

Exhibit ___-T (APB-1T)
Docket UE-061546
Witness: Alan P. Buckley

**BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

vs.

PACIFICORP dba Pacific Power & Light
Company,

Respondent.

DOCKET UE-061546

**ADDITIONAL TESTIMONY OF ALAN P. BUCKLEY
IN SUPPORT OF THE SETTLEMENT STIPULATION**

January 19, 2007

1 I. INTRODUCTION

2

3 **Q. Please state your name and business address.**

4 A. My name is Alan P. Buckley. My office address is 1300 South Evergreen Park
5 Drive Southwest, P.O. Box 47250, Olympia, Washington 98504, and my e-mail
6 address is abuckley@wutc.wa.gov.

7

8 **Q. Have you also provided joint testimony in support of the Stipulation?**

9 A. Yes. That joint testimony contains a description of my position at the Commission
10 and a statement of my professional qualifications.

11

12 **Q. In addition to your qualifications contained in the joint testimony, have you**
13 **filed testimony on issues of inter-jurisdictional allocation, power supply, and**
14 **power cost adjustment mechanisms in previous PacifiCorp proceedings before**
15 **this Commission?**

16 A. Yes. I have filed extensive testimony on inter-jurisdictional cost allocation, power
17 supply costs, and power cost adjustment issues in the last two general rate cases filed
18 by PacifiCorp before this Commission. This includes consolidated Dockets UE-
19 050684, UE-005412 and UE-060669, which included the docket in which the
20 Commission stated the requirements for an acceptable cost allocation methodology
21 for PacifiCorp. I will refer to that case as the "2005 Rate Case" in my testimony.

1 **Q. What is the purpose of this separate testimony?**

2 A. The purpose of my testimony is to provide Staff's support for the proposed Western
3 Control Area (WCA) allocation methodology contained in the Settlement Stipulation
4 (Stipulation), and Staff's comments on the Power Cost Phase proposed in the
5 Stipulation.

6

7 **Q. Prior to the Company's filing of its evidence in this docket, did you discuss cost
8 allocations and related issues with the Company?**

9 A. Yes. In Paragraph 100 of its Order 04 in the 2005 Rate Case, the Commission
10 requested PacifiCorp to work with the parties on the issue of an acceptable power
11 cost adjustment mechanism, or "PCAM." I met with the Company on an informal
12 basis on a number of occasions to discuss the PCAM and related issues, including
13 allocations. The discussions focused on methodologies that would meet the
14 Commission's requirements set forth in its Order in the 2005 Rate Case, and address
15 other concerns expressed by Staff. In addition, I discussed these issues in the
16 technical workshops scheduled by the Commission in this docket.

17

18 **Q. Does the Company's filing in this docket address the Commission's and Staff's
19 concerns relating to the issues of inter-jurisdictional cost allocations, power
20 supply expense, and a power cost adjustment mechanism?**

21 A. Yes. First, in this docket, the Company has decided to abandon the Revised Protocol
22 methodology for use in Washington. This is a major shift in the Company's
23 approach. Second, the Company has agreed to adopt a Western control area-based

1 method for cost allocations and for determining power supply costs, including the
2 implementation of a PCAM. Finally, the PCAM the Company filed is responsive to
3 the concerns expressed by the Commission in its Order 04, although Staff is still
4 considering the details of the proposed PCAM, and will recommend some changes in
5 the Power Cost Phase of this proceeding.

6
7 **Q. In its orders in the 2005 Rate Case, did the Commission state the requirements**
8 **for an acceptable inter-jurisdictional cost allocation methodology?**

9 A. Yes. In Order 04 in the 2005 Rate Case, the Commission set clear standards on how
10 it would evaluate an allocation methodology for use in Washington. The
11 Commission reiterated these requirements in Order 06 in that docket.

12
13 **Q. Based on your review of those Orders, what are the key requirements stated by**
14 **the Commission?**

15 A. In paragraph 48 of Order 04, the Commission states:

16 *In setting rates, we must follow certain statutory standards. In particular, we*
17 *must regulate in the public interest, ensuring that in determining the fair*
18 *value of company property for rate making purposes, i.e., establishing the*
19 *appropriate rate base, we must determine whether the property is "used and*
20 *useful for service in this state."*

21
22 In paragraph 50, the Commission expands on the "used and useful for service in this
23 state" requirement:

24 *Under our governing statutes, we must find a resource to be used and useful*
25 *in this state before its costs may be recovered in rates. We interpret the*
26 *phrase "used and useful for service in this state" to mean benefits to*
27 *ratepayers in Washington, either directly (e.g., flow of power from a resource*
28 *to customers) and/or indirectly (e.g., reduction of cost to Washington*

1 *customers through exchange contracts or other tangible or intangible*
2 *benefits).*
3

4 **Q. Does the WCA methodology as agreed to in the Stipulation meet these**
5 **Commission requirements for an acceptable allocation methodology?**

6 A. Yes. The WCA methodology is a control area-based method. The use of a control
7 area based methodology addresses the identification of costs and benefits associated
8 with direct service to Washington customers.

9
10 **Q. What is a control area?**

11 A. A control area can be defined in several ways. For example, a control area is defined
12 as:

13 • An electric system or systems, bounded by interconnection metering and
14 telemetry, capable of controlling generation to maintain its interchange schedule
15 with other Control Areas and contributing to frequency regulation of the
16 Interconnection. (Western Area Power Administration)

17
18 or

19
20 • A part of a power system or a combination of systems to which a common
21 generation control scheme is applied to match generation and load. (Bonneville
22 Power Administration)

23 or

24
25 • An electric system, consisting of one or more electric utilities, capable of
26 regulating its generation to maintain an interchange schedule with other systems
27 and capable of contributing to the frequency regulation of the regional
28 interconnected grid. (Federal Energy Regulatory Commission)

29
30
31 **Q. What is significant about the concept of a control area for purposes of an inter-**
32 **jurisdictional cost allocation method?**

1 A. The resources within a control area are used to provide benefits to the system within
2 that control area. Consequently, a control area-based allocation method should
3 satisfy the “used and useful” requirement for jurisdictions within that control area.
4

5 **Q. How many control areas does PacifiCorp have?**

6 A. PacifiCorp has two control areas: the east control area and the west control area.
7 Washington is located in the west control area.
8

9 **Q. How does the WCA methodology address the requirement that allocated
10 resources be “use and useful for service in this state?”**

11 A. The WCA methodology is a control area based model. It is based on the Company’s
12 west control area, which includes Washington. The WCA method starts with only
13 loads and resources contained within PacifiCorp’s west control area for operational
14 purposes.
15

16 **Q. How does the WCA methodology address facilities that span both control
17 areas?**

18 A. The WCA allocates to each control area a portion of the costs and benefits associated
19 with certain facilities that span both control areas. For example, the Company’s Jim
20 Bridger facility is electrically connected to both the Company’s east and west control
21 areas. The WCA allocates a portion of Jim Bridger to Washington.
22

1 **Q. In sum, how does the WCA methodology satisfy the “used and useful”**
2 **requirement?**

3 A. The WCA methodology satisfies the “used and useful” requirement because it
4 isolates the costs and benefits associated with west control area loads and resources
5 for purposes of determining Washington rates in this proceeding.
6 It is clear that resources within the Company’s Western control area provide direct
7 benefits to Washington.

8

9 **Q. Is it possible for a facility located in the east control area to provide indirect**
10 **benefits to Washington?**

11 A. Yes. The Commission recognizes that not all costs and benefits need to be direct in
12 order for the costs and benefits to be allocated to Washington. In Paragraph 51 of
13 Order 04 in the 2005 Rate Case, the Commission stated:

14 *Under either circumstance, the Company must demonstrate a quantifiable*
15 *benefit to Washington ratepayers. When a facility is actually used to provide*
16 *service, its costs and benefits can be readily identified and allocated*
17 *appropriately. The same cannot be said for resources that do not provide*
18 *direct service or only have occasional or potential value to Washington*
19 *ratepayers. While such resources may still be compensable under our*
20 *statutory scheme, they require more complex analysis, which must consider*
21 *and quantify any indirect benefit sought to be recovered in rates.*
22

23 **Q. Is the WCA methodology capable of addressing “indirect” benefits?**

24 A. Yes. The WCA methodology is able to allocate the costs and benefits of resources
25 which may provide “indirect” benefits to Washington. While the proposed WCA
26 methodology begins with the allocation of west control area resources only, it is
27 flexible enough to allow for the future inclusion of other resources upon a showing

1 by the Company that the costs and benefits are associated with direct or indirect
2 service to Washington.

3 In other words, the WCA methodology recognizes that the Company's
4 system is dynamic. Future resources that serve one, or both, of the control areas may
5 be acquired by the Company. Additional transmission may be acquired that allow
6 for power transfers not possible under the present system. The WCA does not
7 preclude additional resources from inclusion in rates, so long as the Company can
8 make the necessary showing that the resource provides direct or indirect benefits to
9 Washington. This is consistent with the Commission's statement in Paragraphs 68
10 and 69 of Order 04 in the 2005 Rate Case:

11 *We find, however, that the Company must demonstrate tangible and*
12 *quantifiable benefits to Washington of resources in the system before we will*
13 *include the resources in rates. The test for including a resource in rates is*
14 *not whether it is "needed, deliverable and least cost" but rather whether it*
15 *provides quantifiable direct or indirect benefits to Washington commensurate*
16 *with its cost.*

17
18 *The Company can demonstrate this through historical system operation or*
19 *modeling of the system showing that Eastside plant costs added to*
20 *Washington rates would be offset by reductions to other cost categories (e.g.,*
21 *power costs), such that overall costs to Washington ratepayers would be no*
22 *more than without the Eastside resources.*
23

24 **Q. How is it anticipated such indirect benefits be established using the WCA**
25 **methodology?**

26 **A.** The Stipulation establishes a Monitoring Committee. Ideally, this forum will allow
27 for the consensus recommendations regarding amendments to the WCA
28 methodology. The Stipulation calls for non-signatories to have an opportunity to be
29 represented in the Monitoring Committee. In addition, amendments may also be

1 proposed by parties in subsequent rate cases before the Commission. However,
2 for purposes of this Stipulation, Staff and the Company are proposing that the
3 Commission accept those resources identified in Appendix A to the Stipulation for
4 purposes of using the WCA methodology to establish base power supply costs and
5 the PCAM in the Power Cost phase of this proceeding.
6

7 **Q. Has the Commission stated any cost allocation method requirements related to**
8 **PacifiCorp's west control area hydro resources?**

9 A. Yes. In Paragraph 70 of the Commission's Order 04 in the 2005 Rate Case, the
10 Commission said:

11 *We expect the Company to include the full value of hydroelectric resources in*
12 *the Western control area in any inter-jurisdictional cost allocation model it*
13 *develops for Washington.*
14

15 **Q. Does the WCA methodology comply with this "full value" requirement?**

16 A. Yes. The costs and benefits of the Western Control Area hydroelectric resources are
17 assigned to those jurisdictions in the Western Control Area.
18

19 **Q. Does the WCA methodology allow for the efficient implementation of a power**
20 **cost adjustment mechanism?**

21 A. Yes. Variable costs and benefits of the resources contained in the WCA can readily
22 be tracked for purposes of implementing a PCAM .

23 However, at present, it may be necessary to use what I call a "pseudo actual"
24 methodology for some costs and benefits. Because the Company's accounting
25 system does not generally distinguish between day-to-day system transactions on a

1 control area basis, it is necessary to use representative numbers where actual
2 numbers are not available. Staff anticipates working with the Company to determine
3 whether additional accounting methods can be established to better track actual
4 transactions for purposes of the PCAM.

5
6 **Q. The Commission stated in Paragraph 70 of Order 04 in the 2005 Rate Case, that**
7 **the Hybrid Model identified in that case “holds promise.” Is the WCA**
8 **methodology appropriate in light of that statement?**

9 A. Yes. The WCA meets the needs of Washington, and it meets the Commission’s
10 allocation method requirements. It is therefore unnecessary to move further toward a
11 Hybrid Model of the sort being evaluated in other jurisdictions. In other words, the
12 WCA methodology provides a reasonable basis on which to determine rates. It is
13 easy to understand, efficient to implement, and flexible. These characteristics are
14 important in order to have a dynamic model that addresses ongoing changes in long-
15 term purchase and sales contracts, new resource additions, and system balancing
16 requirements under a variety of water year conditions.

17 In addition, in my opinion, the Hybrid Model is one step down the “slippery-
18 slope” of adding significant complexity for the sake of identifying and capturing a
19 limited level of potential incremental costs and benefits.

20 In short, the WCA methodology meets the present needs of Washington and
21 the Company, and it satisfies the Commission’s requirements of an acceptable
22 allocation model, without the additional burden and conflicts associated with the
23 Hybrid Model.

1

2 **Q. Paragraphs 14 and 15 of the Stipulation establish a five-year evaluation period.**
3 **Can you please explain your understanding of that provision?**

4 A. Yes. The WCA methodology is anticipated to be a permanent allocation solution for
5 Washington and the Company. However, a five-year review period is established to
6 provide a specific time period in which the WCA methodology can be formally
7 evaluated and reviewed by all interested parties.

8 The five-year evaluation period balances the need to have a methodology in
9 place for a sufficient period of time, and the timeliness of any evaluation of the
10 methodology.

11 The evaluation period does not mean that no changes can be made to the
12 WCA methodology after that time. In addition, Paragraph 15 of the Stipulation
13 states that the Commission can always require the use of a different methodology.

14

15 **Q. Is the WCA methodology based on how the Company operated its system**
16 **before it merged with Utah Power and Light Company?**

17 A. No, and it should not be. The WCA methodology is based on the manner in which
18 the Company's system is operated today (e.g., east and west control areas with
19 limited interconnection capability). The WCA methodology does not take into
20 consideration historical configurations of the Company either pre- or post-Pacific
21 Power and Utah Power merger.

22 Consequently, there are certain resources whose costs and benefits may have
23 been historically included in developing Washington rates, but are not initially

1 included in the WCA methodology as proposed. However, the WCA methodology
2 allows for their inclusion for purposes of determining Washington rates, if they meet
3 the Commission's standards for allocating resources to Washington.
4

5 **Q. Is the WCA methodology perfect?**

6 A. No. However, I believe there is no perfect methodology for allocating the costs and
7 benefits associated with providing electric service by a multi-jurisdictional electric
8 utility. The WCA methodology does, on balance, result in a reasonable estimate of
9 the fixed and variable operating costs and benefits associated with the portfolio of
10 resources directly serving Washington under a variety of water conditions for
11 purposes of setting rates.

12 For example, the WCA methodology may not capture all of the costs and
13 benefits of the Company's system operations. By initially isolating the west control
14 area resources, the model used for the methodology may not capture some
15 incremental costs and benefits that are present through the Company's operation of
16 the two separate control areas, even under the current limited transfer capability
17 between control areas. However, it is my opinion that these short-comings are
18 minimal compared to the benefits of having a workable methodology. Moreover,
19 Exhibit ___ (Joint -3) includes an adjustment related to sales from the west to the
20 east control area. Finally, the WCA methodology allows the flexibility to amend the
21 model or to identify and include additional costs of resources that may indirectly
22 serve Washington and have been determined to have positive benefits.

1 The WCA methodology represents a balanced and workable solution to a
2 long standing roadblock for determining an appropriate level of costs to serve
3 Washington for PacifiCorp. The WCA methodology also provides an acceptable
4 platform for use in implementing a power cost adjustment mechanism for the
5 Company.

6
7 **Q. What is the relationship between approving the WCA methodology as part of**
8 **the Stipulation and the proposed ongoing Power Cost Phase of this proceeding?**

9 A. As stated in Paragraph 13 of the Stipulation, approving the WCA methodology
10 means that the resources included in that method will be used in the Power Cost
11 Phase of this docket. This recognizes the continuing discussions and analysis
12 regarding the appropriate level of certain inputs into the WCA model used to
13 determine the base power supply cost level.

14 However, approval of the WCA methodology does not amount to
15 Commission approval of any particular level of base power supply costs. The parties
16 are analyzing the appropriate inputs to the model for purposes of determining the
17 approved level of base power supply costs, and the manner in which those costs are
18 implemented in a proposed PCAM. The base level power supply costs for purposes
19 of the PCAM will be established in the Power Cost Phase.

20
21 **Q. Why is it appropriate to bifurcate this case by resolving revenue deficiency**
22 **issues now, and resolving certain other issues in the Power Cost Phase?**

1 A. The bifurcation is a balance between timely rate relief for the Company and the need
2 to establish a base level of power supply costs for purposes of implementing a power
3 cost adjustment mechanism. Staff has analyzed the power supply costs of the
4 Company using the WCA methodology. A number of potential adjustments to
5 power supply costs have been identified as the parties approach litigation. As a
6 result of all of Staff's ratemaking analysis, Staff supports the overall revenue
7 requirement proposed in the Stipulation. This represents an appropriate level of
8 revenue requirements taking into consideration potential Staff's positions, including
9 the range of additional potential power supply related adjustments.

10 However, the Parties recognize that a specific level of base of power supply
11 costs must be established in order to implement a power cost adjustment mechanism.
12 The Parties also recognize that there is considerable value in continuing to work
13 together, when possible, to identify and input appropriate changes or updates to the
14 parameter input into the WCA methodology based power cost model.

15
16 **Q. Paragraph 21 of the Stipulation calls for PacifiCorp to supply an "updated
17 power cost estimate," Is the updated power cost estimate part of the proposed
18 Power Cost Phase of this proceeding?**

19 A. Yes. By identifying and specifically agreeing to such an update, the Parties are
20 indicating the willingness to continue to work together in a timely manner to address
21 the needs of the Commission, the Company, Staff, and other parties. In addition, the
22 update should result in a closer match between the base level power costs and the

1 actual costs that flow through the PCAM upon implementation, thus reducing the
2 potential for deferrals.

3
4 **Q. According to Paragraphs 20 and 21 of the Stipulation, the Power Cost Phase**
5 **also includes determining the actual methodology for a power cost adjustment**
6 **mechanism. How is it anticipated that the Parties will meet this goal?**

7 A. The Parties have agreed that there is value in continuing to work jointly in deriving
8 an acceptable methodology for the Company's proposed PCAM. This is, again, a
9 balance between timely rate relief for the Company and the Parties needs in
10 establishing the details of the PCAM.

11 Staff supports the establishment of a PCAM for the Company, as indicated in
12 Paragraph 20 of the Stipulation. Furthermore, Staff believes that significant progress
13 has been made in developing a methodology which can be brought to the
14 Commission for approval. The additional time identified in the Power Cost Phase of
15 this proceeding will hopefully allow this goal to be met.

16 Paragraph 20 of the Stipulation also states that all interested parties to this
17 docket are free to participate in the negotiations regarding the issues in the Power
18 Cost Phase. If a negotiated resolution cannot be reached by April 15, 2007, the
19 Commission will set a litigation schedule for resolving these issues within the
20 suspension period.

21 Under either scenario, settlement or litigation, the Commission will
22 determine in the Power Cost Phase whether a PCAM is appropriate, and if so, in
23 what form. The Stipulation does not require the Commission to adopt a PCAM.

1

2 **Q. Does this complete your direct testimony in support of the Stipulation?**

3 **A. Yes.**