Exhibit T-___ (APB-1T)
Docket No. UE-020417
Witness: Alan P. Buckley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In re the Petition of **PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY,** **For an Accounting Order Authorizing Deferral of Excess Net Power Costs.**	**DOCKET NO. UE-020417**

DIRECT TESTIMONY OF
ALAN P. BUCKLEY

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

February 5, 2003

Q. Please state your name and business address.

A. Alan P. Buckley, 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission as a Senior Policy Strategist. I am responsible, among other duties, for analyzing rate and power supply issues as they pertain to the electric energy companies under the jurisdiction of the Commission.

Q. What are your education and experience qualifications?

A. I received a B.S. degree in Petroleum Engineering with Honors from the University of Texas at Austin in 1981. In 1987, I received a Masters of Business Administration degree in Finance from the University of California at Berkeley. From 1981 through 1986, I was employed by Standard Oil of Ohio (now British Petroleum-America) in San Francisco as a Petroleum Engineer working on Alaskan North Slope exploration drilling and development projects. From 1987 to 1988, I was employed as a Rates Analyst at Pacific Gas and Electric Company in San Francisco. Beginning in late 1988 until late 1992, I was employed by R.W. Beck and Associates, an engineering and consulting firm in Seattle Washington, conducting cost-of-service and other rate studies, carrying out power supply studies, analyzing mergers, and analyzing the rates of the Bonneville Power Administration and the Western Area Power Administration. I came to the WUTC in December of 1993, where I have held a number of positions including Utility Analyst, Electric Program Manager, and the position that I presently hold. I have been a witness in numerous proceedings before the WUTC. Some of the major dockets I have appeared in are: Docket No. 920840, Washington Natural Gas Company; Docket Nos. UE-921262 et al, Puget Sound Power & Light Company; Docket No. UG-930511, Cascade Natural Gas Corporation; Docket No. UE-941053, Washington Water Power Company; Docket No. UE-991255, Avista Corporation; Docket No. UE-991262, PacifiCorp; Docket No. UE-991409, Puget Sound Energy, Inc.; Docket No. UE-991606, Avista Corporation; Docket No. UE-001952 (consolidated), Air Liquide, et al v. Puget Sound Energy; and Docket Nos. UE-011514 and UE-011595, Avista Corporation. I have also been a witness in proceedings before the Bonneville Power Administration and the Federal Energy Regulatory Commission.

Q. What is the purpose of your testimony?

A. My testimony addresses the Company's calculation of "Excess Net Power Cost" (Excess NPC) which forms the basis for the requested deferral. This includes critiquing the Company's methodology for determining what it has called "Base Net Power Cost" (Base NPC) and "Actual Net Power Cost" (Actual NPC). In addition, I address the Company's testimony regarding the alleged higher level of power supply costs subsequent to the deferral period.

Q. Please summarize your recommendation for the Commission.

A. The Commission should reject the Company's Petition for an Accounting Order Authorizing Deferral of Excess Net Power Costs.

Q. Please summarize the basis for your recommendation.

A. The Company's methodology for determining what it believes are Excess NPC is flawed and does not support the basis for a deferral.

- The Company is proposing to use as a Base NPC the expense levels it proposed in its 1999 Rate Case filing in Docket No. UE-991832. This is inappropriate because there was no agreement of the parties, nor a finding by the Commission in that case or later cases, of a specific level of net power supply costs reflected in base rates.
- The Stipulation and Rate Plan left unresolved many power supply issues. Those issues are better addressed in the context of a general rate case. The

Company's proposal to determine a deferral based on the Base NPC does not take this into consideration.

- The Company's proposed methodology for calculating Actual NPC during the deferral period essentially tracks changes in virtually all power supply expenses, not just those identified by the Company as being related to the 2001 power crisis. This deferral proposal is inconsistent with the Company's own Petition in which it seeks to retain the ability to recover extraordinary power costs. The proposal also shifts the risk of power supply cost variations to ratepayers.
- The Company's proposed methodology for calculating Actual NPC is affected by many of the same unresolved issues that were present in the prior general rate case.
- The Company is attempting to recover, through the deferral, costs that should be subject to review as part of a general rate case.
- The Company is attempting to recover, through the deferral, costs that ultimately may not be allocated to Washington ratepayers.
- The Company appears to be basing its deferral request on claims that net power costs will continue to be substantially higher than the level it alone assumes to be included in base rates through 2006. The items identified by the Company causing much of the anticipated increases, however, are

due to normal, expected events, which the Company should have considered as part of accepting the Rate Plan.

Q. Please summarize your understanding of base net power costs.

A. To determine the amount of Excess NPC to be deferred, the Company subtracts its Base NPC from Actual NPC on a monthly basis. The Base NPC is simply the level of net power supply costs proposed by the Company in its 1999 Rate Case, divided by the monthly system load used in that same filing. In calculating this amount, wholesale sales revenue is credited against the total of normalized purchased power costs, wheeling expenses, and fuel expense.

Q. How are power supply expense levels for ratemaking purposes typically determined?

A. Within the context of a general rate case, a normalized power supply expense level is determined that reflects the variability of hydro-generation conditions throughout the region and the Company's resource portfolio. A detailed review of Company power supply resources, including long-term and short-term wholesale contracts, as well as secondary market price projections is carried out. In addition, the models used to derive normalized power expense are evaluated, including the proposed methodology to incorporate the water record into the analysis.

Q. Did you review the base net power cost in detail?

A. No. From a Staff perspective, the reasons for entering into the Stipulation and the Rate Plan have not changed. The Stipulation recognized that the Company was in a transition period regarding its power supply costs and that issues related to specific power supply expense levels could, on balance, be better addressed at the end of the Rate Plan.

Q. Did the rate plan presume any authorized level of power supply expense?

A. No. The Company agrees with this fact as well. Company witness Mr. Widmer states that:

> Because in the last Washington rate case, Docket No. UE-991832 (1999 Rate Case), was settled pursuant to the Rate Plan Stipulation, there was no specific finding regarding the level of net power supply costs reflected in base rates. (Exhibit No. T-____ (MTW-T) at 2.)

Nevertheless, the Company uses the net power costs it proposed in that case as the basis for calculating the deferral in the current case.

Q. Is it appropriate to use a specific power supply level based on the Company's 1999 rate case filing as proposed by the Company in this proceeding?

A. No. There are many outstanding power supply expense issues that, on balance, were best left unresolved until after the Company's transition period.

Q. Are there power supply issues that did get resolved in the 1999 rate case or subsequent to it?

A. Yes. Pursuant to Commission order in the 1999 general rate case, the Company and Staff carried out a prudence review of certain resources that were identified in the Stipulation. A Joint Report was prepared and filed with the Commission in December 2001. The report concludes that the subject resources were acquired prudently when evaluated from a system-wide basis. However, Staff did not investigate whether the resources were acquired to sastify the demand of Washington customers. The report states:

> These resources could be subjected to investigations in future rate case proceedings that will determine whether these resources were acquired prudently to satisfy increased load growth or demand in Washington State, including consideration of the Company's commitments under merger agreements and orders, the impact of the "interjurisdictional" allocation used by the Company, and particular load-growth characteristics of the Company's Washington service territory. (Joint Report at 62.)

As the Joint Report indicates, the specific ratemaking treatment in Washington related to these resources, cannot be determined until the inter-jurisdictional allocation issues are resolved. The Joint Report did not address the acquisition of the peaking resources discussed later in my testimony.

Q. In addition to the ultimate Washington ratemaking treatment for the resources identified in the stipulation, what other power supply issues remain unresolved from the 1999 rate case?

A. First let me reiterate that Staff continues to be committed to the terms and spirit of the Stipulation and to the Rate Plan. Staff continues to believe that it is best to address these power supply issues at the end of the Rate Plan period, as anticipated by the Stipulation. However, the Company is, in this Docket, proposing the use of specific 1999 Rate Case power cost levels for purposes of calculating its proposed deferral. This requires Staff to identify specific power supply issues that remain unresolved and cannot be resolved in this docket.

Q. Before continuing, did you participate in the company's 1999 general rate case proceeding?

A. Yes, I was Staff's power supply analyst in that proceeding and I am familiar with the Stipulation and Rate Plan.

Q. Please continue.

A. In the 1999 Rate Case, Staff identified numerous power supply issues during its investigation of the Company's filing. These included, but were not limited to:

- the appropriate power supply model to use;
- the appropriate water record to use for normalized hydro-electric power availability;
- price issues related to specific wholesale contracts;
- the appropriate levels of normalized thermal generation;
- fuel price issues; and
- short-term sales and purchase prices.

In addition, there were issues associated with new resource additions, issues regarding the Company's strategy associated with wholesale market participation, and issues with the long-term replacement of power as a result of the Centralia sale, including the balance between ratepayer and shareholder risk when exposed to future uncertainties of the marketplace after an asset sale.

Q. Do you wish to discuss any of these issues in detail?

A. Not at this time. The purpose of this testimony simply is to remind the Commission that, while the Stipulation recognized the Company was in a transition period regarding its power supply costs, there are a number of unresolved power supply issues that make it inappropriate to use the Company's 1999 Rate Case filed expense levels as a base power cost level for any purpose, including the deferral proposed in this case.

Q. Are there other issues regarding using a base net power cost that you wish to address?

A. Yes. Probably the issue that affects Washington customers the greatest is the inter-jurisdictional cost allocation system and how power supply costs ultimately get allocated to Washington customers. The lack of an approved allocation methodology makes the Company's use of its proposed Base NPC only more inappropriate. This issue as it relates to the 1999 Rate Case and the Base NPC is discussed in the testimony of Staff witness Roland Martin.

Finally, the Company attempts to deflect any criticism of the Base NPC's baseline of $486 million by saying that that amount is "very reasonable" given that the increases under the Rate Plan are less than half of what was requested in the 1999 Rate Case. In response to WUTC Data Request No. 4, the Company also claimed that the use of the baseline $486 million figure is "conservative" in that it produces the lowest level of deferrals in this proceeding and that the use of any other, lower number for net power costs would produce higher deferrals in this proceeding.

This claim is inaccurate. A lower power supply baseline, had one been established in the 1999 Rate Case, would not necessarily lead to higher deferrals in this proceeding. Both Washington's share of any lower baseline, as well as any future determination of Washington power supply expense levels, would need to be based on an appropriate inter-jurisdictional allocation methodology. Thus, even if a lower baseline was incorporated, the calculation of a deferral would not necessarily result in a larger balance.

The Company's use of a power supply baseline ignores the fact that there were no specific findings or agreements in the 1999 Rate Case regarding the level of net power costs currently in rates. That situation has not changed since that time. There is simply no basis for concluding that power supply costs embedded in rates are below or above Company filed amounts from the 1999 Rate Case, just as there is no basis for Staff to conclude that revenues are above the amounts from the 1999 Rate Case.

Q. Please summarize your understanding of actual net power cost and how it is used to determine the excess net power cost to be deferred.

A. The Company's proposal is to determine its monthly actual net power costs using actual expenses, including all long-term firm purchases, short-term purchases, wheeling expenses, and thermal fuel expenses. Actual revenue from long-term firm sales and short-term sales are netted against the expenses. The actual net system load is then used to calculate the Actual NPC. The Excess NPC is calculated by taking the difference between Actual NPC and Base NPC. The Excess NPC is then multiplied by the 1999 Rate Case Washington load to arrive at the monthly deferral amount. These calculations are shown in Exhibit___(MTW-3).

Q. Did you review the company's actual and forecast actual NPC for the deferral period in detail?

A. No. A comprehensive review of power supply expenses is within the purview of a general rate case. I did review the Company's testimony and exhibits to understand the Company's methodology, to identify what power supply costs are being tracked, and to evaluate general causes for increases in net power supply expense levels.

Q. Do you have any general observations regarding the actual NPC and the calculation of excess NPC?

A. Yes, there are four general observations that are relevant to this proceeding. The first observation is that the Company is proposing to track every power supply expense item, not just single expense items such as changes in wholesale power prices or deviations in hydro production that may not be under the control of the Company.

The second and related observation is that the Company proposes to base the deferral on the difference between actual power supply expense levels and a base level, thus isolating the Company from any changes in power supply costs. Therefore, ratepayers absorb the full risk of deviations in power supply expense levels.

The third general observation is that, lacking a general rate case, the Company would create a deferral prior to a complete review of the underlying basis for the power supply costs, ranging from new major wholesale sales or purchase transactions to new resource additions. The fact that every single power supply expense item is being tracked only serves to aggravate this problem.

The final general observation is that the Company's proposal makes no adjustment for non-power supply revenue items that may serve to offset higher power supply expenses, such as increases in retail sales.

Q. Can you elaborate further on your first general observation?

A. Yes. The Company's proposal goes well beyond deferring costs that may be the result of unexpected and uncontrollable costs during the deferral period. It goes well beyond the lingering effect of the western power crisis, which the Company has said is the root cause of higher system power costs that have occurred. Every long-term wholesale sales contract that has expired since the 1999 Rate Case has been removed and/or replaced by other contracts. Those contracts that have remained in place are adjusted by their actual usage and prices in place during the deferral period. The same is true for all purchased power expenses. All new wholesale purchase power contracts have replaced old contracts, while those remaining are updated using actual usage and prices. The Company's proposal incorporates actual short-term sales and purchase amounts and prices, as well as actual hydro generation and thermal generation, including actual fuel costs. Finally, other power supply expenses such as wheeling and fuel expenses are based on increased costs that result from contractual escalations.

Q. Why is the tracking of all power supply expenses an issue?

A. As I stated earlier, the Company's proposal goes well beyond the recovery of costs associated with the western power crisis, or any single unexpected or uncontrollable expense. The Company's proposal is, in effect, a comprehensive power cost adjustment mechanism, allowing for recovery of virtually all costs associated with power supply variations. This isolates the Company from virtually all power supply expense risk and transfers that risk to ratepayers without an appropriate offsetting risk adjustment.

The Company's proposal is a significant departure from the normalized power supply expense methodology used in past general rate cases. Even more important, this proposal violates the spirit of the Stipulation and Rate Plan. Clearly the Company entered into the Rate Plan with the full knowledge that wholesale sales and purchase contracts will expire, that most wholesale contracts have price escalation clauses, that hydro generation varies from year-to-year, that short-term sales and purchase amounts and prices vary, and that changes in wheeling and fuel expenses occur due to usage and contractual price changes. It is disturbing that the Company is now asking for a deferral based on the recovery of power supply expenses due to *any* change during the Rate Plan.

Q. Are there specific power supply expenses items occurring in the deferral period that warrant further investigation?

A. Yes. Staff carried out a high level review of the items contained in the Company's filing, concentrating on those areas that the Company claims are the cause of the higher than expected power supply expense during the deferral period. However, the Company specifically identifies only one cause for the higher costs – the effects of forward purchases for summer 2002 that were made in the spring of 2001 prior to the June 2001 FERC price cap order. As the Company states in its response to WUTC Data Request No. 8,

> In terms of the deferral period, prior to June 2001, the Company hedged against potential market price risk at prices much higher than historical norm, but less than the then current forward price curve to cover the usually high resource requirements of the 2002 summer peak period.

The data request response also reveals that those contracts represent 400 MWs of power during peak high load hours at an average price of approximately $151.5 per MWh. These are the only items the Company identified as effects of the 2000-2001 western power crisis. The Company has calculated that these contracts are roughly $56 million out-of-the-market, based on March 2002 market prices.

Q. However, the company's proposal is to base the deferral on any changes in power supply expense that would actually occur during the deferral period, correct?

A. Yes.

Q. Are there other specific expense items that you observed in your review?

A. Yes. The Company included two new resources in its resource portfolio. They are the Gadsby and West Valley Combustion Turbine (CT) projects.

Q. Please describe these resources.

A. The West Valley CT represents a nominal 200 MW gas-fired, simple-cycle combustion turbine project in West Valley, Utah near Salt Lake City. The Gadsby CT is a 120 MW peaking unit located near the Company's existing Gadsby Plant in Salt Lake City.

Q. Is it appropriate to include these resources in the calculation of deferrals in this proceeding?

A. No, because recovery of costs associated with these resources from Washington ratepayers is, at best, questionable. First, neither project has gone through a prudence review by this Commission. Also, the West Valley CT project is actually being operated pursuant to a lease agreement from an affiliate of the Company. In March of 2002, the Company filed a copy of the lease agreement as an affiliated interest transaction under WAC 480-146-350. Staff has not acted on that filing due to the uncertainties underlying the allocation of new resources under the ongoing Multi-State Process. Finally, the evidence indicates that these facilities were acquired to meet load requirements outside of Washington state.

Q. Can you please elaborate on your last point.

A. Yes. In a March 7, 2002 press release outlining new electric supply options, the Company stated that a number of options were available through a recent Request For Proposals, including:

> A flexible lease with PacifiCorp Power Marketing, Inc. (PPM), an affiliate company, for new peaking resources in the fast-growing Utah Power service area.

In addition, the press release states that:

> Other proposals received through the RFP are being negotiated as potential short- or long-term options to meet the area's growing energy needs. The RFP was designed to ensure impartial selection of resources available to serve summer peaking demand in the company's Utah Power service area, ….

Q. Why is this important in this proceeding?

A. Because the Company has included the two plants' fuel cost in the calculation of Actual NPC which affects any proposed deferral calculation.

Q. Are you making a recommendation in this proceeding regarding the rate treatment of the West Valley and Ggadsby Peaker projects?

A. No. It is premature to base a deferral of power supply costs on the assumption that Washington ratepayers should be allocated a portion of the costs of these units. Important, unresolved concerns exist about what jurisdiction caused the need for these units and whether demonstrable benefits have been shown to exist for Washington ratepayers. Such recommendations are properly investigated in a general rate case where a complete analysis of the Company's power supply and other costs is undertaken.

In addition, as discussed by Staff witness Mr. Martin, the current state of the inter-jurisdictional cost allocation process does not allow us to properly evaluate any potential effect of these projects on Washington allocated power supply expenses. In fact, as discussed by Mr. Martin, the allocation methodology with potentially the most merit in the Multi-State Process from a Washington perspective would preclude any costs associated with these projects from being allocated to Washington ratepayers unless the Company can demonstrate that there are real and sustainable benefits to Washington ratepayers.

Q. Would not these same issues be present regarding the forward purchases made for purposes of meeting the summer 2002 peak period?

A. Yes. Specific short-term power supply expenses are not normally captured in the normalized power supply methodology used by this Commission. Therefore, absent the deferral, these costs would not be an issue for Washington ratepayers under the Rate Plan.

Q. Can you comment on the characteristics of the Company's projected deferrals?

A. Yes. Exhibit ____(MTW-3) shows the Company's projected monthly deferral amount and the basic calculation supporting those figures. Included in the exhibit are the actual and forecast Base NPC, Actual NPC, and Excess NPC monthly amounts. The monthly amounts are listed below:

	Base NPV	Actual NPC	Excess NPC
June 2002	$ 9.30/MWh	$13.62/MWh	$4.32/MWh
July 2002	10.48	21.40	10.92
Aug 2002	10.37	21.25	10.88
Sept 2002	9.64	18.76	9.12
Oct 2002	7.99	11.63	3.64
Nov 2002	9.18	10.96	1.76
Dec 2002	10.21	10.91	0.70
Jan 2003	9.14	10.66	1.52
Feb 2003	9.27	11.73	2.46
Mar 2003	9.79	11.44	1.65
Apr 2003	10.72	10.22	(0.50)
May 2003	9.88	13.39	3.51

The table clearly indicates that the Company's power supply cost recovery problem is primarily a summer issue. The exhibit shows that the average net power costs for the summer months July, August, and September are approximately 88 percent more than the average net power costs for the remaining months.

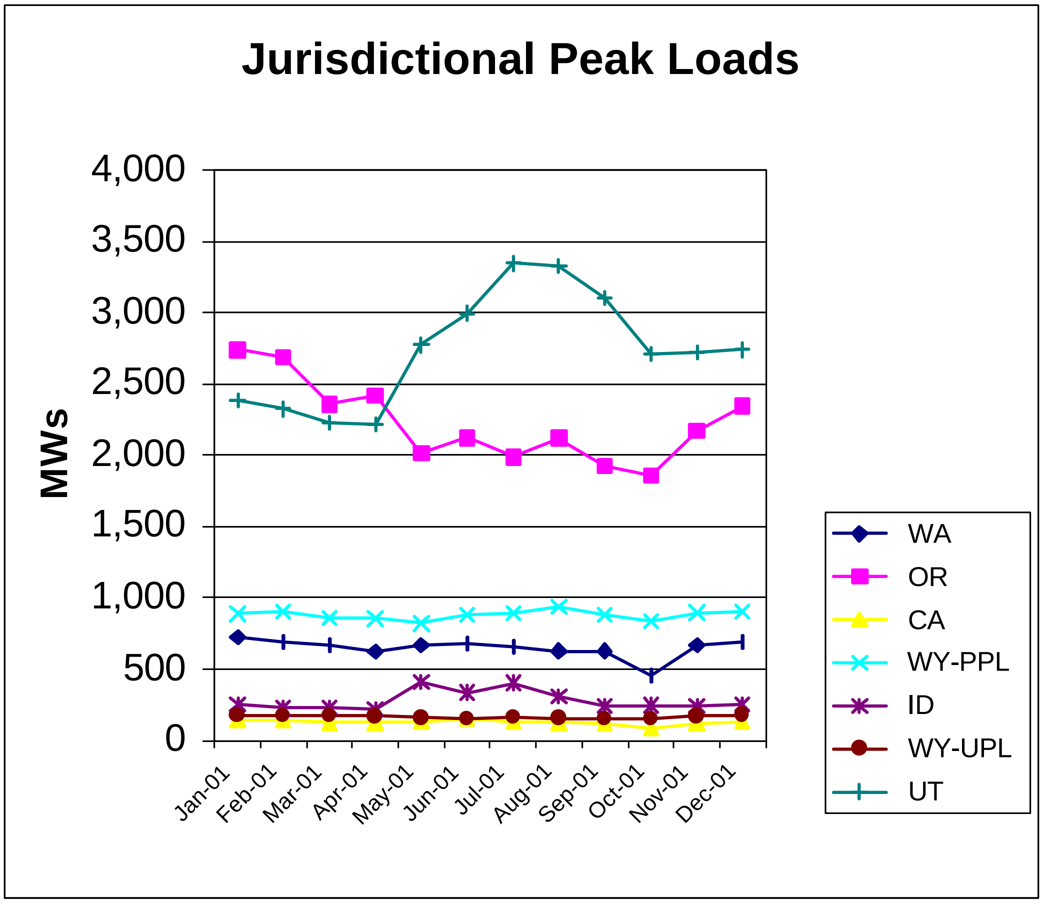
Q. Why is the monthly characteristics of the Company's deferral projection an issue?

A. A determination of one jurisdiction's power supply expense responsibility must include a fair inter-jurisdictional power supply expense allocation methodology that recognizes differences in load growth and peak load requirements, as well as other factors. A fair cost allocation scheme would assign the higher power costs indicated in the table primarily to those jurisdictions with high summer loads. The allocation scheme used in the Company's deferral proposal may unfairly allocate to Washington ratepayers a disproportionate share of increased power supply expenses, particularly those associated with summer peak requirements.

Q. Can you briefly describe the peak load and peak load growth characteristics of the various jurisdictions?

A. Yes. The graph below shows monthly peak load by jurisdiction for the year 2001.

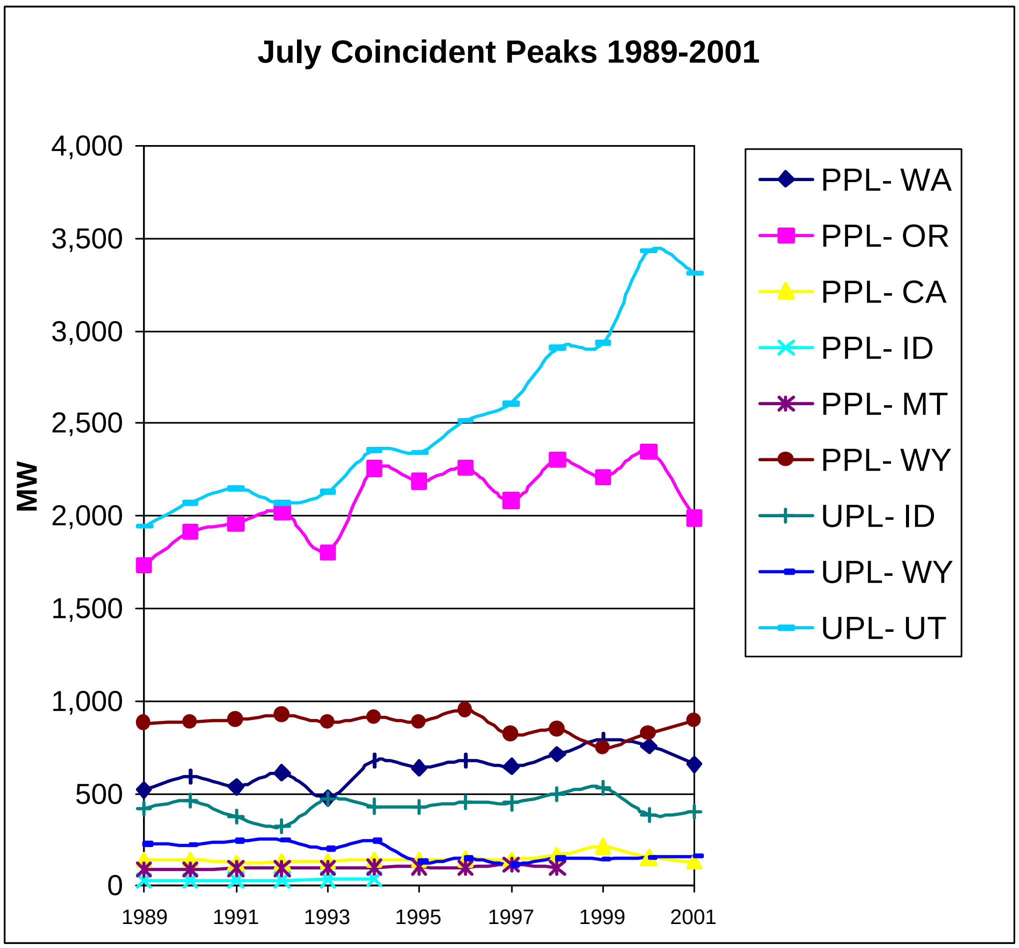
(Source – Pacificorp response to Item 16(e) of the Actions List from the April 2002 MSP meeting)



The graph clearly indicates that Utah contributes by far the greatest retail load peak requirements during the summer months of June through September. This time period is consistent with the Company's recent acquisition of the out-of-market summer forward purchases discussed earlier. It also coincides with the acquisition of the two peaking resources (West Valley and Gadsby) to meet the needs of the "fast-growing Utah Power service area".

Q. What about recent and expected growth in peak load requirements?

A. The following graph shows recent peak load growth for July by jurisdiction:



(Source – Pacificorp response to Item 16(e) of the Actions List from the April 2002 MSP meeting)

The graph clearly shows that it is not the peak load requirements of Washington load growth that are driving the need for new summer and peaking resources.

Q. Does the Company appear to recognize the relationship between the relative jurisdiction's load growth and its recent power supply requirements?

A. Yes. The Company's statements referenced earlier in my testimony regarding the recent Request for Proposals and new resource additions recognize that relationship. Other evidence makes the same point. In the Scottish Power Interim Report & Accounts 2002/03, Chief Executive's Review section, the Company states:

> Our service territories in the western US, particularly in Utah, are experiencing some of the highest network load growth in the country.

More specifically, in regards to the summer of 2002, the Company states:

> …despite the summer months of 2002 experiencing the highest peak demand on record in Utah, our existing and newly increased generation capacity, combined with our hedge portfolio, allowed us to closely control our net power costs. In the half year, 320 MW of new peaking plant capacity was commissioned by Pacificorp at Gadsby and by PPM at West Valley (under lease to Pacificorp) in Utah, further strengthening our position.

Q. Are you making a specific recommendation regarding the recovery by Washington ratepayers of the summer power supply costs that the company claims are driving the need for the deferral proposed in this proceeding?

A. Not at this time. The purpose of my testimony on this issue is to inform the Commission that, in addition to proposing a deferral which captures virtually all changes in power supply expenses, the Company is proposing to recover, through Washington ratepayers, power supply costs that perhaps should not be allocated to Washington under an acceptable inter-jurisdictional allocation methodology. This issue is particularly acute during the summer 2002 timeframe, which is the period covered under the Company's deferral request in this proceeding. It is important to note that the inter-jurisdictional allocation methodology showing potentially the most merit from a Washington perspective in the Multi-State Process would not allocate to Washington ratepayers the costs of resources to serve Utah's fast growing peak requirements.

Q. Is Staff proposing any alternative deferral mechanism in this proceeding?

A. No. Staff believes that it would be inappropriate to suggest any deferral mechanism outside the context of a general rate case and prior to resolution of inter-jurisdictional allocation issues. Continued uncertainty regarding the entire inter-jurisdictional allocation methodology, and just what costs should be allocated to Washington, makes it impossible to determine an acceptable Washington power supply expense level for purposes of calculating a deferral.

Q. Has the commission adopted power cost deferrals or other power cost expense recovery mechanisms for other jurisdictional electric utilities?

A. Yes, for Avista and Puget Sound Energy. However, they were adopted in conjunction with general rate cases and did not have the inter-jurisdictional allocation problems that exist with PacifiCorp. In addition, PSE's Power Cost Adjustment mechanism was adopted subsequent to the completion of a Rate Plan and did not reflect any costs that had been previously deferred.

Q. Are there any other concerns staff has regarding PacifiCorp's actual NPC determination?

A. Yes. Even though the Actual NPC is based on actual expenses under the Company's proposal, the calculation is still affected by many of the unresolved power supply issues described earlier in my testimony. For example, issues remain regarding the pricing of certain wholesale contracts, and the proper balance of risk and rewards between ratepayers and shareholder when aggressive wholesale strategies are implemented. Also unresolved are issues associated with long-term replacement power from resource sales and new resource additions. Finally, Staff has major issues associated with the implementation of any power cost deferral or adjustment mechanism outside a general rate case where all costs, revenues, and risk shifting are addressed.

Q. The Company is requesting a deferral only for the one year period June 1, 2002 through May 31, 2003. But, the Company has provided testimony regarding net power cost projections for fiscal years 2003 through 2006. Do you wish to comment?

A. Yes. Staff understands that the Company is not requesting that deferrals be established for the 2003-2006 period. However, the Company has provided a number of explanations for why net power costs are expected to stay at substantially higher levels than what was filed in the 1999 Rate Case. These are described in Mr. Widmer's direct testimony, beginning at page 8 and include the expiration of wholesale contracts, increased retail load, the denial of the sale of California properties, and contractual costs increases. While the explanations are interesting, Staff sees nothing on whole that the Company should not have been aware of and considered prior to accepting the Rate Plan.

Q. Please discuss the impact of wholesale contracts expiring.

A. The Company maintains that the revenue credit from recently expired contracts is gone (thus increasing net costs) because the freed-up resources are being used to meet higher load obligations. This explanation has two faults. First, it is not uncommon for wholesale contracts to expire. Typically, they are entered into to address lumpiness in new resource additions, so it should be expected that the power will eventually be needed by retail load growth. The Company obviously should have been aware of this at the time it entered into the Rate Plan. Secondly, and perhaps more important, is the fact that the Company's explanation of detrimental effects on net power supply costs totally ignores the revenue side of the equation. That is, as wholesale sales expire they are presumably replaced by increased retail load at what one would hope is higher margins than the expiring wholesale sale under most historical conditions. The Company has even stated that the power was used by increased retail load. (Exhibit T-___(MTW-T) at 8.) The Company's filing, and emphasis on costs, does not take this into consideration.

Q. Please discuss Mr. Widmer's explanation regarding increased retail loads.

A. Again, the evidence indicates that the Company should have been well aware of its retail load growth responsibilities during the Rate Plan period prior to agreeing to the plan. In response to WUTC Data Request No. 16, the Company provided its Integrated Resource Planning Load Forecast prepared contemporaneously with the 1999 Rate Case. This document indicates various projections of retail load growth.

Q. What are your observations regarding the denial of the proposed sale of the company's California distribution property?

A. In the 1999 Rate Case, the Company excluded 976,000 MWh of retail load for California which freed up that same amount for wholesale sales or reduced purchase power requirements. The Company claims a net power cost impact of $37 million based on an average purchase price of power of $38 per MWh. The Company has forgotten the revenue side of the equation. The Company does not consider the retail revenue that it is still receiving as a result of the denial. Unless California ratepayers are paying less than $38 per MWh on average for the power portion of their retail load, the Company should be better off or certainly not $37 million worse off.

Q. The last item Mr. Widmer notes concerns increased contractual costs. Please discuss this issue.

A. This item include contractual cost increases for wheeling expenses, long-term purchases, and coal and gas fuel expenses as reasons for higher power costs. Staff has the same concerns with these items as those before: a prudent Company would be well aware of its contractual responsibilities regarding its costs prior to accepting the Rate Plan.

Q. Please summarize your conclusions regarding the company's proposal.

A. The Company's proposed deferral mechanism is unacceptable. It is not supported by a approved base level of power supply expenses. It reflects changes in virtually all power supply expenses, not just those items identified in the Company's Petition. It reflects increases in expenses that may not be allocated to Washington under an appropriate inter-jurisdictional allocation methodology. Finally, cost increases in power supply expenses that are claimed to support potential future deferrals are costs that should have been anticipated prior to entering into the Rate Plan.

Q. Does this complete your testimony?

A. Yes.