state policies of Washington on QF
24 contracts were quite similar to those of Oregon and
25 California? Do you recall that testimony?

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1 A. Yes.

2 Q. So Mr. Duvall was also asked about your response
3 to a data request, and it's PacifiCorp's data request
4 1.21, which is PacifiCorp's Cross Exhibit 5X, DCG-5X.
5 Do you have that?

6 A. Yes.

7 Q. And in that response you were asked to cite the
8 state QF policies responsible for the recent and
9 substantial expansion of PacifiCorp's QF contracts in
10 Oregon and California. Is that correct?

11 A. Yes.

12 Q. This is your response to that question?

13 A. Yes.

14 Q. In this response, you attribute the increase in
15 Oregon QFs to a 2005 report from the Oregon commission
16 on distributed generation. Correct?

17 A. Yes.

18 Q. And according to your data response, the PUC
19 report, the Oregon PUC report was intended to, quote,
20 identify and remove the regulatory barriers to the
21 development of distributed generation, and then the
22 Oregon commission implemented those recommendations in
23 docket UM-1129. Is that a fair summary?

24 A. Are you citing from my response?

25 Q. That's correct. Down in the last paragraph

0479

1 there. I'm just summarizing your response and asking if
2 that's a fair summary.

3 A. Yes.

4 Q. Do you recall Mr. Duvall's testimony yesterday
5 regarding a similar report issued by the Washington
6 commission on distributed generation?

7 A. I wouldn't characterize them as similar. I
8 think that there's significant differences between.

9 Q. Well, let's look at that report, DCG-7CX.
10 That's the report. Can you take a look at that?

11 A. Yes.

12 Q. So you recognize this as the Washington
13 commission's report on distributed generation. Correct?

14 A. Yes.

15 Q. The commission prepared this report in 2011.
16 Correct?

17 A. Yes.

18 Q. And if you turn to page 4.

19 A. Yes.

20 Q. In the paragraph that's entitled context and
21 background, that first paragraph --

22 A. I'm not finding that.

23 JUDGE MOSS: It's page 4 of the exhibit, that is
24 page 1 of the report.

25 MS. McDOWELL: Yes. I'm sorry if that was

0480

1 confusing.

2 BY MS. McDOWELL:

3 Q. Page 4 of the exhibit, on the introduction.

4 A. Yes.

5 Q. There the report indicates that the Washington
6 legislature was conducting a project to, quote, identify
7 and develop a set of policy actions to advance
8 distributed energy in Washington, including potential
9 legislation to encourage the growth of distributed
10 generation in the state. Do you see that?

11 A. Which -- I'm sorry? Where are you referring to
12 that? Oh, I see it.

13 Q. I'm in the first sentence.

14 A. I see it.

15 Q. And so the committee then requested that the
16 Washington commission contribute to that project by
17 conducting a study of distributed generation issues
18 applicable to investor-owned utilities. Do you see
19 that?

20 A. Yes.

21 Q. So the stated purpose of the Washington
22 distributed generation report is quite similar, isn't
23 it, to the stated purpose of the PUC's report, which was
24 to identify and remove regulatory barriers to the
25 development of distributed generation? Would you agree?

0481

1 A. I think that the report that you cite in terms
2 of the Oregon commission was a starting point, I believe
3 one of many starting points, for the commission, in this
4 case the Oregon commission, to explore issues, which
5 included its own state's QF PURPA policies.

6 And the Oregon commission is much further along
7 in refining QF PURPA policy differences, or at least in
8 this case there's significant differences between
9 current Washington QF PURPA policies, and that's where
10 we examined in this case is those established and
11 already differences that are actually in policy.

12 The commission's report you refer to is simply a
13 starting point, in this case 2011. The outcome of some
14 of those policies have yet to be determined. In the
15 case of Oregon, those policies in some cases with
16 significant impacts to power costs in this case have
17 already been established.

18 Q. So you're referring to the fact that the report
19 in Oregon was issued in 2005, and the report in
20 Washington was issued sometime later, and the Oregon
21 report is just further along in terms of implementation?

22 A. Well, I think that if you explore it further,
23 you will see that the Oregon commission has actually
24 issued orders that in this case have impacted power
25 costs, or QF PURPA policies that have already been

0482

1 implemented in orders that have made an impact.

2 I think that you're reliance on this earlier
3 report from the commission, in this case commission
4 staff in Oregon, is not the point. The point is that
5 the commission, Oregon, has issued some significant
6 orders, and some orders that have made some big impacts
7 with regards to QF power costs.

8 Q. Well, Mr. Gomez, just to be clear, the
9 distributed generation reference was in your data
10 request response, correct, when you were asked what the
11 source of the state policy in Oregon was?

12 A. Yes. I think that that is correct. But I think
13 that it's pretty difficult to tell the entire story, and
14 I think that with -- given the response that I provided,
15 I think that there is more to tell. But I think that
16 the QF policy differences between Oregon and Washington
17 are not what's at issue here.

18 What's at issue here is what the impact is on
19 costs, and whether or not they are -- support situs
20 allocation, which in staff's view is what's appropriate
21 given the nature and the identifiability of each of
22 those differences and their impacts to power costs.

23 Q. So your testimony today is that the policy
24 issues that -- distinctions between Oregon and
25 Washington on QF policies are not relevant, it's a cost

0483

1 issue?

2 A. No, that's not what I'm saying. I'm saying that
3 the policy differences are different enough to make an
4 impact on power costs.

5 Q. Well, let me just ask you one more question
6 about this report. On page 6 of the exhibit, page 3 of
7 the report --

8 A. You're talking about the Washington report?

9 Q. That's correct. It's DGC-7CX.

10 A. Okay.

11 Q. So there there's a set of recommendations for
12 the UTC to address through its current statutory
13 authority. Do you see that? That's about the middle of
14 the page.

15 A. Yes.

16 Q. And then one of those recommendations, the last
17 bullet on the page, is to provide greater certainty for
18 developers of distributed generation through longer
19 durations and/or offer PURPA contracts. Do you see
20 that?

21 A. Yes, I do.

22 Q. This report was issued -- I think we discussed
23 it was issued in April of 2011. Correct?

24 A. Yes.

25 Q. So then can you turn to it's Cross Exhibit

0484

1 DG-4CX.

2 A. Yes.

3 Q. This is a staff memo on PacifiCorp's last
4 Schedule 37 filing in Washington. Is that correct?

5 A. Yes.

6 Q. There doesn't the report indicate that at
7 staff's request PacifiCorp had extended the duration of
8 the tariff from five to ten years? Do you see that?

9 A. Yes, I do, but I do not agree with that
10 interpretation. In fact, the exhibit that you've
11 provided is actually from a DR to staff, PacifiCorp
12 DR No. 1.26, and which I respond directly to and clarify
13 staff's position relative to this memo.

14 Q. Well, isn't it true that in response to this
15 memo PacifiCorp did file a ten-year stream of prices in
16 its Schedule 37 tariff?

17 A. But that's not the same as what the company
18 has -- the company had -- the company had expressed in
19 that DR. In fact, if you look at the actual tariff
20 today, Schedule 37, you will see that the company's
21 tariff page, and I'm referring to the tariff page 37.2,
22 it states that avoided cost rates are fixed for five
23 years.

24 So I think in my response to the DR I explain
25 that all that's been provided is a greater visibility

0485

1 over a ten-year period of what the forward price curves
2 are, and it's just simply for planning purposes, before
3 the case -- for issuing a -- in terms of what fixed
4 costs are allowed to be for a QF, and a QF that's
5 significantly smaller than would be allowed, say, in
6 Oregon, fixed prices are limited to a five-year period.

7 I urge the company to check the tariff. If it's
8 incorrect, I believe the company should fix that.

9 Q. The issue that I was asking you about is
10 ten-year stream of prices that was added. You agree
11 that there was a ten-year stream of prices that were
12 added to that tariff?

13 A. Correct. Only for visibility purposes.

14 Q. And that assists developers in negotiating
15 potentially longer nonstandard contracts with
16 PacifiCorp. Correct?

17 A. If you say so.

18 Q. Well, I'm asking you.

19 A. I guess, yes.

20 Q. Developers can enter into nonstandard QF
21 contracts up to 20 years in Washington, can't they?

22 A. They can.

23 Q. And in that instance, having a longer strip of
24 prices would be useful in those negotiations. Correct?

25 A. They would. But I think the important thing to

0486

1 bring out, and I think that the major difference that
2 you're trying to make a connection here, is nonstandard
3 and standard. Schedule 37 refers to a standard contract
4 offering. I think what you're referring to is
5 nonstandard, and nonstandard is not, in my
6 understanding, is not covered under Schedule 37.

7 Q. Fair enough.

8 Let me switch gears and ask you about the cost
9 allocation impact of removing Oregon and California QFs
10 from the case. Let me just step back for a second and
11 say under a situs allocation of QFs would you agree that
12 Washington QF's would be deemed to serve only Washington
13 loads? Is that right?

14 A. No.

15 Q. So how is it that under a situs allocation of
16 QFs Washington QF's would be deemed to serve loads
17 outside of Washington?

18 A. Are you referring to my testimony?

19 Q. No. I'm just asking you generally if you situs
20 assign QFs, which is what your proposal is here, do you
21 agree that those situs-assigned QFs would serve only
22 Washington loads?

23 A. I don't think that's what's material here. I
24 think that what we're talking about is the assignment of
25 costs. That's what the WCA does. It doesn't really

0487

1 speak to what the actual flow of power is. Every --

2 Q. I'm sorry --

3 A. -- electron of power is accounted for in the
4 grid model in the run.

5 Q. I'm not making myself clear. Your adjustment
6 removes QFs from the net power cost study. Correct?

7 A. That's correct.

8 Q. In doing that, wouldn't you agree that the
9 removal of the QFs from the net power cost study also
10 would impact the allocation factors that would be
11 applied in this case?

12 A. Which allocation factors are you specifically
13 talking about?

14 Q. It would impact factors related to loads.
15 Right? Because as you remove those QFs, the QFs that
16 are serving Washington only serve Washington loads, the
17 Oregon QFs only serve Oregon loads, and the California
18 QFs only serve California loads. So if they're removed
19 from the net power cost study, wouldn't you also need to
20 remove the loads in Oregon and California that are
21 served by those QF contracts?

22 A. No.

23 Q. Well, otherwise aren't you ending up with those
24 loads in California and Oregon that are being served by
25 those QF contracts also paying a portion of Washington's

0488

1 QFs?

2 A. I think I'm not making myself really clear with
3 regards to your connection of flow of power with regards
4 to assignment of costs. I think we're talking about two
5 different things.

6 Q. I'm talking about the net power cost impact of
7 your adjustment, and then the allocation impact of your
8 adjustment.

9 A. Again, I'm struggling to understand the
10 question, if there's one in there.

11 Q. So can I have you turn to page 23 of your
12 testimony.

13 A. All right.

14 Q. At lines 11 through 16 of your testimony you
15 state that the fundamental question of whether a PCAM is
16 both practical and appropriate -- that you reviewed the
17 fundamental question of whether a PCAM is both practical
18 and appropriate at this time for the company. Do you
19 see that?

20 A. Yes.

21 Q. You have concluded that the company faced net
22 power cost variability sufficient to justify the
23 mechanism. Do you see that testimony?

24 A. Yes.

25 Q. As part of that review, you considered the

0489

1 expanded role today of renewable resources within the
2 company's generation portfolio. Correct?

3 A. Yes.

4 Q. Do you recall that the company asked through a
5 data request about your analysis in support of this
6 statement? And I believe that's your cross
7 Exhibit 6-CX.

8 A. I don't -- yeah, I got it.

9 Q. In that data request response, you indicated
10 that your analysis found that PacifiCorp's net power
11 cost variability was in the range of 67 million above
12 and below a mean of approximately 507 million. Do you
13 see that?

14 A. Yes.

15 Q. And you also noted in that response that that
16 variability was larger than the variability of 26
17 million that staff found in the company's 2006 general
18 rate case. Correct?

19 A. Yes.

20 Q. Given the fact that PacifiCorp is looking at a
21 net power cost variance that's significantly higher than
22 it faced in 2006, wouldn't a properly designed PCAM
23 today be different than a properly designed PCAM would
24 have been in 2006?

25 A. I don't think that really is what matters. I

0490

1 think what matters is the boundary conditions, or at
2 least the threshold conditions that the commission have
3 established in its order regarding what properly
4 designed PCAM mechanisms would be for PacifiCorp. I
5 think the commission was very clear in that order. I
6 believe it's in the 2005 order. That it said that -- it
7 said in that order that properly designed PCAM would
8 have the sharing of risks between shareholders and rate
9 payors, and given that they're not present, I think that
10 the -- any further examination of the company's PCAM
11 proposal is unnecessary.

12 Q. And that conclusion in the commissioner's order
13 was based on their finding that power cost distribution
14 was asymmetrical. Correct?

15 A. No, I don't think it had anything to do with the
16 symmetrical design or asymmetrical nature of the actual
17 bands themselves.

18 I think the first thing you have to determine is
19 is there going to be sharing of risks between
20 shareholders and rate payors. And I think beyond that,
21 then you can have a conversation about what the design
22 is of an actual -- bands, and whether an asymmetrical or
23 symmetrical treatment is appropriate.

24 Q. Now, your ultimate conclusion at the bottom of
25 page 25 is that the commission should wait to implement

0491

1 any PCAM until the MSP process is complete. Is that
2 correct?

3 A. That's correct. That's one of the reasons. I
4 think the first reason being that there's no sharing of
5 risk between rate payors and shareholders.

6 Q. Were you here yesterday when Mr. Dalley
7 testified that the MSP is an ongoing process?

8 A. Yes.

9 Q. So isn't your recommendation one to indefinitely
10 postpone implementation of a PCAM in Washington for
11 PacifiCorp?

12 A. No, that's not it. My understanding, based on
13 what I know, is that there is going to be some kind of a
14 redesign or re-baseline of what the existing MSP or
15 multi-state protocol, I believe is what it's called, is
16 going to look like. I think after that it might be more
17 prudent to have a discussion about what cost allocations
18 may or may not need to look like vis-a-vis the WCA.

19 Q. Given your findings that PacifiCorp is facing
20 variability in the net power cost area in the range of
21 67 million annually, won't the indefinite postponement
22 of a PCAM increase the risk that PacifiCorp will not
23 earn its authorized rate of return in Washington?

24 MR. CEDARBAUM: Your Honor, I'll object to the
25 mischaracterization of the company's witness, because

0492

1 he's not testified there would be an indefinite delay in
2 a PCAM in this state.

3 JUDGE MOSS: It does assumes facts not in
4 evidence.

5 MS. McDOWELL: I can rephrase.

6 BY MS. McDOWELL:

7 Q. Given your findings on the variability of
8 PacifiCorp's net power costs, won't the postponement of
9 a PCAM increase the risk that PacifiCorp will not earn
10 its authorized rate of return in Washington?

11 A. I think that that's a good question for the
12 company to ask itself, why it decided to go against what
13 the commission had ordered with regards to what it
14 wanted to see in a properly designed PCAM, and instead
15 wanted to propose something outside of that. And I
16 think that the delay is, in my opinion, the delay is all
17 on the company, and not on staff.

18 Q. Well, Mr. Gomez, didn't Mr. Duvall in his direct
19 testimony go directly through point by point the
20 commission's previous orders and address each one of
21 them?

22 A. Again, I think in terms of listening to it, I
23 can't really say if he went specifically through each
24 one, but as far as I can tell, my examination, or at
25 least my testimony, speaks to the one very most

0493

1 important, I think, a very important condition that was
2 not met, which is the sharing bands.

3 Q. And that was based on Mr. Duvall's finding that
4 power cost distribution was no longer asymmetrical.
5 Correct?

6 A. Again, that has to do with the design, not with
7 the whether or not there's going to be. The company has
8 stated that there is not going -- that it does not
9 believe that sharing bands are good regulatory policy,
10 so absent of having any bands, whether they're
11 symmetrical or asymmetrical, I think stops the
12 discussion right there.

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

14 I'd like to offer our exhibits, which are
15 Mr. Gomez's Exhibits 4-CX through 7-CX.

16 JUDGE MOSS: Any objection?

17 MR. CEDARBAUM: No.

18 JUDGE MOSS: All right. There will be admitted
19 as marked.

20 (Exhibits DCG-4CX, DCG-5CX, DCG-6CX, DCG-7CX were
21 admitted.)

22 JUDGE MOSS: Ms. Gafken, we'll turn to you.

23 MS. GAFKEN: Your Honor, I have one housekeeping
24 matter with regards to the cross exhibits. It appears
25 that PacifiCorp and public counsel proposed the same

0494

1 cross exhibit for one of them. I proposed one cross
2 exhibit which has been premarked DCG-8CX, and that is
3 the same as the exhibit that was just entered into the
4 record as DCG-6CX. So I would propose just to use 6CX.

5 JUDGE MOSS: All right. Don't offer yours, and
6 you'll have the material you need in the record.

7 MS. GAFKEN: Okay.

8 CROSS-EXAMINATION

9 BY MS. GAFKEN:

10 Q. Good afternoon, Mr. Gomez.

11 A. Good afternoon.

12 Q. If you would turn to Exhibit DCG-6DX. The
13 numbers that are referred to in there, and that the
14 company asked you about, are those company-wide numbers
15 or are those Washington jurisdiction-specific numbers?

16 (Commissioner Jones left the proceedings.)

17 A. I believe those are WCA, but that would be
18 subject to check.

19 Q. My impression was that they were company-wide
20 numbers, so --

21 A. Company-wide. Okay. Subject to check, sure.

22 Q. Mr. Gomez, did you analyze the causes of
23 variability?

24 A. I went through the same examination, or at least
25 in my recollection, of what was done earlier, in the

0495

1 earlier case. Again, I believe I'm referring to the
2 2005. And my examination, kind of trying to replicate
3 the same conditions that would determine whether there
4 were the same conditions that existed in the 2005 case
5 with regards to the company's net power cost were still
6 present, and that's as far as I went in terms of
7 confirming that.

8 Q. Did you look at any of the causes of
9 variability?

10 A. No.

11 Q. Did you determine whether the trend of
12 variability has been up or down in the past few years
13 for PacifiCorp, and in particular PacifiCorp's
14 Washington jurisdiction?

15 A. I believe I looked at some trending, and I think
16 in the -- if you look at the response that I gave, there
17 is a shift upwards in that number, in terms of
18 variability, in terms of I would say is the range, if
19 you will.

20 Q. Are you familiar with Mr. Coppola's testimony on
21 behalf of public counsel on the PCAM topic?

22 A. I'm familiar with -- or not familiar with it,
23 I'm aware of it, but I did not examine it in any detail.
24 I'm saying I read it, but I think I got to read
25 testimony ten times before I actually absorb it.

0496

1 Q. Mr. Gomez, do you have Mr. Coppola's
2 Exhibit SC-16?

3 A. No, I do not, and I'm sorry, I should have
4 probably brought it up. If that could be given to me, I
5 would appreciate it.

6 Q. I'll pass my copy to you.

7 A. Thank you.

8 Okay. I got it.

9 Q. Would you please refer to line 12 of
10 Exhibit SC-16?

11 A. Yes.

12 Q. There do you see that the variability for the
13 years 2010, 2011, 2012 are significantly lower than
14 during the 2007, 2008 and 2009 time periods?

15 A. Yes. I recall seeing this exhibit and
16 Mr. Coppola's testimony, and I remember looking at that,
17 yes.

18 Q. Based on the decreasing variability in the last
19 three years, is your conclusion still that the company
20 faces variability requiring a PCAM?

21 A. I think you're asking me to draw a conclusion
22 based on someone else's work. I guess I can only say
23 what the conclusions were from my work, which is to look
24 at what the exhibit that was provided by I believe
25 Mr. Duvall, vis-a-vis the variability issue in his

0497

1 testimony, and looking at it from the perspective of the
2 previous -- in the 2005, I believe it was, and looking
3 at the variability conditions, and confirming that they
4 were still present. That's as far as I went with that.

5 Again, I think that the -- what limited the
6 scope and depth of my examination was that the company
7 had not met the threshold condition of sharing bands, so
8 there was really no point to spend more time on a
9 position that the company had taken that was a no-go.

10 MS. GAFKEN: I have no further questions.

11 Thank you.

12 JUDGE MOSS: Anything from the bench?

13 COMMISSIONER GOLTZ: No, nothing.

14 MS. McDOWELL: Judge Moss, can I just ask one
15 question to clarify the record?

16 JUDGE MOSS: Sure.

17 RE-CROSS-EXAMINATION

18 BY MS. McDOWELL:

19 Q. Mr. Gomez, when you refer to company-wide, do
20 you mean WCA as opposed to all of the company, five
21 jurisdictions?

22 A. Are you referring to the exhibit that Mr. Duvall
23 provided with regards to variability?

24 Q. Yes. I'm asking the question, I'm following up
25 on the question that you were asked about whether the

0498

1 numbers in your exhibit, which is 6CX, are WCA numbers
2 or Washington numbers. I think you answered
3 company-wide.

4 A. Yeah. That's incorrect. I'm sorry. I'll
5 correct myself. It's WCA.

6 MS. McDOWELL: Thank you. That's all.

7 JUDGE MOSS: Okay. Thank you.

8 CHAIRMAN DANNER: With regard to the PCAM, you
9 said it was just a no-go because you're sharing bands in
10 the proposal that the company made. But you didn't
11 examine -- you didn't do an analysis of the PCAM as
12 proposed to determine whether it was something that
13 could be included in fair, just, and reasonable rates?

14 THE WITNESS: That's correct, Chairman.

15 CHAIRMAN DANNER: You didn't look at, for
16 example, whether the variability, one of the arguments
17 that they made on that, you didn't do any assessment?

18 THE WITNESS: Again, none more in depth than
19 what -- to confirm the company's calculations and the
20 company's position, at least in Mr. Duvall's original
21 testimony, that the variability was present.

22 I think I was satisfied, based on what the
23 commission -- again, relying back on previous commission
24 orders, since this had been an issue, or has been an
25 ongoing issue for the company seeking a PCAM, I thought

0499

1 that it best to start from a position of where the
2 commission has already articulated what it expected to
3 see from the company and use that as a starting point.

4 Again, I think given the number of issues in
5 this case, I thought it prudent to be efficient in that
6 way and to look at that.

7 Now, I think that if the company would have
8 proposed a PCAM that met all of the requirements
9 associated with the order, and what the commission had
10 specified for the company, I think that we would have
11 had a more in-depth analysis of what the company was
12 actually proposing in terms of any design assuring
13 demands, symmetry or asymmetry, a number of those other
14 conversations, but I think that for the purposes of this
15 case, with the absence of sharing bands, it's simply a
16 no-go, at least from staff's position.

17 CHAIRMAN DANNER: If they had come in with a
18 proposal that a minimal or a negligible sharing band,
19 you would have done a different kind of analysis?

20 THE WITNESS: I certainly would have gone
21 further in my analysis, and I think that the -- again,
22 from recollection, in going back, I'd say as I probably
23 then start looking at the design of the sharing bands,
24 but more importantly, I think going through and looking
25 at all of the aspects in terms of the company's proposal

0500

1 of when the base lines are set, how the base lines are
2 set, costs that are in and out.

3 I mean, there's a lot of wrinkles associated
4 with a PCAM that need to be examined, and we would have
5 had to gone down that direction, and we may or may not
6 have had ability to come to an agreement with the
7 company and all parties concerned, but simply without
8 sharing bands, staff's -- that's a no-go.

9 CHAIRMAN DANNER: Thank you.

10 With regard to your discussion of what you call
11 the uneven and policy-driven differences, there the
12 differences you're talking about, you say size of
13 eligible resource. For example I think in this state,
14 PacifiCorp, it's two megawatts. Is that your
15 understanding?

16 THE WITNESS: Well, the size has to do with the
17 standard contract offering in the company's tariff,
18 which is approved by the commission, Schedule 37. The
19 maximum size of a qualifying facility from a nameplate
20 capacity or size is two megawatts. In order to be
21 eligible for standard contract -- that's not to say that
22 larger QFs, you know, have certainly been approved, and
23 have gone into effect, but the fact is that that's the
24 limitation presently.

25 In fact, in looking at the report that the

0501

1 company had talked about in UE-110667, I think there's a
2 number of things that stand out, Chairman, if you're
3 interested, from a perspective of some differences based
4 on that report, and based on my understanding of what
5 our direction is, and there's some differences, and big
6 differences between Oregon, let's say, and Washington,
7 and those impacts have very real implications for power
8 costs, if you're interested.

9 CHAIRMAN DANNER: Yeah, well, please proceed,
10 not all afternoon, but --

11 THE WITNESS: Okay. Standard contract length,
12 for example, if you have the report in front of you, the
13 UE-110667, I'll ask you, Chairman, to go to page 26 of
14 that report in Section 2, and let me know when you're
15 there, Chairman.

16 CHAIRMAN DANNER: I'm there.

17 JUDGE MOSS: Are you talking about exhibit page?

18 THE WITNESS: Exhibit DCG-7CX.

19 JUDGE MOSS: We have two page numbers is my
20 point. We have the page number from the exhibit and
21 then the page number of the report. The page number of
22 the report is in boldface type.

23 THE WITNESS: All right. It's No. 26 of the
24 actual report, 29 of the exhibit.

25 JUDGE MOSS: Thank you.

0502

1 CHAIRMAN DANNER: I'm there. Thank you.

2 THE WITNESS: There's a recommendations section
3 there, and it says that the commission had indicated --
4 let me open it up to make sure -- I'm speaking from
5 notes, and I just want to make sure you all can follow
6 along.

7 It says in there, and it extends on that page 30
8 of the exhibit, 29 of 30, it says that under the
9 recommendation, it said that the commission will not set
10 the length of standard offer contracts. It says that
11 the commission opted instead to allow the companies to
12 continue to define the length of standard offer
13 contracts. I believe I got that correct.

14 Now, if you look at -- if the commission,
15 commissioners, would examine Order 05-584 on page 20,
16 paragraph two, it sets the maximum term of 20 years with
17 an option of fixed pricing for 15 years. That's for
18 standard offer contracts for QFs of ten megawatts and
19 smaller.

20 So again in one of the notes in my testimony, I
21 provide a foot -- footnotes, I provide what that kind of
22 impact would be. Just to set QF contracts, these are
23 wind contracts for Oregon wind QF, and that alone is a
24 \$6.6 million impact, in terms of having a fixed cost for
25 over a 15-year period versus having those QFs that were

0503

1 put into place in 2008 being renewed at current rate
2 costs. So the fixed nature of those have -- that policy
3 decision right there has an impact. Again, that just
4 supports staff's position of situs allocation.

5 I can continue. There's others. At least the
6 three that I've identified.

7 CHAIRMAN DANNER: So the differences really are
8 what you see as different policies or different
9 requirements, and it's not just what we saw in
10 Mr. Duvall's confidential exhibit about the fact that
11 the other states have a head start?

12 THE WITNESS: I think what I'm saying here is
13 that the commission, at least from a standpoint of
14 standard contract length, it appears based on this
15 report that was published in 2011, has made a policy
16 call, at least the way I see it, in terms of the
17 standard contract length, where it has decided not to
18 establish that standard contract length for fixed terms.

19 And, again, standard contract length that I'm
20 referring to is fixed pricing, meaning that the avoided
21 cost is set for a period of time.

22 Those implications can be very big if they apply
23 to a great number of contracts, which in the case of
24 Oregon is -- you know, I guess at least in one set of
25 contracts, this is the Oregon wind QF, which is really

0504

1 one large QF divided up into much smaller pieces by a
2 single developer.

3 Those were put into service, if I understand
4 correctly, in 2008 or '09, and those contracts, if they
5 were -- had been established -- never mind the fact that
6 they are too big to be included as a standard offer
7 contract in Washington and they're Schedule 37 of the
8 company, if those contracts were able to be renewed
9 under, just under the current Oregon schedule avoided
10 cost rates, we'd be looking at a \$6.6 million
11 difference. And that's what my footnote in my testimony
12 talks about.

13 CHAIRMAN DANNER: Again, where is that footnote?

14 THE WITNESS: It's footnote 29. There is an
15 erroneous citation, or it appears to be a citation to a
16 WAC there. I'm sorry, but that's a typo, and should be
17 disregarded.

18 CHAIRMAN DANNER: The cite to 481-07-095?

19 THE WITNESS: That's correct, chairman.

20 CHAIRMAN DANNER: What should that be?

21 THE WITNESS: There is no citation. Forgive me.

22 It's interesting too that staff -- staff had --
23 it had sent out a DR, staff DR 293 to the company, where
24 it asks them to go ahead and reprice all the Oregon QFs,
25 Oregon and California QFs at Washington what it would

0505

1 cost, and that would be Washington what it would cost
2 going back even in time, and kind of a lengthy -- or not
3 a lengthy, but an exercise, if you will, to kind of
4 show, and to isolate another aspect, which is
5 differences in how avoided costs are calculated.

6 And staff looked at those, the company's reply
7 to those DR No. 293, and found that there was a
8 \$3 million difference just in how avoided costs are
9 calculated from state to state.

10 So, again, staff has done a number of checks on
11 this to find that there are differences, and
12 quantifiable differences, with regards to QF policy and
13 its impact on power costs, which further support's
14 staff's position.

15 CHAIRMAN DANNER: That's all I have.

16 JUDGE MOSS: Thank you.

17 MS. McDOWELL: So, Your Honor, in response to
18 that last comment about response to a particular data
19 request, we would like to submit that data request to
20 illustrate what we think -- I mean, I can ask questions
21 about it, but I think the most efficient thing to do
22 would be submit the data request that he's just
23 described so that the commission can see it for itself.
24 It's a complex response. He's characterized it in one
25 way, we would characterize in it a different way.

0506

1 MR. CEDARBAUM: Which data request response?

2 MS. McDOWELL: It's response to staff 293, which
3 asks for repricing of the QFs based on contemporaneous
4 Washington QF prices.

5 MR. CEDARBAUM: Your Honor, if the bench wants
6 it, that's fine, but again this falls into the category
7 of too late, it seems to me. This is information that
8 could have been in the company's case, it could have
9 been distributed in a cross exhibit. Now, again, the
10 last day of hearings getting information, apparently,
11 attempts for information that haven't been
12 predistributed.

13 JUDGE MOSS: All right. Well, while I
14 appreciate your point, Mr. Cedarbaum, and to a certain
15 extent it's well taken. The witness has raised this as
16 an example of the point he's making here today, and I
17 think it would be appropriate from the bench perspective
18 to have it for reference.

19 Do you have copies available?

20 MS. McDOWELL: We can have them available. I
21 think we have a copy or two here available that we could
22 then make multiple copies of.

23 JUDGE MOSS: So what we need is data. Right?

24 MS. McDOWELL: That's correct.

25 JUDGE MOSS: Why don't you just submit those as

0507

1 a bench exhibit, and we'll have the data that way, and
2 you can argue it on brief.

3 MS. McDOWELL: That would be fine. So that
4 would Bench Request 8?

5 JUDGE MOSS: We're up to eight, yeah.

6 So we'll do that.

7 MR. CEDARBAUM: I do have some redirect,
8 including an exhibit.

9 JUDGE MOSS: A redirect exhibit. What do we
10 have here, Mr. Cedarbaum?

11 MR. CEDARBAUM: Your Honor, one of the company's
12 cross exhibits is DCG-4CX, it's a staff memo from docket
13 UE-112226. And Mr. Gomez referred to this in his
14 answers to questions from the company this morning. And
15 he also referred to a follow-up data request response
16 that he provided on the same topic, which is the exhibit
17 I just distributed.

18 JUDGE MOSS: All right. So this is a corollary
19 to the rule of optional completeness?

20 MS. McDOWELL: So may I just speak on this. I
21 mean, this is -- the cross exhibit we put in here was
22 downloaded from the commission's website. It had
23 nothing to do with the data request. It's a little much
24 for Mr. Cedarbaum to have just objected to us putting in
25 our own data requests in the record when his own witness

0508

1 brought it up, and then him offering one himself. We
2 object to this as basically an improper offering of a
3 data request response that he has authored.

4 MR. CEDARBAUM: Your Honor, this is a response
5 of Mr. Gomez directly tied to Cross Exhibit 4-CX. He
6 even discussed it in his testimony. I think the record
7 should be complete by having it.

8 JUDGE MOSS: I thought this might come up. I've
9 actually given it thought while we had Mr. Gomez on the
10 stand.

11 It did occur to me because that memo was drafted
12 by Mr. Applegate, who is no longer with the commission,
13 and Mr. Mickelson, who is, it is questionable standing
14 on its own as downloaded from our website, but as part
15 of Mr. Gomez's response to a data request, I have no
16 problem letting it in. I think under the circumstances
17 it would be appropriate for me to allow this to come in
18 along with it, since the fact that you can get a
19 document through an independent source, when it's
20 presented in this context, I think that it was provided
21 in response to a data request is relevant. So let's
22 allow it in. We'll just make it part of the same
23 exhibit, under my corollary to the rule of optional
24 completeness.

25 MS. McDOWELL: I guess I think it ought to be --

0509

1 JUDGE MOSS: You want it to be a separate
2 exhibit?

3 MS. McDOWELL: I think that's more appropriate.

4 JUDGE MOSS: All right. I'll just make it Bench
5 Exhibit 9.

6 MS. McDOWELL: I guess I do want to just note
7 for the record too that the memo that we put in was not
8 attached to this data request, so I just want to be
9 clear.

10 JUDGE MOSS: It wasn't?

11 MS. McDOWELL: It was not.

12 MS. WALLACE: No.

13 JUDGE MOSS: This is not the data request,
14 Mr. Cedarbaum? I thought this was the data request that
15 Mr. Gomez provided this memo.

16 MR. CEDARBAUM: What I distributed is a response
17 from Mr. Gomez to a company data request No. 1.26, on
18 the same topic that Exhibit C-4X is. I guess I'm not
19 quite understanding why on redirect I can't do this.

20 MS. McDOWELL: I think the whole premise of this
21 exhibit coming in was it was somehow or other tied, that
22 we had this meeting memo, and we asked Mr. Gomez a
23 question about it, and we put in the meeting memo but
24 didn't put his response to it. But that's just not the
25 facts.

0510

1 We looked at the docket that this tariff was
2 filed in, and we, as a matter of public record, looked
3 at the staff report in it, and that's the cross exhibit.
4 So it's a related topic and it's material that Mr. Gomez
5 testified to, but these aren't connected.

6 JUDGE MOSS: Okay. Well, let me back up half a
7 step here and talk to Mr. Gomez for a second.

8 Mr. Gomez, I believe I understood your testimony
9 to be that whatever other source this memo may be
10 available from, you provided it as part of your response
11 to a company data request. Is that right or wrong?

12 THE WITNESS: Actually, you know, I think now
13 that I understand, I think what the company is saying is
14 that the memo itself was not introduced in terms by the
15 company saying, hey, look at this memo. I think what
16 they're referring to is they're referring to the actual
17 advice, which is the open meeting memo that resulted
18 from this advice, which was, in order for me to prepare
19 my response, I had to examine and as part of my response
20 decipher -- I don't want to say "decipher" -- kind of
21 communicate what it was or at least to, from a
22 perspective of the company, make sure that I set the
23 record straight in terms of the DR, with regards to what
24 that memo actually meant.

25 So again that memo wasn't included as part of

0511

1 the DR. It was alluded to as far as the DR is
2 concerned -- when we saw it all the sudden appear as a
3 cross exhibit, the only reason why staff could ascertain
4 was in reference to this DR.

5 JUDGE MOSS: Then, Mr. Cedarbaum, I'll let you
6 ask questions using this document, but we're not going
7 to make it part of the record. I was misunderstanding
8 that this document, this memo, staff memo, which is a
9 public document, had been provided in this case as part
10 of the staff response to a data request. If I
11 understood what Mr. Gomez told me, that's not the case.

12 MR. CEDARBAUM: No. We never implied that it
13 was. The company's Exhibit C 4 X they downloaded
14 apparently from the commission's website.

15 JUDGE MOSS: Right.

16 MR. CEDARBAUM: They asked Mr. Gomez questions
17 about it. We didn't object to its admission, but in the
18 course of his questioning he referred to a data request
19 response on the same topic.

20 JUDGE MOSS: You can ask him questions about it.
21 Go ahead.

22 REDIRECT EXAMINATION

23 BY MR. CEDARBAUM:

24 Q. Mr. Gomez, have you had a chance with respect to
25 Exhibit 4-CX, did you have a chance to examine the

0512

1 company's filing in that docket?

2 A. Yes.

3 Q. And did that filing stand for the proposition
4 that the company was extending its offering of fixed
5 avoided cost prices from five to ten years?

6 A. When you say extend the -- are we saying --
7 yeah, I just want to make sure that the distinction is
8 clear in your questions.

9 And the answer is yes with regards to the
10 visibility of those prices, but not whether the term
11 would be offered. Fixed pricing for only five years is
12 what remained on the tariff.

13 Q. Okay. So the tariff remained at five years, as
14 opposed to the other time frame that you're referring
15 to?

16 A. Yes.

17 Q. You had a general discussion about policy
18 differences between the states, and that being the base
19 for your situs recommendation for allocation of costs.
20 Do you recall that?

21 A. Yes.

22 Q. Is it correct that those policy differences have
23 an impact on the calculation of avoided costs?

24 A. Yes.

25 Q. So this policy difference would lead to

0513

1 differences between avoided costs in one state versus
2 another state?

3 A. Yes.

4 Q. Just trying to categorize the differences
5 between the states in general categories. Is it correct
6 that one of the categories of the policy differences
7 relates to the size of the project?

8 A. Yes.

9 Q. And another difference would relate to the
10 contract duration for the project?

11 A. For a standard offering, yes.

12 MR. CEDARBAUM: Thank you. That's all I have.

13 JUDGE MOSS: Anything further?

14 MS. McDOWELL: No.

15 JUDGE MOSS: All right.

16 Mr. Gomez, thank you for being with us this
17 afternoon. We appreciate your testimony. And you may
18 step down.

19 Mr. Coppola.

20 SEBASTIAN COPPOLA

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. Please be seated.

25 Anything preliminary, Ms. Gafken?

0514

1 MS. GAFKEN: No. The witness is available for
2 cross-examination.

3 MS. McDOWELL: So, Your Honor, while you're
4 getting settled, I have a couple of orders I want to ask
5 Mr. Coppola about, so may I distribute those excerpts at
6 this point?

7 JUDGE MOSS: Orders? You want to ask him about
8 some orders, and you want us to have them so we can see
9 them?

10 MS. McDOWELL: That's correct.

11 JUDGE MOSS: Well, that's fine, I suppose.

12 MS. McDOWELL: All right.

13 JUDGE MOSS: I don't have them all memorized.

14 MS. McDOWELL: I'm not sure you wrote them all.

15 JUDGE MOSS: Depends on the jurisdiction.

16 MS. GAFKEN: I do have one question. Are you
17 intending on using these as cross exhibits or --

18 MS. McDOWELL: Yes.

19 JUDGE MOSS: They're just excerpts from orders.

20 MS. McDOWELL: That's correct.

21 JUDGE MOSS: You can refer to them. If they're
22 orders, they're orders.

23 MS. McDOWELL: I'm just handing them out as a
24 courtesy in advance.

25 JUDGE MOSS: Just for ease of reference.

0515

1 MS. GAFKEN: I will note they were not
2 distributed as cross exhibit when we were told to
3 predistribute cross exhibits.

4 JUDGE MOSS: But these aren't cross exhibits is
5 the point. These are orders. Orders are not ordinarily
6 made exhibits, period. There was one in this case as a
7 matter of convenience.

8 MS. GAFKEN: But I understood counsel to say --

9 JUDGE MOSS: Counsel misspoke.

10 MS. McDOWELL: Did I say cross exhibit?

11 CHAIRMAN DANNER: Yes, you did.

12 MS. McDOWELL: I'm so sorry.

13 JUDGE MOSS: I think we're clear now.

14 MS. McDOWELL: I caused that confusion. Excuse
15 me.

16 JUDGE MOSS: I believe we're ready for
17 cross-examination now. Please proceed.

18 MS. McDOWELL: Thank you, Your Honor.

19 CROSS-EXAMINATION

20 BY MS. McDOWELL:

21 Q. Good afternoon, Mr. Coppola. Is it Coppola?

22 A. Coppola.

23 Q. I'll try to get that straight.

24 So, Mr. Coppola, you have raised four net power
25 cost-related adjustments in this case. Is that correct?

0516

1 A. I believe so.

2 Q. And is it correct that two of them, one related
3 to BPA rate increases, and the other related to net
4 power cost updates, have been resolved at this point?

5 A. The BPA I think has been resolved, yes.

6 What was the second one?

7 Q. With respect to the update you've proposed to
8 net power costs, has that one also been resolved?

9 A. Yes.

10 Q. So that leaves hedging and QF contracts as your
11 outstanding net power cost related issues. Is that
12 correct?

13 A. I believe so, yes.

14 Q. So I wanted to first ask you about your hedging
15 adjustment, and that's on page 19, or at least the
16 information that I wanted to ask you about was on
17 page 19. And this is a confidential page, but I don't
18 believe I'm going to be asking you about confidential
19 information. There you remove the hedging costs in this
20 case from net power costs on the basis that their
21 speculative. Do you see that?

22 A. Yes.

23 Q. And you then at the end of that paragraph
24 indicate that the uncertainty of the amount to be
25 included in the calculation of net power cost fails the

0517

1 known and measurable test. Do you see that?

2 A. What line are you on?

3 Q. I'm at the end of that paragraph, the end of
4 that answer. It would be lines 18 to 19.

5 A. I'm sorry. What page are you on?

6 Q. Same page.

7 A. Page 19?

8 Q. I'm on page 19, and I'm on lines 18 and 19, the
9 end of the paragraph we were just talking about.

10 A. Yes.

11 Q. In the beginning you say speculative, and at the
12 end of the paragraph you say that they failed the known
13 and measurable test. You see that?

14 A. I see that, yes.

15 Q. And virtually all of the hedges in this case are
16 natural gas hedges. Correct?

17 A. Most of them, yes.

18 Q. And the cost of these hedges in that power cost
19 would be based on the forward costs of natural gas.

20 Correct?

21 A. Correct.

22 Q. Now, the commission establishes net power costs
23 based on projections for the rate year. Correct?

24 A. Well, the company, the company's forecast
25 includes forecasted prices for energy, yes.

0518

1 Q. And when it comes to the forward costs of
2 natural gas used to set power costs, this commission has
3 recognized an exception to the known and measurable
4 standard. Correct?

5 A. It appears so, yes.

6 Q. And isn't it true that the commission
7 specifically addressed this issue in Order 11 in
8 UE-09047, and --

9 JUDGE MOSS: I think it's 704 for reference.

10 MS. McDOWELL: Did I say it wrong? Excuse me.

11 JUDGE MOSS: Mr. Coppola, I'm going to have to
12 ask you to pull that microphone around in it's right
13 front of you. They're not that good when they're off to
14 the side.

15 THE WITNESS: Got it.

16 JUDGE MOSS: Thank you.

17 BY MS. McDOWELL:

18 Q. So, in any event, I miscited to the docket.
19 It's UE-090704. And I handed you a copy of Order 11.
20 Do you have that?

21 A. I have it, yes.

22 Q. I ask you to look at that. I wanted you to turn
23 to pages 24 and 25 of your testimony.

24 A. I'm there.

25 Q. It's true, isn't it, at the bottom of that page,

0519

1 24, and going on to pages 25, you quote a portion of
2 this order relating to your position on new investments
3 for the company. Is that correct?

4 A. Correct.

5 Q. Now, I wanted you to turn to page 25 there, and
6 lines one through 10. There you quote a paragraph from
7 this order 11 that I handed you. And that's paragraph
8 26. Do you have? It's page 11 of the order I gave you,
9 and that corresponds to what's quoted on the top of
10 page 25 of your testimony. Are you with me now?

11 A. I'm reading paragraph 26.

12 Yes, it appears to be a part of it, that's
13 related.

14 Q. It is part of it, so isn't it true that you
15 quoted all of paragraph 26 of Order 11 except the last
16 sentence, and there's an ellipses there on line ten, and
17 you left out the last sentence of the paragraph 26 of
18 order 11? Is that correct?

19 A. Yes. Pertain to the cap additions, so it wasn't
20 pertinent.

21 Q. But it is percent to your hedging adjustment,
22 isn't it, because that sentence says there are
23 exceptions such as using the forward costs of gas and
24 power cost projections. Do you see that?

25 A. Correct. And there's no difference. I did not

0520

1 make any disallowances for the forecasted prices that
2 the company has included, only the hedging contracts.

3 Q. But isn't it clear that natural gas hedges the
4 costs and the concern that you have is based on the
5 forward costs of gas in the power cost projections.

6 Correct?

7 A. There are two different things. So the company
8 forecasts its power costs based on fuel costs that have
9 forwarded -- forward -- forecasted prices. Not forward,
10 forecasted prices.

11 In addition to that, it also enters into hedges
12 for gas and electric prices, future contracts. And I
13 don't believe the sentence addresses the future
14 contracts, only the forecasted prices for fuel.

15 Q. Except that it's clear, isn't it, that hedges,
16 the cost of hedges are based on the forward costs of
17 gas. Correct? And that's your concern. Correct?

18 A. Yeah, but it's -- as I said, it has nothing to
19 do with this statement.

20 Q. Well, isn't it clear that forward natural gas
21 costs are an exception to the known and measurable
22 standard in this jurisdiction?

23 A. I'm not sure about that.

24 Q. So isn't that what that last sentence that you
25 left out of your quote in your testimony says?

0521

1 A. No. This addresses future prices with respect
2 to forecast prices that the company includes.

3 Q. So let me ask you, continuing on a related issue
4 about MPC variability. Turning to page 40 of your
5 testimony.

6 A. I'm there.

7 Q. On line 20 to 22, you indicate that with the
8 glut of natural gas in the United States, the
9 expectation is that gas prices will remain stable. Do
10 you see that?

11 A. Yes.

12 Q. But then if you turn back to your hedging
13 adjustment on page 19, lines 16 to 17, don't you say
14 there that hedging costs can vary significantly from
15 month to month depending on market prices? A loss can
16 turn into a gain if gas and electricity prices spike in
17 2014. Do you see that?

18 A. What lines are you on?

19 Q. I'm on line 16 to 18.

20 A. Of page?

21 Q. 19.

22 A. Yeah. Page 19 addresses short-term variability
23 in prices. The statement on page 4 addresses more the
24 long-term variability.

25 Q. But they're both addressing net cost

0522

1 variability?

2 A. Yes, but different periods matters.

3 Q. But isn't it true that the company has no
4 control over the market price variability you're
5 referring to on page 19? Correct?

6 A. On page 19?

7 Q. The kind of market price variability you're
8 talking about on page 19 is not variability that the
9 company has control over. Correct?

10 A. On page 19, what I'm addressing is the fact that
11 the gains and losses that come from hedging can vary
12 depending on where prices are at any point in time, and
13 that makes it difficult to pin down as known and
14 measurable.

15 On page 40 I'm addressing more the longer term
16 aspects.

17 Q. But you agree that gas and electricity prices
18 could spike in 2014. Correct? Isn't that your point
19 here on page 19?

20 A. Yes. Again, within the context of gains and
21 losses.

22 Q. And isn't that precisely the MPC variability
23 that PacifiCorp sought a PCAM to protect against?

24 A. No. I mean with respect to gas price
25 variability, we're looking at a longer term for PCAM

0523

1 than just month to month.

2 Q. So can you turn to the order two that I handed
3 you from the UG-121592 docket.

4 A. I have it.

5 Q. And Mr. Coppola, you participated in that
6 docket, didn't you, in providing some hedging reports?
7 Is that correct?

8 A. I believe so, yes, I think that's the same case
9 I was involved in.

10 Q. I wanted to direct your attention to footnote
11 one there. And there the commission stated that hedging
12 is a means to dampen the effects of price swings in the
13 wholesale natural gas market, which has exhibited
14 extreme price volatility at times in the past and
15 remains volatile today. Do you see that?

16 A. I'm sorry. What page are you on?

17 Q. I'm sorry. I'll slow down. Page 2, footnote
18 one.

19 A. Page again?

20 Q. Page 2.

21 A. Page 2.

22 Q. Footnote one.

23 A. Okay.

24 Q. Do you see that -- I'm on footnote one --
25 hedging is a means to dampen the effects of price swings

0524

1 in the wholesale natural gas market, which has exhibited
2 extreme price volatility at times in the past and
3 remains volatile today. Do you see that?

4 A. Yes.

5 Q. Isn't that inconsistent with your conclusion in
6 your testimony that the market is no longer is volatile?

7 A. No. This is looking at history. We have seen
8 in the past three years, from 2008 through maybe four or
9 five years now, 2008 when gas prices spiked to about \$13
10 per thousand cubic foot to prices now that are around
11 \$3, \$3.50.

12 So this is looking at the historically, maybe a
13 point in time when the order came out, but what the
14 industrial analysis shows right now is that going
15 forward, this should be more stability in gas prices
16 given the supply that exists.

17 Q. So, Mr. Coppola, I want to direct your attention
18 to the first page of the order, and it has the order
19 date of May 1st, 2013, just a couple of months ago.

20 A. Yeah.

21 Q. And it does indicate in that footnote that
22 hedging is a means to dampen the effects of price
23 swings, da, da, da, because natural gas markets have
24 exhibited extreme volatility at times in the past and
25 remains volatile today. Do you see that?

0525

1 A. Correct.

2 Q. So as of May 20, 2013 that was a pronouncement
3 from this commission, in response to your hedging
4 reports?

5 A. That's their opinion, yes, but it doesn't speak
6 to the future.

7 Q. Now, I wanted to ask you a question about your
8 testimony on page 16 about the company's proposal to
9 include all WCA QFs in that power cost. That's page 16,
10 lines 12 through 16.

11 A. I'm there.

12 Q. In there you testify that QFs outside of
13 Washington should not be included in Washington rates
14 because these small generators produce -- and it's a
15 confidential amount there which I will not read -- and
16 most likely only supply mainly local markets in Oregon,
17 California. Do you see that?

18 A. Yes.

19 Q. Now, you agree that all of the company's QF
20 contracts that are in question in this case in Oregon
21 and California are renewable resources. Correct?

22 A. I wouldn't say all of them. Probably some of
23 them are. I think there are some wind projects in
24 there, there are some hydro, and I'll make sure of
25 others.

0526

1 Q. I believe your testimony, if you go down just a
2 couple of lines, indicates that most of the facilities
3 are small run-of-river hydroelectric facilities with
4 some wind power generators and biomass facilities. All
5 of the facilities you just described would be considered
6 renewable resources. Correct?

7 A. Yes. But I'm not sure what that -- why that
8 matters.

9 Q. So are you familiar with Washington's renewable
10 portfolio standard, the Energy Independence Act?

11 A. Not thoroughly, no. I know it exists.

12 Q. Would you accept subject to check that the
13 company can now use REC from eligible renewable
14 resources in both Oregon and California for compliance,
15 irrespective of the size of the resource?

16 A. I'm not familiar specifically with that, no.

17 MS. McDOWELL: That's all I have for this
18 witness.

19 JUDGE MOSS: Thank you. With that, we turn to
20 the bench.

21 COMMISSIONER GOLTZ: I've got one or two.

22 Good afternoon, Mr. Coppola.

23 So Ms. McDowell had you going back and forth
24 between page 19 and page 40 of your testimony.

25 THE WITNESS: Uh-huh.

0527

1 COMMISSIONER GOLTZ: The former relates to
2 hedging, the latter to net power costs. I'm not sure I
3 followed that discussion completely.

4 Are you saying that the hedging costs can vary
5 significantly even if there's no significant long-term
6 variability in power costs?

7 THE WITNESS: What I'm saying is that the
8 company has entered into some hedging contracts, and if
9 current power prices drop or current natural gas prices
10 drop, then the company would have gains, and those would
11 not be reflected in the -- in the power cost. So that
12 creates, you know, a certain amount of risk that if you
13 put in place hedges and those get reflected in the rates
14 of the company that, you know, there's a risk of
15 recovery.

16 With regard to page 40, what I'm referring to
17 there is more the stability in gas prices over time, you
18 know, the next three, four, five years, which is a more
19 of a long-term scenario, and during that time period,
20 any variability in prices, you know, can sort of shake
21 out, but when you look at more, a more condensed
22 timeframe, that variability can matter in terms of
23 prices.

24 COMMISSIONER GOLTZ: I think you answered my
25 question yes. So you're saying that over the long term,

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1 power costs are going to remain relatively --

2 THE WITNESS: Stable.

3 COMMISSIONER GOLTZ: -- stable, although at
4 intermediate points along there there might be so ups
5 and downs.

6 THE WITNESS: Correct.

7 COMMISSIONER GOLTZ: Because of the ups and
8 downs, the hedging gains or losses might become
9 variable?

10 THE WITNESS: Sure. Because what the company is
11 doing is capturing the hedges as of a certain point in
12 time, and at this point there are losses, but when the
13 rates go into effect you could have gains at that point
14 in time.

15 COMMISSIONER GOLTZ: So your testimony on
16 page 40 regarding the long-term variability of power
17 costs that you stated in line 18 and 19, that your
18 overall assessment is that net power cost volatility has
19 diminished considerably during the 2010 to 2012 period.
20 And we always seem to get new information at the hearing
21 because things become apparent subsequent to the filing
22 of testimony. Can you give, state whether that
23 statement is true also for the 2013 period so far?

24 THE WITNESS: I don't have any information on
25 that, but I do have 2012 in one of my exhibits. The

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1 company in its filing only provided a table up to 2011.
2 But if you go to Exhibit SC-16, which was also shown in
3 the cross-examination of public counsel, of Mr. Gomez,
4 you can see there in that exhibit that variability in
5 power costs in 2012 was less than one percent; .8
6 percent. And that's on line 11 -- excuse me, line 12 of
7 column G. And I'm looking at the prior two years, it's
8 been less than six percent. In 2010 it was 1.3 percent,
9 and 2011 5.8, which is in contrast to the prior three
10 years.

11 The company made the point of looking at the
12 entire six years. I think it's important to look at
13 what the trends are. And the trends appear to be toward
14 less volatility, even though renewable energy is a
15 larger apart of the portfolio, such as wind.

16 COMMISSIONER GOLTZ: Okay. Thank you.

17 I have nothing further.

18 CHAIRMAN DANNER: Let me follow up on that just
19 a little bit. It was pointed out by counsel that the
20 commission in its footnote in Order 2 said that the
21 natural gas market has exhibited extreme price
22 volatility at times in the past, and remains volatile
23 today. So you would not agree with that observation? I
24 don't want to call it a finding. But you would say that
25 it does not remain volatile today?

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1 THE WITNESS: Correct.

2 CHAIRMAN DANNER: Okay. Wouldn't you agree that
3 there continue to be risks, the kind of risks that you
4 do want a hedge for, things like weather-related events
5 or droughts or terrorism or war or environmental events
6 that might affect the ability to use fracking
7 technologies and those kinds of things? Aren't those
8 still out there?

9 THE WITNESS: Some of them are, some you can
10 hedge against, some you cannot. I don't know how you
11 hedge against fracking. It is a widely used practice.
12 It could be restricted in certain areas.

13 CHAIRMAN DANNER: I don't know that you're
14 hedging against those practices. What you're hedging
15 against is the possibility that prices will go up as a
16 result of those events.

17 THE WITNESS: Well, that would then assume that,
18 you know, you're trying to make a bet against the
19 market, and I would say that in terms of hedging, it's a
20 practice -- I'm not against hedging. It's an issue of,
21 in this case, whether or not that is a cost issue will
22 be included in that power cost. The company can hedge
23 if it feels it diminishes volatility.

24 As I testified in this case back in the spring,
25 121592 and related cases, you know, public counsel and

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1 particularly myself, are not against hedging. We're
2 just against the practice of an inordinate amount of
3 hedging, because studies have shown that you really
4 don't need to hedge 60, 70 percent of your portfolio to
5 achieve a reduction in volatility. You can do it for a
6 lot less. So it's just the extent and then the recovery
7 of those costs that's at issue.

8 CHAIRMAN DANNER: Okay. Thank you.

9 MS. McDOWELL: Your Honor, may I ask a couple of
10 redirect, or re-cross questions, please?

11 JUDGE MOSS: Okay. It will be cross, not
12 re-cross.

13 MS. McDOWELL: Whatever it is, may I ask a
14 couple of follow-up questions?

15 JUDGE MOSS: It's important from my perspective.

16 MS. McDOWELL: I'm sorry I misspoke.

17 FURTHER CROSS-EXAMINATION

18 BY MS. McDOWELL:

19 Q. I just had a couple of follow-questions to the
20 questions the commission asked you and your responses,
21 Mr. Coppola.

22 You indicated some concern about prices
23 changing, and as a result the company experiencing gains
24 or making money, experiencing some gains from the
25 hedges. Is that correct?

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1 A. Correct.

2 Q. And isn't it true that the PCAM proposal that
3 the company has offered in this case would capture those
4 gains for customers dollar for dollar?

5 A. That's a totally different issue. But if the
6 company got its wish, then sure, then it would be a
7 complete pass-through one way or the other.

8 Q. So you also pointed out the company's results
9 of its net power cost in 2012 which were not available
10 at the time the company filed in January. In those
11 results you indicated that the company's power costs,
12 actual power costs, were within I think you said about
13 one percent of its forecasted power costs. Is that
14 correct?

15 A. You're referring to Exhibit SC-16?

16 Q. Right. You were testifying to that.

17 A. Yeah, less than one percent variability, yes.

18 Q. It's true, isn't it, that the company
19 under-recovered power costs in 2012 again? Correct?
20 That was not an over-recovery, that was an
21 under-recovery?

22 A. Less than a million dollars, yes.

23 Q. Your chart has six years in it?

24 A. Six years, yes.

25 Q. So in every year the company has

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1 under-recovered. Correct?

2 A. It appears that way, yeah.

3 Q. And the cumulative total is approximately 55
4 million? Is that correct?

5 A. Thereabouts, yes.

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

7 JUDGE MOSS: All right. Any redirect?

8 MS. GAFKEN: Very briefly.

9 REDIRECT EXAMINATION

10 BY MS. GAFKEN:

11 Q. Mr. Coppola, you were asked about your work in
12 the natural gas hedging docket in the Cascade matter,
13 UG-121552. Was the focus in that case different than
14 the focus of your hedging adjustment in the current
15 PacifiCorp general rate case?

16 A. Yes, totally. In this case we were looking at a
17 long-term track record for the gas utilities that showed
18 recurring losses year after year, and mounting losses,
19 and whether or not those were reasonable in terms for
20 recovering those from customers and perhaps some
21 disallowances related to that.

22 In this case we're just talking about whether or
23 not, you know, the forecasted losses should be included
24 in rates, which is quite a bit different.

25 Q. In talking about the forecasted losses, is that

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1 the topic where it becomes important whether you're
2 looking at a short-term versus a long-term view?

3 A. Correct.

4 Q. Can you explain why.

5 A. Well, as I said earlier, the company priced the
6 gains and losses as of a certain point in time, and
7 there's changes that occur throughout. If we repriced
8 those contracts as of today, certainly it would be
9 considerably different than at the time that the company
10 priced them.

11 And as I showed in my testimony, the numbers
12 changed materially from the time the company filed its
13 rate case to the time that I asked them to update those
14 contracts and those prices. So it's just the situation
15 of the picture changing and not having known and
16 quantifiable data that makes it difficult to pin those
17 down.

18 Q. The hedging that we're talking about in this
19 case, does it include both electric and natural gas
20 hedging?

21 A. Correct.

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

23 JUDGE MOSS: Thank you, Mr. Coppola. I believe
24 that completes your time on the stand. We appreciate
25 you being here with us.

1 CROSS-EXAMINATION

2 BY MS. McDOWELL:

3 Q. Good afternoon, Mr. Deen.

4 A. Good afternoon.

5 Q. I wanted to ask you some questions about your
6 adjustment related to grid market caps, and I guess I'd
7 start by directing your attention to page 16 of your
8 testimony.

9 A. All right. I'm there.

10 Q. On lines 20 to 23, you estimate the value of
11 your adjustment to remove the market caps from grid, and
12 do you see that in this case you indicate it would lower
13 net power cost by approximately 2.9 million? Do you see
14 that?

15 A. Yes, although I believe I'm actually referring
16 to the total revenue requirement, which would include
17 some revenue-sensitive items as well. So that's just
18 strictly net power cost.

19 Q. Do you have just the net power cost number?

20 A. I don't have it with me. It's a part of my work
21 papers.

22 Q. Can you just ballpark?

23 A. Several percent less. So it might be
24 2.8 million. But as I said, that information is
25 available in my work papers.

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1 Q. Thank you.

2 So you testified in the company's 2011 rate
3 case. Correct?

4 A. Yes, I did.

5 Q. And you testified on behalf of ICNU in this
6 case. Is that right?

7 A. That is correct.

8 Q. And Boise White Paper, your client today, is a
9 member of ICNU. Is that correct?

10 A. That is correct.

11 Q. Can you turn to your Cross Exhibit MCD-12CX.

12 MR. COWELL: Your Honor, I want to raise an
13 objection. And maybe you can state a rule in this case.

14 I want to object to this cross-examination
15 exhibit on relevancy, and especially in light of a
16 couple of rulings in which you've excluded
17 cross-examination exhibits this case.

18 First DJR-6CX, you excluded saying that
19 underlying evidence is not relevant from another case.
20 I would also object on the basis of the exclusion of
21 CAC-3CCX, Ms. Crane's testimony. And there was also the
22 testimony from Mr. Specketer, where his testimony was
23 excluded regarding a policy matter submitted by the same
24 party on the same issue, upon which a witness in this
25 case expressly testified, which was Washington

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1 Commitment 12 of the MidAmerican acquisition case.

2 JUDGE MOSS: So do you have an objection to this
3 evidence?

4 MR. COWELL: Yes. So, Your Honor, I would
5 object to this in that it does involve another party,
6 not Boise; also that that case involves another fact
7 scenario similar to the objection that was sustained on
8 DJR-6CX.

9 JUDGE MOSS: Well, just taking a quick look at
10 this testimony, it appears to me that it is this
11 witness' prior testimony that concerns at least in part
12 the grid modeling and how that operates.

13 MR. COWELL: Your Honor, is it being accepted on
14 the basis of it being this witness' testimony then?

15 JUDGE MOSS: Well, that is a distinction,
16 Mr. Cowell, that I have made in some of my previous
17 rulings. The testimony from another party, another
18 witness, who's not present to testify and be
19 cross-examined is one thing.

20 The prior testimony of the witness sitting on
21 the stand, at least as a matter of first hurdle there,
22 if you will, gets over that hurdle. If the testimony
23 then proves to be irrelevant to any issue in the case,
24 that would be a second hurdle that if it did not pass it
25 would be excluded. The point being here we clearly get

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1 past the first hurdle, Mr. Deen's own testimony.

2 I'm only looking at this quickly, but it does
3 appear to me to concern the grid modeling and how it
4 operates, and to that extent, it would be relevant here,
5 and so I will allow the questions with respect to this.
6 If you have an objection at the end, we'll take it up
7 again.

8 MR. COWELL: Thank you, Your Honor.

9 MS. McDOWELL: Thank you.

10 (Exhibit MCD-12CX was admitted.)

11 BY MS. McDOWELL:

12 Q. Mr. Deen, can you turn to page 8 of
13 Exhibit 12CX.

14 A. That's page 8 of the exhibit?

15 Q. That's correct.

16 A. So the last page of the exhibit?

17 Q. Yes. It would be the page that is -- it's the
18 numbering at the top.

19 Just to provide a little context for my
20 question, you propose the same adjustment you're
21 proposing in this case, in PacifiCorp's last rate case.
22 Correct?

23 A. I did propose the adjustment in the last case,
24 so I believe the case was settled, if my recollection
25 serves.

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1 Q. What I wanted to ask you about, Mr. Deen, is
2 just look at your testimony in this case, which
3 indicates that your market cap adjustment has a
4 \$2.9 million impact, and I wanted to ask you, in
5 PacifiCorp's last case you indicated that the adjustment
6 would lower Washington revenue requirement by
7 approximately \$1 million. Do you see that?

8 A. I do.

9 Q. Now, are you aware that the company's proposed
10 increase to Washington net power cost in this case is
11 approximately \$5 million, including the change to QF
12 allocation?

13 A. Subject to check, yeah.

14 Q. And so, you know, putting QF aside, you'd agree
15 that net power costs in this case are generally
16 decreasing?

17 A. Yeah. Generally decreasing slightly.

18 Q. So can you explain to me why the value of your
19 adjustment roughly tripled in this case when the
20 company's power costs are generally decreasing?

21 A. I don't think I can speculate to that on the
22 stand today. I would have to go back and conduct an
23 analysis of the -- there's a number of components that
24 you see that change as a result of moving the market
25 caps in terms of the dispatch of resources, sales and

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1 purchases. So I'm afraid I can't really speculate on
2 the exact cause of why the adjustment was 1 million on
3 the previous case and it's 2.9 million now.

4 Q. And you never did a check against your
5 adjustment in this case to make sure it made sense,
6 given the fact it's tripling in size when net power
7 costs are reducing in size?

8 A. So the absolute level of net power cost doesn't
9 particularly have a correlation to the -- or I wouldn't
10 expect it to necessarily have a correlation to the size
11 of this particular adjustment, so that did not concern
12 me.

13 Q. So going back to your testimony in this case on
14 page 14, lines 20 -- let's see. Let me give you a line
15 cite. Hang on.

16 A. You said page 14?

17 Q. Yes. Just a second. Let me find the right
18 cite. Hang on. I think I have the wrong number. Let
19 me just find it. Give me one second.

20 So it's page 14, line 19.

21 A. Yes.

22 Q. And you're responding there to an argument that
23 without caps, grid allows for unlimited sales. Do you
24 see that?

25 A. I do.

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1 Q. And then you said, however, in any case,
2 although the grid model may theoretically allow
3 unlimited sales without a cap, this is not the case from
4 a practical perspective.

5 And then moving on to page 15, you talk about
6 the limitations on sales, and you indicate that sales
7 are constrained by wheeling limitations and the amount
8 of energy that the company is able to economically
9 produce. Do you see that?

10 A. I do.

11 Q. And it's true, isn't it, that there is no
12 constraint on sales related to market size or liquidity
13 of markets that's in grid?

14 A. So of course we had this discussion in the TAM
15 in Oregon, and actually, I do believe there is a
16 restriction implicitly. I should say the grid does
17 include implicitly a measure of market depth. And
18 that's in the forward prices that are set statically in
19 grid. Those are derived from PacifiCorp's forward price
20 curve, which in turn is a forecasted measure of supply
21 and demand at each individual hub. Of course the demand
22 portion is market depth. So I do think the market
23 pricing grid does implicitly contain a market depth
24 component.

25 Q. Do you remember when I asked you this question

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1 in the previous proceeding, it seems like you referred
2 to it, and you gave me a different answer?

3 A. Yes.

4 Q. Can you turn to 18CX, page 4 of that exhibit.

5 A. Yes.

6 Q. And there I asked you the question: So you
7 agree that without market caps there is no constraint in
8 grid that specifically relates to market liquidity.
9 Correct?

10 And your response was: Not that specifically
11 relates to market liquidity.

12 Do you recall that response?

13 A. I do. And as I said, I've had the opportunity,
14 because of this cross exhibit to further think about the
15 issue, and although, as I said, might not be viewed as a
16 specific constraint, I do believe that there is an
17 implicit constraint.

18 Q. To you're changing the testimony that you
19 previously provided on this issue under oath?

20 A. As I said, at the time this was my testimony,
21 and I've had the opportunity to consider the issue
22 further.

23 Q. So in this case you propose removing market caps
24 from two hubs modeled in grid. Correct?

25 A. That is correct.

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1 Q. So the hubs are COB -- California, Oregon
2 border -- and Mid-Columbia, Mid-C. Is that correct?

3 A. That is correct.

4 Q. You would agree that Mid-C is a more liquid hub
5 than COB. Correct?

6 A. In general terms, I would agree with that, with
7 the caveat that -- the fact that Mid-C may be more
8 liquid does not mean that COB is illiquid. That would
9 be a logical error.

10 Q. Haven't you previously testified that, in fact,
11 COB is a more illiquid hub?

12 A. I guess I want to be very careful about the
13 phrasing here. So I would agree that COB is typically a
14 less liquid hub, but I do not agree that COB is
15 illiquid.

16 Q. Would you agree that the removal of the market
17 caps in this case results in a significant increase in
18 sales at COB and a significant decrease in sales at
19 Mid-C?

20 A. I guess -- maybe you could define a little bit
21 more what you mean by "significant."

22 Q. Well, is it true that when you remove market
23 caps, sales increase at COB and they decrease at Mid-C?

24 A. That is correct, in this case. In another case
25 with different market conditions and constraints and

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1 fuel prices and all the other factors it could be a
2 different pattern than is true in this case.

3 Q. When I asked you those questions in the last
4 case when we discussed this, it was also true in that
5 case. True?

6 A. I do not remember about the -- well, firstly,
7 there was -- are we discussing the Oregon case?

8 Q. That's correct.

9 A. You'd have to point me to a citation on that.
10 Part of my confusion, or it's hard to recollect, there's
11 more hubs involved in the Oregon case.

12 Q. There are more hubs. Can you turn to page 9 of
13 18CX.

14 A. Yes.

15 Q. And there at line 18, I asked you a question
16 about the Mid-C, removing the Mid-C market cap, and I
17 asked you: So removing the market cap at Mid-C is
18 fairly inconsequential, isn't it?

19 And you said: In this proceeding, yes, in this
20 proceeding.

21 And then I asked you: Whereas removing the
22 market cap at COB, which the next line down, actually
23 has a \$9.4 million impact. Do you see that?

24 And you said: I do.

25 Then the question goes on to say: And COB is

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1 one of those markets we were referring to as the less
2 liquid market. Do you see that?

3 And you said: I would agree.

4 So does that refresh your recollection about how
5 the market caps worked in the last case, we looked at
6 this, where you sales shifted from the liquid market to
7 the illiquid market in that case. Correct?

8 A. I can at least agree that there were -- there
9 were more sales at COB.

10 Q. And doesn't this show that the removal of market
11 caps artificially pushes sales from a liquid hub, Mid-C,
12 where prices are lower, to an illiquid COB, or a less
13 liquid hub, COB, where prices are higher?

14 A. I disagree with that assessment. I don't really
15 understand the factual basis for your saying that would
16 be an artificial shift. PacifiCorp has modeled that
17 there's available transmission to move that power, but I
18 wouldn't consider that an unnatural or artificial shift.
19 It's an economic use of PacifiCorp's transmission system
20 that's being paid for by customers and rates.

21 Q. So, Mr. Deen, I wanted to ask you a question
22 about your testimony at page 12 on market caps. Let me
23 get you there. Page 12, line 23.

24 A. Oh, excuse me, I'm in the wrong exhibit. One
25 second. Okay.

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1 Q. So there at the bottom of page 12, moving up to
2 the top of page 13, you indicate that this type of sales
3 restriction is not employed by any other northwest
4 utility, including Puget Sound Energy and Avista. Do
5 you see that?

6 A. I do.

7 Q. Now, it's true, isn't it, that Avista and PSC
8 both use the Aurora dispatch model?

9 A. That is correct.

10 Q. Isn't it true, also, that Aurora addresses
11 market liquidity through use of dynamic prices?

12 A. Yes, that is true.

13 Q. And that's in contrast to grid, which uses a
14 static market price per each hour. Correct?

15 A. That is correct. And I'd again like to bring up
16 a caveat that I did earlier, that I do believe that the
17 market price that is inputted, created on a static
18 basis, does have consideration to market liquidity.

19 Q. So in reviewing net power cost adjustments such
20 as your proposed market cap adjustment, wouldn't you
21 agree that it's relevant to review whether the company
22 is under-recovering or over-recovering its projected net
23 power costs?

24 A. Over what time period are you thinking about?

25 Q. Through the historical period.

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1 A. I mean, can you be a little more specific, what
2 historical period you're thinking of? I mean, I don't
3 think for example 1990 power costs would be relevant.

4 Q. Let's say the most recent two- or three-year
5 period.

6 A. That could be one relevant consideration, among
7 many.

8 Q. So when I asked you that question last year when
9 we discussed this issue on page 15 of 18CX, I asked you:
10 In reviewing the net power cost adjustment such as your
11 market caps, if you use market caps adjustment, wouldn't
12 you agree that it's relevant to review whether the
13 company is under-recovering or over-recovering its
14 projected net power costs?

15 Do you see that?

16 A. Could you repeat the page and line, please?

17 Q. Yes. It's page 15 of Exhibit 18-CX, and it's
18 line 11.

19 A. Yes. I think that's consistent with the answer
20 I just gave as well.

21 Q. Your answer there was I would agree that would
22 be an appropriate area for investigation.

23 A. Yes, again one among many considerations.

24 Q. Okay. So turning back to your testimony in this
25 case, on page 26. Are you with me? The table, table

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1 two of your -- on page 26, do you have that?

2 A. Yes, I do.

3 Q. In your own testimony, you include a figure,
4 page 26, table two, that shows that from 2007 to 2011
5 the company significantly under-recovered its net power
6 cost. Correct?

7 A. Again, I'm a little reticent to agree on the
8 significance for each year, but I would agree that the
9 company under-recovered its power cost.

10 Q. And the company has historically used market
11 caps in its grid modeling. Correct?

12 A. That is correct.

13 Q. So during all of these periods you would have
14 had a market cap model, basically market cap modeling
15 within the grid model. Correct?

16 A. That is correct.

17 Q. So all else being equal, if you remove the
18 market cap model, the results in these years would be
19 the under-recovery would be even greater. Correct?

20 A. I agree all else being equal. But I have to say
21 that I don't think that's a particularly meaningful
22 conclusion. There's a number of factors affecting that
23 power costs on the basis of normalized versus actual
24 comparison, including, you know, weather, loads, fuel
25 prices that may vary. So while I agree that, you know,

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1 the market caps, all else being equal, reduce forecasted
2 net power costs, I don't necessarily believe that
3 removing them in the future contributes to PacifiCorp
4 under-recovering its power cost on a normalized basis.

5 Q. So, Mr. Deen, just carrying on down that page, I
6 wanted to ask you a question about your position
7 opposing the company's PCAM on the basis that it was
8 unnecessary. Is that a fair assessment of your
9 position?

10 A. Could you give me a cite where you're looking?

11 Q. I will give you a cite. But to summarize
12 Boise's position in this case, you oppose a PCAM for
13 PacifiCorp on the basis that it's unnecessary. Is that
14 fair?

15 A. Yes. As a first matter, we do not believe that
16 the pattern of variability that's been shown in
17 PacifiCorp's power costs necessarily warrants a PCAM,
18 and then equally or more problematically we
19 fundamentally disagree with the structure proposed by
20 PacifiCorp.

21 Q. So you're explaining that position here, and
22 talking about, beginning on line 12, going to line 16,
23 basically disagreeing with the challenges of modeling
24 variable resources and rates. Do you see that?

25 A. I guess I don't see that. Lines 13 to 14, I

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1 believe I said I fully acknowledge the issue of
2 integrating variable output available resources is a
3 challenge.

4 Q. And then you, at lines 15 to 16, you say: On a
5 normalized annual basis these costs can and are forecast
6 on a reasonable basis. Do you see that?

7 A. I do.

8 Q. Can you turn to page 9 of your testimony.

9 A. Yes.

10 Q. There when you're opposing PacifiCorp's attempts
11 to refine its wind modeling, you indicate, beginning on
12 line four: Forecasting normalized annual generation for
13 large-scale wind projects in the United States is very
14 much a science still in development. It is clear that
15 wind power resources can display a high level of
16 variability in inter-annual generation.

17 Do you see that?

18 A. I do.

19 Q. Isn't that precisely the variability that
20 PacifiCorp is trying to capture in its PCAM proposal in
21 this case?

22 A. I believe PacifiCorp is trying to capture every
23 single source of variability in its power costs and
24 recover those on a dollar-per-dollar basis.

25 Q. So can you turn to your testimony at page 6. I

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1 wanted to ask you some questions about your position on
2 QF, the QF issue in this case.

3 A. Please do.

4 Q. On lines 21 to 23, you say: So as not to expose
5 Washington consumers to potential harm from QF pricing
6 policies in other states, the WCA was adopted with QF
7 resources being situs assigned to each state.

8 So you specifically are referencing policies in
9 Oregon and Idaho as policies that could potentially harm
10 Washington customers. Is that correct? You see that?
11 Moving up to lines 19 through 21.

12 A. I think I was used to using Oregon and Idaho. I
13 think this was covered at length by Mr. Gomez as just
14 examples of states sort of in the region that have
15 different PURPA implementation policies than Washington.

16 Q. So I just wanted to ask you a question about
17 Idaho. You were a witness in Avista's 2011 rate case.
18 Correct?

19 A. In the Washington jurisdiction.

20 Q. Yes. And I believe Exhibit 14CX is your
21 testimony in that case.

22 MR. COWELL: Your Honor, I just wanted to object
23 on the basis of it being another company involved. I
24 believe that was another one of the stated objections
25 when DJR-6CX was excluded, involved in Avista as the

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1 company, not PacifiCorp. So on that same basis, I want
2 to object on relevancy.

3 JUDGE MOSS: Help me understand why the witness'
4 testimony with respect to another company would be
5 relevant here.

6 MS. McDOWELL: Well, I was going to lay a
7 foundation for these questions and then demonstrate
8 through this witness that he did not object to QFs in
9 the Avista case being -- excuse me -- an Idaho QF of
10 Avista as being assigned to Washington.

11 JUDGE MOSS: Why don't you just ask him about
12 that without reference to this testimony.

13 MS. McDOWELL: I can do that.

14 BY MS. McDOWELL:

15 Q. So, Mr. Deen, you were a witness in Avista's
16 most recent power cost case. Correct?

17 A. That is correct.

18 Q. Are you aware that Avista has a QF contract in
19 Idaho with a company by the name of Stimson?

20 A. I was not aware of that. That was not an issue
21 that I analyzed on behalf of my client in that case.
22 The first time I became aware of that contract,
23 specifically that I recall, was in reading -- I assume
24 you're referring to the same QF of that order, the cross
25 exhibits you gave me?

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1 Q. The Idaho QF that is assigned -- that Avista
2 holds that is partially assigned to and allocated to
3 Washington.

4 A. Yes, and I did not analyze that issue in that
5 Avista case.

6 Q. So just a quick question about your adjustment
7 on the Jim Bridger 2 heat rate. Moving to page 18 of
8 your testimony.

9 A. Yes.

10 Q. And this adjustment is related to the Jim
11 Bridger 2 investment that has been proposed in this case
12 by the company?

13 A. That is correct.

14 Q. So you've been present in the hearing room
15 today?

16 A. Yes, today. I was listening on the phone
17 yesterday, but it was a little hard to hear at points.

18 Q. So I assume you've come to understand that the
19 staff and public counsel are taking a position that that
20 resource should not be included in rates?

21 A. I do understand that, yes.

22 Q. And if the commission accepts this adjustment, I
23 take it you would agree that the benefits of Jim
24 Bridger 2 should also be removed from net power costs?

25 A. Absolutely. My adjustment is simply proposing

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1 to make sure that the cost and benefits are matched in
2 rates.

3 Q. So your adjustment would be moot at that point?

4 A. Yes, if the capital upgrade costs were moot.

5 Q. Assuming the costs do go in, let me just clarify
6 that your proposal -- you agree that the company
7 currently has included increased generation associated
8 with the Jim Bridger 2 update. Correct?

9 A. Yes. 12 megawatts, I believe.

10 Q. And your proposal seeks to impute additional
11 benefits by using a heat rate from another unit, Jim
12 Bridger 1, and applying it to Jim Bridger 2? Is that
13 correct?

14 A. That is correct. So the rationale behind that,
15 essentially my understanding is that -- and I've sent a
16 company data request to that effect -- that the upgrades
17 are extremely similar in nature between Units 1 and 2.
18 The company anticipates -- let me make sure that number
19 is not confidential -- okay, yes.

20 The company anticipated it's a 500-BTU
21 per-kilowatt-hour heat rate improvement over the normal
22 operating range of the plant. Instead of imputing that
23 value, I used actual operational results since the
24 similar upgrade was installed on Bridger 1 and came up
25 with more conservative recommendation.

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1 Q. You used actual results from a different unit.

2 Correct?

3 A. I did. And to be clear, I judge that to be
4 appropriate based on the company's data response.

5 Q. You understand that the company's proposal here
6 is to reflect those improvements in the heat rate
7 through actual data reflected in a four-year average.

8 Corrects?

9 A. That is correct.

10 Q. Are you aware that this is how the company has
11 modeled all heat rate increases and decreases in this
12 case and all previous cases in Washington?

13 A. I'm not aware of the history, I suppose, of
14 Washington heat rate implementation.

15 Q. Can you point to any case where this commission
16 has ever imputed a heat rate for one unit based on the
17 heat rate of a different unit?

18 A. No, I do not have a previous instance.

19 MS. McDOWELL: That's all I have, Your Honor.

20 So I just need to look at the exhibits I'll need
21 to offer.

22 JUDGE MOSS: All righty.

23 Nobody has indicated cross for Mr. Deen.

24 Did the bench have questions?

25 CHAIRMAN DANNER: No.

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1 COMMISSIONER GOLTZ: No.

2 JUDGE MOSS: Time to move quickly.

3 I can tell you 12 and 18.

4 MS. McDOWELL: Well, Your Honor, I did have an
5 additional question that, I'm sorry, I forgot to ask
6 Mr. Deen, and it's related to an exhibit, so would you
7 allow me to ask a couple more questions?

8 JUDGE MOSS: Sure.

9 MS. McDOWELL: Thank you so much for that.

10 BY MS. McDOWELL:

11 Q. So are you aware of docket UM-1129 in Oregon?

12 A. Is this referring to the cross exhibit that you
13 submitted?

14 Q. I'm just asking you in general, are you familiar
15 with that docket.

16 A. I'm familiar that it exists. I was not a
17 participant.

18 Q. Are you aware that your partner, Mr. Schoenbeck,
19 filed testimony on behalf of ICNU relating to QF issues
20 in Oregon?

21 A. I became aware of that as a result of this
22 exhibit.

23 Q. You were not aware of that previously?

24 A. I was not. Mr. Schoenbeck has testified
25 hundreds of times. I'm not aware of all his testimony.

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

2 JUDGE MOSS: You're not going to offer 12 or 18?

3 MS. McDOWELL: I'm going to quickly look
4 through. I'm trying to be mindful of your rulings and
5 not waste time if I can't lay a proper foundation.

6 JUDGE MOSS: I'm trying not to waste time too.

7 MS. McDOWELL: So 12 I think we argued about,
8 and you accepted, so we'll offer that.

9 13 I will not offer. 14 I will not offer. 15 I
10 will not offer. 16 I will not offer. 17 I will not
11 offer.

12 18 I will offer.

13 MR. COWELL: Your Honor, I would object to 18
14 just on the basis of it being another jurisdiction and
15 so fundamentally different fact scenarios with Oregon's
16 rules, the jurisdiction.

17 JUDGE MOSS: As I recall, the questions that
18 concerned this exhibit, though, they went to an issue
19 that I don't think the jurisdiction would matter.

20 I've been taking notes. I have your objection
21 in mind, Mr. Cowell, as I listen to all this testimony,
22 so I'm prepared to admit 12 and 18.

23 (Exhibits MCD-12CX and MCD-18CX were admitted.)

24 MS. McDOWELL: And then I'm not sure what the
25 process is for official notice of orders from other

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1 jurisdictions. This order relates to the market cap
2 adjustment. It's 19CX, Order 12409 from the Oregon
3 commission. Boise put in portions of the order, and we
4 were just supplementing the portions that they had in
5 their testimony with the complete order.

6 JUDGE MOSS: So now we're squarely it seems
7 within the rule of optional completeness. Boise
8 introduced portions of this order. Is that correct?
9 That's what you're saying?

10 MR. COWELL: I will accept that subject to
11 check, that is correct.

12 JUDGE MOSS: Mr. Deen is confirming that. We'll
13 go ahead and have the whole thing for reference and you
14 can organize it as you wish.

15 MS. McDOWELL: Exhibit MCD-10 was the portions
16 of the order. This is the balance of the order related
17 to the issue. It's not the entire order, it's a balance
18 of the order related to the market caps issue.

19 JUDGE MOSS: Okay. And then while I have a 20CX
20 on my list, I don't have a 20CX in my notebook, so I
21 gather that was withdrawn earlier.

22 MS. McDOWELL: That's correct. It was related
23 to the third-party wind integration issue which has
24 been uncontested issue at this point.

25 JUDGE MOSS: Uncontested. Very well. I think

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1 that takes care of those. Are my rulings clear to
2 everyone?

3 MS. McDOWELL: Thank you.

4 JUDGE MOSS: Very well. There being no
5 questions from the bench, Mr. Deen, thank you much for
6 being with us today and giving your testimony.

7 THE WITNESS: Thank you.

8 JUDGE MOSS: You may as well keep your seat. I
9 think given it's 4:00 we'll just forge ahead, and I
10 don't expect -- well, we'll see. I won't comment.

11 We'll need to get some chairs up there.

12 (Pause in proceedings.)

13 JUDGE MOSS: Ms. Steward and Mr. Deen, you have
14 been on the stand with us before, so have been
15 previously sworn, and I'll remind you that you're under
16 oath.

17 I'll ask the other three of you to please rise
18 and raise your right hands.

19 (Panel Members Christopher T. Mickelson, Lea
20 Daeschel and Charles Eberdt were sworn.)

21 JUDGE MOSS: Thank you. Please be seated.

22 While we just had Mr. Deen, and we probably had
23 Ms. Steward recently enough that everybody knows who we
24 are, let's go around and ask for introduction for the
25 remaining three. I just swore Mr. Mickelson. If you

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1 don't mind.

2 MR. MICKELSON: Christopher T. Mickelson, staff.

3 MS. DAESCHEL: Lea Daeschel, policy analyst with
4 public counsel.

5 MS. EBERDT: Chuck Eberdt, The Energy Project.

6 JUDGE MOSS: Thank you very much.

7 The matter concerning this panel is a settlement
8 among all the parties who are, as I understand it,
9 concerning cost of service, rate spread and rate design
10 in this case. That being the case, and the whole matter
11 being fairly brief and straightforward, I don't really
12 see the need for introductory statements unless my
13 commissioners wish to have them.

14 No?

15 CHAIRMAN DANNER: I don't think it's necessary.

16 JUDGE MOSS: Then I think we should just have
17 questions from the bench, and if that precipitates any
18 need for questions from counsel, we'll allow for it.

19 Mr. Purdy, did you have something preliminary?

20 MR. PURDY: Your Honor, I did have just one
21 brief preliminary matter. As a result of settlement,
22 several of Mr. Eberdt's exhibits have been rendered
23 moot.

24 JUDGE MOSS: Let's take look at those.

25 MR. PURDY: All right. They begin with CME-3.

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1 JUDGE MOSS: All right.

2 MR. PURDY: And go through CME-7, all of them.

3 JUDGE MOSS: We'll just mark those as not being
4 offered.

5 MR. PURDY: Yes. Thank you.

6 JUDGE MOSS: Very well.

7 We're ready.

8 CHAIRMAN DANNER: I appreciate you're all being
9 sensitive to the others' concerns, and I think you've
10 actually got a good settlement here in front of us, and
11 I want to thank you for the work you did on that.

12 I guess I'm still looking at what the end game
13 is. We have the issue of you trying to get people, you
14 know, the affluent person who just says carelessly I'm
15 going to heat up my 25 hot tubs and use a lot of
16 electricity, and we want to curtail that kind of
17 activity. At the same time, we have low income people
18 who live in very poorly weatherized homes, and as much
19 as we'd like to stop that kind of activity, we can't
20 just necessarily do it by having some sort of pecuniary
21 penalty imposed on them.

22 What do you see as the resolution of this? I
23 think I'll ask Mr. Eberdt to start.

24 MS. EBERDT: Thank you, Commissioner. I'm not
25 sure what I see as the resolution here. One of our

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1 concerns is that the population of low income
2 households, that we know is a very small proportion of
3 the low income households in the service territory, and
4 what I was hoping is that the consumption study that was
5 being proposed would look into trying to discover more
6 of that population's characteristics.

7 The thing that came out when we actually were
8 negotiating the settlement or the adjustment to the HOPE
9 program in the last rate case that resulted in the
10 multi-year ramp-up and agreement, was one of the things
11 that came out in the preliminary discussions there was
12 the fact that the low income households on the average
13 annually have a higher usage than the non-low income
14 households, and that is kind of unique to the Northwest.
15 And I think it's a unique artifact of the fact that
16 we've had low electric prices for so long.

17 And low income housing is high energy -- or low
18 first cost, so that means baseboard heating, and so
19 those people who don't have natural gas heating end up
20 using a lot of electricity for heat. And so those
21 households that are in the LIHEAP program, in the LIBA
22 program are showing up as having a higher usage profile
23 than non-low income households on the average.

24 Whether or not that is unique to those people
25 who get into the program and therefore indicative of

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1 their high level of need or whether that is generally
2 true of all low income households in this service
3 territory is not something we really know. And I would
4 like to know more about the households who don't
5 actually get to participate in the program before I
6 design a rate structure that is going to impact them.

7 The other thing about Mr. Mickelson's, you know,
8 changing the rate structure from a 600 -- first block of
9 600 kilowatts to 800 kilowatts and then adding a third
10 tier is going to change how the low income people who do
11 get into the LIBA program are affected, because the
12 question is if these people are actually higher users,
13 then does this throw them into a higher cost third tier,
14 or is the higher cost of the third tier greater than the
15 benefit of that 200-kilowatt increment of the lower cost
16 first tier. And since all customers will see that lower
17 cost first tier, does that then throw more of the system
18 cost or the -- well, the system cost, onto the people
19 who are paying the third-tier rate, and does that
20 disproportionately affect the low income customer.

21 Now, if that isn't confusingly enough, I can
22 probably think up some more things to say.

23 COMMISSIONER GOLTZ: Glad you were first.

24 CHAIRMAN DANNER: Well, I feel that in some ways
25 we're kicking the can, which is something we do a lot

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1 around here, and I would just like to know, you know, if
2 we're going to kick the can down, do we have some idea
3 what's down the road here. And it sounds like we have
4 to to gather more information. But even if we do gather
5 that information, I'm not sure that's going to be enough
6 for us to have a perfectly designed rate structure that
7 is going to be able to deal with the affluent bad actors
8 and the -- or, you know, that's my term for people who
9 use a lot of electricity -- or those who are forced to
10 because of their economic circumstances.

11 So I guess does anyone else have any thoughts on
12 that, since Mr. Eberdt has confused me?

13 MS. STEWARD: I'll go.

14 So the end game from the company's perspective
15 is that costs reflect -- or that the rate structure
16 reflects the cost to serve. I don't think this is just
17 kicking the can down the road.

18 I think it's part of this is gradualism, at
19 least from our perspective, and increasing that
20 customer, basically, charge up gradually over time in
21 light of concerns folks have about the immediate impact
22 it may have on customers. And so that's where increase
23 to \$1.75 is helpful, and it's not just kicking it down
24 the road.

25 In terms of pushing off other decisions, I think

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1 additional information will be helpful, but ultimately
2 it will be a policy decision for the commission on how
3 to design rates. There's not going to be one perfect
4 way to do it.

5 You know, the company's perspective in this case
6 and in my rebuttal is that that differential between the
7 first and second tier was -- it's pretty sharp. It's 58
8 percent difference. This rate spread or the rate
9 design, the settlement retains that and it's the largest
10 differential of the three IOUs in the state. I think
11 that does provide an adequate motivation incentive for
12 those high use customers to reduce their usage. But
13 ultimately the survey may help us break down what the
14 end uses are and what is possibly an elastic usage.

15 CHAIRMAN DANNER: As I read this, this is going
16 to be a study that is just done by the utility. Are you
17 going to be doing this with any third party or in
18 consultation with others?

19 MS. STEWARD: Yes. It will be a survey. We
20 have done one, or updated one in Wyoming, and we used a
21 marketing firm, Market Decisions I believe they are
22 called, to work with. And so basically it will look a
23 lot like our last residential survey, which was done
24 2006, which asked customers about their heating source,
25 the cooling source, the types of appliances, the number

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1 of them, the age of them, the characteristics of their
2 home.

3 I would also like to add on questions to get a
4 better understanding of how well they understand their
5 bill, if they understand the current tier structure, if
6 they know how much they use, if they have a good idea of
7 how much they currently spend on energy.

8 CHAIRMAN DANNER: Is this going to -- they're
9 going to have good information on their bills or --

10 MS. STEWARD: They have that information on
11 their bills. And what's interesting to find out is how
12 much -- how many customers actually look at that.

13 CHAIRMAN DANNER: Sure.

14 MS. STEWARD: The way we did it in Wyoming, we
15 started out questions, sort of blindly, you know,
16 assuming they won't go look at their bills to answer --
17 which I would do, I would totally do. I would cheat. I
18 want to be right.

19 COMMISSIONER GOLTZ: Can you read that back?

20 MS. STEWARD: On a survey.

21 CHAIRMAN DANNER: Ms. Steward has said she's a
22 cheater.

23 MS. STEWARD: I also said I want it to be right.

24 You know, we started out asking questions to
25 see, you know, sort of blindly, and then we provide some

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1 information, and, you know, say, okay, well, this is
2 what our rates are, were you aware of that, and then ask
3 sort of their opinions about it. That's the way we've
4 structured it in Wyoming.

5 MS. DAESCHEL: I just want to add from public
6 counsel's perspective too it does seem like it is like a
7 bit of kicking the can down the road, but I think
8 Mr. Mickelson's proposals are new and different, and we
9 would also like a chance to respond to those, and, you
10 know, we didn't have as much of an opportunity as we
11 would like to actually address that proposal.

12 We think that Mr. Eberdt raised some very
13 pertinent concerns about that, and so I think what this
14 settlement allows us to do is fully explore that in the
15 future with the added information from this residential
16 survey. So we see that as a really important benefit,
17 the opportunity to explore that in more detail in a
18 future case.

19 CHAIRMAN DANNER: Okay. Mr. Goltz?

20 COMMISSIONER GOLTZ: Yes. Following up on your
21 comments, approximately what percentage, if you know,
22 are what you would call low income consumers in the
23 PacifiCorp service territory?

24 MS. EBERDT: I actually haven't looked at this
25 data too recently, but it seemed to me that when we were

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1 talking about this in the last rate case we were looking
2 in Yakima County, like 20 percent of the population is
3 in that range that hit, you know, hits our service
4 numbers.

5 COMMISSIONER GOLTZ: I gather that's higher than
6 you would find in the Puget Sound Energy service
7 territory?

8 MS. EBERDT: Well, I think -- I'm trying to
9 remember here. The way these numbers get characterized
10 from one place to another is with the one time you're
11 talking about people who are at 125 percent of the
12 federal poverty level, another time you're talking about
13 people who are at 100 percent of the federal poverty
14 level, they kind of run together.

15 But, yes, when I looked at county demographic
16 data, Yakima has one of the highest levels of poverty.

17 COMMISSIONER GOLTZ: The reason I ask is
18 whatever is learned in the next -- with all these
19 evaluations, it might not be applicable to other ILUs in
20 Washington.

21 MS. EBERDT: Absolutely.

22 COMMISSIONER GOLTZ: But it seems to me if
23 you're talking 20 percent, your concern with
24 Mr. Mickelson's proposal of the third block was because
25 of the determination that on average low income

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1 consumers use more electricity than the others. But it
2 might be that a third block, properly structured, might
3 really not affect low income consumers because they may
4 be such high consumers that even though on average the
5 high consumers mix with all the low consumers that are
6 not low income, they're still going to be lower on
7 average.

8 You see what I'm saying? There's going to be
9 some high -- or non-low income consumers that are the
10 highest consumers.

11 MS. EBERDT: That's possible.

12 COMMISSIONER GOLTZ: And will we learn this in
13 this study?

14 MS. EBERDT: Boy, that's more a question for
15 Ms. Steward than for me.

16 MS. STEWARD: You just confused me.

17 COMMISSIONER GOLTZ: Just because low income
18 consumers consume more on average than the others
19 doesn't mean that they would be disproportionately
20 impacted by a really high block.

21 MS. STEWARD: It depends where the rate is set.

22 COMMISSIONER GOLTZ: Will this study teach us
23 that?

24 MS. STEWARD: No. As part of the study we can
25 ask for demographic information and ask folks, you know,

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1 to provide the number of people in the household, their
2 ages and their income, but it is a survey. You know,
3 they can decline to answer income. And in Wyoming I
4 think about a third of the customers declined to provide
5 income.

6 But it's not going to tell us -- it's not going
7 to tell us how to design rates, you know. That's still
8 going to come down to everybody's interpretation of how
9 to do it. And then how -- you know, it's not just how
10 many blocks, but what the differential should be between
11 the blocks and that -- we're not going to get that out
12 of the survey.

13 COMMISSIONER GOLTZ: Well, I'm confused then,
14 because I look at paragraph 12 of the settlement, and
15 the second and third bullet points on page 4, under
16 paragraph 12, the second bullet says that PacifiCorp
17 will include direct testimony in its next GRC describing
18 its review and analysis of the proposed changes
19 recommended by Mr. Mickelson, and then the next bullet
20 says it will include in the next GRC analysis of the
21 current residential tiered block rate and possible
22 alternatives, including changes in the number of blocks,
23 size of blocks, and impacts on low income consumers.

24 I read that as getting to that information that
25 we'll learn, that we'll be able to answer these

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1 questions.

2 MS. STEWARD: Well, yeah, those are -- they're
3 related, but they're two different things.

4 And then the next bullet, I believe, is the
5 survey.

6 COMMISSIONER GOLTZ: Right.

7 MS. STEWARD: I don't know when we will file the
8 next case, if we will file the next case before
9 July 31st, 2014 or not. But as part of the next case,
10 direct testimony, I will show different options, and to
11 the extent we have that information, I will incorporate
12 that survey information in, but otherwise I'll just show
13 different variations of rate design and what those
14 impacts are.

15 COMMISSIONER GOLTZ: So how are you going to
16 figure it out? I read this as you're going to take
17 Mr. Mickelson's third block, you're going to answer
18 Mr. Eberdt's concern. Is that not true?

19 MS. STEWARD: I think we'll present it several
20 different ways, and then the company will make a
21 recommendation of what we think is the appropriate way
22 for rates to be designed.

23 COMMISSIONER GOLTZ: I guess what I want to know
24 is whenever that happens to be, if we're going to be
25 sitting here also with a dispute between Mr. -- friendly

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1 dispute -- between Mr. Eberdt and Mr. Mickelson about
2 the impact on low income of a very high third block
3 rate.

4 Are we going to have good information on that
5 data, or are we just going to say there's a couple
6 options? I read these bullet points as getting to that
7 answer.

8 MS. STEWARD: We'll still have the same
9 information. We can take Mr. Mickelson's proposed rate
10 design and apply that to the current, what Mr. Eberdt
11 called the low income proxy group, from their actual
12 usage, that are on our Schedule 17, and see what those
13 impacts are. We can do that today.

14 COMMISSIONER GOLTZ: Okay.

15 MS. EBERDT: Commissioner, I must say I was
16 hoping that we would go beyond that to some extent and
17 look at the geographic distribution of usage and poverty
18 distribution and see if there's a correlation there as
19 well.

20 I mean, I'm sure that this company knows how
21 much power is going into various service areas in their
22 area, and they can -- well, I shouldn't be so sure of
23 this. But I would hope that they could actually look at
24 geographic areas and say, okay, these are the customers
25 here, we know from census data what the poverty areas

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1 are by zip code and things like that, and do some
2 cross-correlation there to see how that plays out in
3 some ways, because that will get us to more than just
4 the people who are in the proxy group.

5 MS. STEWARD: Whereas with the survey, we'll be
6 able to take -- and it will be blind to the company,
7 actually, but we will be able to track a customer who
8 claims that they were, you know, whatever their income
9 level was, below the federal poverty level, we'll be
10 able to look at what their actual consumption was.

11 We won't be able to say -- we won't know who
12 that customer is, because we keep it blind. But we will
13 be able to use that. And so after the survey, we will
14 be able to perhaps expand on that proxy group, but it is
15 a self-selected group of customers as well that would
16 indicate what their income is.

17 COMMISSIONER GOLTZ: Let's say after this
18 survey, and after the analysis that you'll do to get
19 ready for your filing of your next rate case as
20 discussed in paragraph 12, the second and third bullet
21 points, you come up with a proposal that shifts to a
22 three-block system, and with a severe high end, top --
23 what do you call it -- end block, top block, whatever it
24 is.

25 MS. STEWARD: Third tier.

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1 COMMISSIONER GOLTZ: And so how will you know
2 without experience what sort of impact that will have on
3 your revenues?

4 MS. STEWARD: You mean elasticity effect?

5 COMMISSIONER GOLTZ: Yeah. What sort of
6 pro forma adjustment would there be to say, well, we
7 estimate that the people in the suburbs are going to
8 start cutting their electric uses by the ten percent and
9 the impact it will be. How do you know?

10 MS. STEWARD: We won't. There are elasticity
11 studies that have been done. I can't say we would
12 propose a pro forma adjustment. I don't know of a
13 utility that has.

14 As part of our IRP, we do look at the Class 3
15 DSM, which are peak shifting, you know, rate designs and
16 so they have -- we have made assumptions on how much our
17 tiered structures have saved over time as a result of --
18 well, as a result of our tiered structures, how much
19 energy, you know, has shifted.

20 And those are -- those studies were done using
21 elasticity studies from around the country, and then
22 within a range. So I don't know that we would do a
23 pro forma, but --

24 COMMISSIONER GOLTZ: I'm assuming that among the
25 purposes of all this is to encourage more conservation

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1 and less per capita use, and without a decoupling
2 mechanism, the company might take a hit from that.

3 MS. STEWARD: What you end up with in the third
4 tier is a lot of the usage that's subject to weather
5 already, you know, and you have customers that fall
6 within each of the tiers. They're not all going to end
7 up in the third tier.

8 So it's hard to -- it's hard to say. That's why
9 pro forma adjustment I imagine would be very
10 controversial.

11 MS. DAESCHEL: I would just add that I think
12 there are studies you can do to determine which
13 customers fall under which tier based on their usage,
14 and I think maybe even Mr. Mickelson might have done
15 some of that in this case, but there's opportunities to
16 do that to understand better how many customers which
17 would fall under which tier.

18 MS. STEWARD: There are bill frequency studies.

19 COMMISSIONER GOLTZ: So you've got a family
20 living there, they've got a hot tub and they have all
21 this, and they, you know, they plug in their electric
22 cars and all sorts of things, and all the sudden the
23 third tier, they're going to be in the third tier, and
24 that's going to be another 50 percent higher than the
25 rate in the second tier. And either you're going to

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1 encourage conservation, which would be something, or
2 maybe you're going to get more money out of it. Maybe
3 they're just going to say -- these people have a demand,
4 and we're going to get more money. It could go either
5 way. Or maybe that enables you to kind of lower the
6 rates in the earlier tiers. I just don't know how
7 you're going to figure out your revenue, your estimated
8 or -- revenue in a new rate structure going forward.

9 MS. STEWARD: In Utah we have three tiers in
10 summer, we have two tiers in winter. We kind of looked
11 at that revenue volatility, and it was really more
12 driven by weather.

13 COMMISSIONER GOLTZ: I suppose the revenue for
14 the company could go up if you raised the higher block
15 and then the people keep on heating their hot tubs.

16 MS. STEWARD: Well, it would be designed to be
17 revenue neutral when we designed it. It would be
18 designed based on the billing units we have, from either
19 historical as traditionally has been the case in
20 Washington, or forecast if we filed a forecast test
21 period. We would have billing units, and so those would
22 be the basis of designing the rates, and to collect that
23 revenue that's been allocated to the residential class.

24 COMMISSIONER GOLTZ: You would assume that the
25 per capita usage in the test year is the same as the per

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1 capita usage in the rate year?

2 MS. STEWARD: It depends if it's a historical
3 test period or test period. So for this case our rates
4 are designed on a historical usage basis. That flows
5 through the entire case from interjurisdictional
6 allocations factors to class cost of service, to
7 pricing.

8 If we had a forecast test period, you know,
9 presumably, that to match, you know, across the case,
10 that usage that we're forecasting would be in the
11 interjurisdictional class factors, class cost of
12 service, and pricing.

13 COMMISSIONER GOLTZ: Just one other question I
14 think. Well, maybe a bit more. But the company -- did
15 you envision a time in the foreseeable future where you
16 will be able implement time-of-day pricing?

17 MS. STEWARD: I think at some point in the
18 future, yes.

19 COMMISSIONER GOLTZ: But your current meters
20 don't allow that?

21 MS. STEWARD: Correct. I think we recently
22 installed the AMR meters in Washington. So it will
23 probably be a number of years.

24 But you're right. I think time of day is better
25 reflective of the cost to serve than just tiers of over

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1 the course of a month.

2 COMMISSIONER GOLTZ: Do you have time-of-day
3 pricing in any of your other jurisdictions?

4 MS. STEWARD: We do in Idaho. There's time of
5 day in Oregon. They're both voluntarily programs. And
6 there is a cost to customers for that meter, an
7 incremental monthly cost.

8 COMMISSIONER GOLTZ: Let me ask you also about
9 the basic charge. You stated in your testimony, and you
10 were originally proposing, proposed a basic charge of
11 \$10.21 per month to cover the cost of meters, service
12 drops, meter reading and billing. Maybe there's one or
13 two other things there.

14 MS. STEWARD: I think I proposed \$10.

15 COMMISSIONER GOLTZ: You said the cost was 10.21
16 and you were proposing 10.

17 MS. STEWARD: Right.

18 COMMISSIONER GOLTZ: That doesn't come anywhere
19 close to covering the so-called fixed costs of the
20 system. Right? It's just costs related to the
21 customer.

22 MS. STEWARD: To the number of customers, right.

23 COMMISSIONER GOLTZ: So I'd like to ask the
24 others if that is a reasonable concept for the basic
25 charge, that we cover those customer costs, or should it

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1 be more to cover more of the fixed costs, or should it
2 be less because of low income concerns? I mean, what is
3 it -- you're talking about gradualism. What are we
4 gradually moving toward, or do we know that?

5 MS. DAESCHEL: From public counsel's
6 perspective, and this is what Mr. Glenn Watkins
7 testified to, we believe in the fixed customer charge
8 it's appropriate to include direct customer cost. So
9 those are the direct costs that it takes for a customer
10 to hook up to a meter and to maintain that account.

11 So when we did our direct customer cost
12 analysis, we reached a certain amount. I believe we had
13 a range, somewhere in the 7.50 to 7.76 range that we
14 came up with, based on that, and so that's what we
15 believe is appropriate to look at for the fixed.

16 COMMISSIONER GOLTZ: I believe Ms. Steward, so
17 conceptually, Ms. Steward, you may not disagree with
18 that. Right? Or do you kind of agree conceptually that
19 that's the -- not agree with the number, but you agree
20 with the concept that that's what the customer charge
21 should cover?

22 MS. STEWARD: At a minimum, yeah. Yes. I mean,
23 there was a disagreement, there was some devil in the
24 detail on what are those customer-related costs that I
25 addressed in my rebuttal. Public counsel took out

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1 general plant that has been allocated to the customer
2 cost. We think those should be in as well, at a
3 minimum.

4 But, you know, part of the struggle with
5 residential rates is that there are a lot of
6 demand-related costs, but we don't have demand meters
7 for residential customers, and those demand costs end up
8 being in a volumetric, an energy-based rate. And so
9 after you take into account these customer-related
10 costs, that's sort of the next step, is, you know, is
11 recovering those demand-related costs in a way that's
12 not just energy-based.

13 COMMISSIONER GOLTZ: Mr. Mickelson, do you have
14 any comments on where we ought to be going conceptually
15 toward a fixed or basic charge?

16 MR. MICKELSON: Well, staff would concur with
17 public counsel. We did the similar analysis, and our
18 range was more \$8. So you would want to include the
19 cost of hooking those customers up to the system. Maybe
20 ultimately as an end game, down the road, 10, 20, 30
21 years, you start to include the demand portion, but
22 we're not there yet.

23 MS. STEWARD: That would be the epitome of
24 gradualism.

25 COMMISSIONER GOLTZ: You haven't heard

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1 Mr. Eberdt's response yet.

2 MS. STEWARD: True.

3 COMMISSIONER GOLTZ: Mr. Eberdt, do you have a
4 comment on where we ought to end up on the basic charge?

5 MS. EBERDT: Generally we concur with public
6 counsel on this one.

7 COMMISSIONER GOLTZ: Mr. Deen, I assume that you
8 don't have a dog in this fight?

9 MR. DEEN: No.

10 COMMISSIONER GOLTZ: Anyone else have any
11 comments or questions? Otherwise I'm done.

12 I didn't ask Mr. Mickelson much about the tiers.
13 I guess I'll ask you this, Mr. Mickelson. Are you
14 comfortable that at the end of the study that's being
15 proposed, and including the information that the company
16 has committed to providing in the next general rate
17 case, do you feel confident that you will be able to
18 resolve this issue of whether or not the -- of the
19 three-tier structure and its impact on low income
20 customers?

21 MR. MICKELSON: I believe from the study, in
22 Ms. Steward's rebuttal she did bring up concerns about
23 using national data, I believe 2001 data, and so by
24 using the study, staff and other parties will be able to
25 use information that is, A, relevant to this company and

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1 to their service territory, and so in setting rates
2 based off that, I think that is a good outcome.

3 COMMISSIONER GOLTZ: I've got nothing further.

4 CHAIRMAN DANNER: I just want to throw in -- you
5 know, to hold prices down so low income people can heat
6 their drafty homes is really kind of still an interim
7 step, because ultimately we've got to find a way to
8 weatherize those homes. And, you know, I don't know
9 that there's going to be a component of this study or
10 information that we can gather as part of the study that
11 will help inform that, but I'd just like to know if
12 there's any thinking along those lines.

13 MS. STEWARD: We have included a question in the
14 last survey on energy efficiency efforts undertaken in
15 the past couple years with different items to check off,
16 including weatherization.

17 CHAIRMAN DANNER: So would that provide
18 information so that commerce could -- or utilities or
19 LIHEAP program, or whoever is doing weatherization, will
20 have information that they can use to target this?

21 MS. STEWARD: That -- they won't be able to use
22 it to target specific customers, because it will be
23 blind.

24 CHAIRMAN DANNER: You were talking about
25 geographic areas, or maybe that was Mr. Eberdt.

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1 MS. STEWARD: I haven't thought about that. I
2 don't know if we could do a zip code or not. I don't
3 know how useful that would be. They won't know who that
4 customer is. I'll let Mr. Eberdt discuss it.

5 MS. EBERDT: You know, what occurs to me is that
6 there has been a residential building assessment done
7 for the region recently, and one of the unfortunate
8 anomalies of this residential building assessment is
9 that it's 90 percent owner-occupied, single-family. So
10 that almost automatically precludes the largest
11 proportion of low income homes.

12 But what we know from that building assessment
13 is that there's still a lot of homes out there that
14 don't have wall insulation and that don't have much more
15 than R-18 attic insulation. So there's a lot of stuff
16 that can be done in these homes, and the question is how
17 are we going to know in this service territory, in these
18 certain areas, in the homes that are low income homes,
19 whether or not these people have the opportunity for
20 this work to be done.

21 Again, another one of those things that's going
22 to fall through the, kind of falls through the mesh, you
23 might say, is that they are going to survey people, but
24 in many cases the low income folks who are living there,
25 if they happen to be the recipients of the survey, won't

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1 know what has been done to that home because it's a more
2 mobile population, and so they may not have been there
3 when it was done, and they may not have the background
4 to know that.

5 And it's possible that -- the Department of
6 Commerce is doing a lot more now in collecting data from
7 the low income work that we're doing. We have a data
8 system that they've been working up for the last couple
9 of years, and we're getting more information about
10 what's going into the homes that we are doing, but it
11 doesn't tell us about the homes that we're not doing.

12 CHAIRMAN DANNER: So you don't see really any
13 opportunities in this cost service study that would
14 inform those efforts or help them along?

15 MS. EBERDT: I think there are. If it
16 identifies -- if it starts to identify areas where
17 there's high usage that we're not aware of, that's a
18 good thing. We prioritize high usage and high burden in
19 our homes, and so that might be an opportunity for us to
20 do a better targeting job, and that's a good thing.

21 You know, I know it's going to be blind, but
22 that still gives us the opportunity to do outreach,
23 geographically, if we have some kind of geographic
24 dimension to it.

25 CHAIRMAN DANNER: Thank you.

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1 I have no further questions.

2 JUDGE MOSS: Nothing from counsel, I gather.

3 All right.

4 Well, panelists, thank you all for being here
5 today and being available for your testimony and giving
6 your testimony. You may all step down.

7 That brings us to the conclusion, I believe, of
8 our evidentiary proceedings, subject to any housekeeping
9 matters that the parties may wish to bringing to my
10 attention at this time.

11 MS. GAFKEN: Judge Moss, I do have one of those
12 such matters.

13 JUDGE MOSS: All right.

14 MS. GAFKEN: Regarding the public comment
15 exhibit.

16 JUDGE MOSS: Yes.

17 MS. GAFKEN: I understand that we will probably
18 be able to get that in by Friday.

19 JUDGE MOSS: All right. That seems reasonable
20 to me.

21 And I would hope to have the bench request
22 responses by Friday, if that's possible. Let me know if
23 it's not. The reason that's important to me is at some
24 point I have to close the record, and at that point,
25 we -- I guess if the public comment exhibit is coming in

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1 we probably should consider that to be the close of the
2 record. Evidentiary requests have been made in the
3 context of this proceeding, so if the answers came in a
4 little bit late, that would not really matter too much
5 to me, I think.

6 You're confident about Friday?

7 MS. GAFKEN: Yes.

8 JUDGE MOSS: If we get any written comments --

9 CHAIRMAN DANNER: The one that we requested of
10 Ms. White might take a little more time. Is Friday a
11 good date?

12 MR. CEDARBAUM: It's my understanding,
13 Commissioners, that's going to be a group effort with
14 help from the company, and so Friday might be too --

15 CHAIRMAN DANNER: I think it will be.

16 MR. CEDARBAUM: -- oppressive.

17 JUDGE MOSS: My point is that's okay, because
18 we've established that will be information in the
19 record, and we can receive that after the date we set
20 for the close of public comment, which I think if you're
21 confident about Friday then --

22 MS. GAFKEN: Yes.

23 JUDGE MOSS: All right. We'll set Friday then.

24 All right. Very well. Anything else?

25 MS. WALLACE: Is it possible to get

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1 clarification on Bench Request 6? I just wasn't exactly
2 sure what was asked for in that.

3 JUDGE MOSS: You have to help me out. I've
4 closed my notebook here.

5 MS. WALLACE: I'm sorry. With that turnaround,
6 we might not get the transcript in time to get
7 clarification from the -- with that turn around, we
8 might not get clarification from the transcript in time.

9 JUDGE MOSS: Oh, I see. You need clarification
10 of the transcript. Well, I'm not finding my notes on
11 six here.

12 MS. WATSON: I have mine, if that's helpful.

13 MS. WALLACE: It was related to when Dana
14 Ralston was on the phone, it was related to the Jim
15 Bridger turbine upgrade, and analyses were provided in
16 staff or in response to an IRP. I was just wanting
17 clarification on whether it was specific analyses or
18 just the analyses that we've provided.

19 JUDGE MOSS: Do you have some notes on that?
20 Can you bring that up?

21 I apologize. We've got some notes coming.

22 MS. WALLACE: She just said it was -- the
23 analyses we've provided on the need for the upgrade --

24 JUDGE MOSS: I'm sorry. The court reporter and
25 I are both having a difficult time hearing that.

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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 27, 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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