

Exhibit T-__ (KLE-1T)
Docket No. UE-020417
Witness: Kenneth L. Elgin

**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
KENNETH L. ELGIN**

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

February 5, 2003

1 **QUALIFICATIONS AND PURPOSE OF TESTIMONY**

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

3 A. My name is Kenneth L. Elgin. My business address is Chandler Plaza Building,
4 1300 South Evergreen Park Drive SW, Olympia, Washington, 98504-7250.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. The Regulatory Services Division of the Washington Utilities and Transportation
8 Commission employs me as its Case Strategist.

9
10 **Q. Would you describe your education and relevant employment experience in
11 public utility regulation?**

12 A. I received a Bachelor of Arts degree from the University of Puget Sound in 1974
13 and a Master of Business Administration degree from Washington State
14 University in 1980. In January 1985 I began my career with the Commission as a
15 Utilities Rate Research Specialist for the Utilities Division. My initial assignment
16 in that capacity was devoted exclusively to financial analysis and rate of return
17 issues for all regulated utilities. Between 1986-1989 I spent a considerable
18 amount of time on issues surrounding Federal Energy Regulatory Commission
19 rulemakings designed to restructure the natural gas transmission industry, and

1 the evaluation of the tariffs and cost studies filed by local distribution companies
2 operating in Washington to introduce new unbundled services. In December
3 1989 I was promoted to the position of Assistant Director for Energy. In that
4 capacity, I was responsible for the policy direction of the Utilities Division's
5 electric and natural gas programs. In 1995 I assumed my present position as the
6 Case Strategist for the Division. In my current assignment I consult with or
7 represent Staff on all aspects of energy cases presented to the Commission in the
8 context of litigation. In addition, I regularly consult with the Division Director
9 regarding regulatory issues that arise in other industries, which led to my most
10 recent assignment to provide policy testimony and financial analysis regarding
11 an oil pipeline company (Olympic Pipeline) in Docket No. TO-011472.

12 I have testified before the Commission on many occasions. I have testified
13 before the Federal Energy Regulatory Commission on issues related to rate
14 design and risk for interstate natural gas pipelines. I have also been engaged by
15 the Washington Department of Revenue as an expert in economic regulation,
16 and in this capacity I provided testimony on several occasions in superior court
17 regarding the regulation of investor-owned utilities, including issues of rate of
18 return and valuation under the public service laws, as administered by the
19 Commission pursuant to Title 80 RCW.

1 I have been the lead analyst for numerous tariff filings and in that capacity
2 I have presented Staff recommendations to the Commission at its regular open
3 public meetings. I have made several studies of the cost of capital for energy
4 companies in rate case filings, all of which led to a settlement of this issue. I have
5 also provided testimony and analysis in other contested cases that either resulted
6 in settlements or requests to have the docket withdrawn by the applicant. In this
7 regard, I was the lead Staff negotiator of the Stipulation and Rate Plan that the
8 Commission approved for PacifiCorp in Docket No. UE-991832.

9 During my eighteen years of experience working on energy and financial
10 issues, I have developed a thorough working knowledge of both the operations
11 and financial profiles of all energy utilities operating in Washington. Finally, I
12 have attended numerous workshops and seminars involving finance, economic
13 regulation and other topics in the ever changing landscape of utility regulation.

14 Exhibit ___ (KLE-2) contains a list of the formal proceedings in which I
15 have presented testimony before the Commission and FERC. It also contains a
16 list of major cases where I have provided analysis of significant issues for the
17 Commission.

18
19 **Q. Would you please describe the purpose of your testimony in this Docket?**

1 A. I provide an analysis of whether the Stipulation and Rate Plan approved by the
2 Commission in Docket No. UE-991832 allow the Company to increase rates by
3 deferring “excess net power costs” and offset those power costs against the
4 Centralia and Scottish Power merger credits that ratepayers currently receive. I
5 also provide testimony as to whether the Company has carried its burden to
6 receive interim rate relief, as required by the Stipulation Finally, I address
7 whether the public interest warrants amendment to the Rate Plan to allow the
8 Company to defer and recover excess net power costs.

9

10 **Q. Please list the other witnesses that appear for Commission Staff in this**
11 **proceeding and a brief summary of the issues they plan to cover.**

12 A. Mr. Buckley presents testimony related to the Company’s presentation on power supply
13 costs. Mr. Martin presents testimony and exhibits regarding the Company’s presentation
14 on accounting and cost allocation issues.

15

16 **SUMMARY OF TESTIMONY**

17 **Q. Please summarize your recommendation for the Commission?**

18 A. The Company requests authority to defer “excess net power costs” for the period
19 June 2002 through May 2003. The Company also proposes to amortize those
20 deferred amounts against the Centralia and Scottish Power merger credits

1 currently reducing customers' bills. The Commission should reject the
2 Company's proposals.

3 There are several reasons for Staff's recommendation in this Docket.
4 First, the terms of the Stipulation, which Mr. Larsen includes in his Exhibit __
5 (JKL-1), are explicit. They prohibit any tariff filings other than the six categories
6 expressly authorized by Section 9, paragraph 1, (a)-(f). The Company's
7 proposal to eliminate the merger and Centralia credits does not fit any of those
8 types of filings. These credits, while not an element of permanent base rates,
9 nonetheless reduce customers bills during the period that the Rate Plan is in
10 effect. The credits were crafted specifically to mitigate impacts to customers of
11 the programmed increases in permanent general rates authorized during the
12 operation of the Rate Plan.

13 Second, the Company's petition to defer excess net power costs is
14 prohibited by the Stipulation. Section 9 of the Stipulation specifies the items for
15 which the Company may seek deferred accounting treatment. Excess net power
16 costs are not included. Section 9 would have specified the Company's ability to
17 defer power costs if that was intended.

18 Third, any proposal to increase rates above those authorized by the Rate
19 Plan, must be consistent with Section 11(a) of the Stipulation. It requires the

1 Company to file a rate case, show that it is entitled to interim relief under the
2 *Pacific Northwest Bell (“PNB”)* standards, and make a contemporaneous filing in
3 both Oregon and Utah seeking similar interim (emergency) rate relief. The
4 Company has not satisfied these requirements. Therefore, it should not be
5 allowed further increases in rates to customers at this time.

6 Finally, Staff recognizes the Commission’s authority to amend the
7 Stipulation and Rate Plan as necessary to protect the public interest. However,
8 circumstances have not been presented to the Commission that warrant any
9 amendment. Mr. Buckley and Mr. Martin also address this issue.

10
11 **Q. Are there any other preliminary observations you have with respect to the**
12 **Company’s proposal in this docket?**

13 A. Yes. Under the Commission’s cost of service rate making principles, which use
14 a restated test year and *pro forma* adjustments to the test year, any request for
15 deferred treatment of operating expenses for future recovery, such as the
16 Company’s proposal in this docket, should be considered by the Commission as
17 a request for a rate increase.

1 **Q. Please explain that point.**

2 A. By deferring costs, the Company does not recognize what would otherwise be an
3 operating expense. Since the deferred item otherwise would normally be an
4 operating expense, the Company immediately realizes an increase in its earnings
5 by the deferred amount, net of taxes. The deferred amount, therefore, increases
6 the utility's earnings to the same degree as if a change in rates were authorized
7 for that single item of expense. Deferred accounting simply transfers amounts
8 normally treated as operating expenses to the balance sheet for future recovery.
9 Future rates must then be sufficient to recover the deferred amount which
10 enabled the Company to increase prior period earnings. The essence of deferred
11 accounting treatment, and the creation of regulatory assets on the utility's
12 balance sheet, impacts current period earnings as if the Commission authorized
13 the recovery of the expense now. As a result, the impact on the Company of
14 deferring any item is as if the Commission granted an increase in current rates.

15

16

ANALYSIS OF STIPULATION AND RATE PLAN

17 **Q. Mr. Larsen (Ex. T-____ (JKL-T), page 4, lines 10-26), states that Section 9 of the**
18 **Stipulation provides the Company the avenue for filing an accounting petition**
19 **to defer power supply costs. Do you agree?**

1 A. No. Mr. Larsen's testimony quotes only one sentence of a full paragraph. A
2 review of the complete text of that paragraph is necessary to understand the
3 scope of accounting petitions that are permitted under the Rate Plan.

4
5 **Q. Please quote in full the relevant paragraph of Section 9 and explain why that**
6 **provision does not authorize the Company's proposal in this case.**

7 A. The second paragraph of Section 9 describes the terms under which the
8 Company may file for deferred accounting treatment during the Rate Plan. It
9 states in full that:

10 Section 9 does not preclude the Company from submitting petitions for
11 accounting orders, as appropriate, for the treatment of revenues,
12 investments or expenditures during the Rate Plan Period. In this regard,
13 the Company shall ensure that items currently treated as regulatory assets
14 under authorizations from other states that are proposed for inclusion in
15 Washington at the end of the Rate Plan Period are supported by necessary
16 accounting authorizations in Washington. (Emphasis added.)

17
18 The phrase "In this regard" defines the petitions for accounting orders that are
19 allowed during the Rate Plan. Those accounting petitions are limited exclusively
20 to those items that were treated as regulatory assets in other jurisdictions at the
21 time the Stipulation was entered. The power costs the Company seeks to defer
22 beginning June 2002 were not regulatory assets on the Company's books at the

1 time of the Stipulation. Therefore, those costs may not be deferred under the
2 terms of the Stipulation.

3
4 **Q. Is there another aspect of the Stipulation that prohibits the Company's**
5 **proposal to defer excess net power costs during the Rate Plan?**

6 A. Yes, and it is significant. There is no basis for the calculation of a deferred
7 amount for "excess net power costs". Neither the Stipulation nor the
8 Commission's order approving the Stipulation provide: 1) a revenue requirement
9 for Washington; 2) a calculation of an embedded cost of power supply; and 3) a
10 calculation of an embedded variable power supply cost. Hence, it is impossible
11 to calculate any deferred amount representing "excess net power costs".

12 If the parties or the Commission had contemplated an accounting petition
13 to include a deferred mechanism for power supply costs during the operation of
14 the Rate Plan, it would have been necessary to specify an embedded cost of
15 power supply for purposes of calculating any deferred amount. Neither the
16 parties nor the Commission did so. Mr. Buckley provides additional testimony
17 on this point.

1 **EMERGENCY RATE RELIEF**

2 **Q. According to Mr. Larsen, the Company meets the requirements for emergency**
3 **rate relief, as provided under Section 11 of the Stipulation. Do you agree?**

4 A. No.

5
6 **Q. Please summarize the reasons for that conclusion.**

7 A. First, as a condition for interim relief in Washington during the Rate Plan,
8 Section 11 of the Stipulation requires contemporaneous interim rate filings in
9 both Utah and Oregon. (“...the company is requesting similar rate relief in its
10 two largest U.S. retail jurisdictions;....”) The fact that the Company sought
11 interim relief in early 2001 in Utah does not satisfy the Stipulation. Moreover,
12 similar, if not identical test periods between Washington, and Utah and Oregon,
13 is necessary. The increases granted PacifiCorp in Utah and Oregon are for prior
14 test periods that are not contemporaneous with the costs and revenues the
15 Company will experience now in the context of traditional cost-of-service
16 regulation, including any request for interim rate.

17 Second, the Company proposes a “stand alone” analysis of Washington
18 financial results. That analysis requires the use of allocation factors to separate
19 Washington’s financial results from the results the Company is realizing as a

1 whole. The financial results, however, are based upon a cost allocation
2 methodology (the Modified Accord methodology) that has never been accepted
3 by Washington for ratemaking, and is used by the Company despite the
4 controversy over inter-jurisdictional cost allocations that the Company is
5 attempting currently to resolve in the Multi-State Process. This Modified Accord
6 allocation method, and the financial results it produces, also assign a
7 disproportionate share of common costs, both present and future, to
8 Washington. Thus, any analysis of Washington's stand alone financial results
9 depends upon a resolution of these inter-jurisdictional cost allocation issues. The
10 Stipulation and Rate Plan were specifically crafted to provide reasonable rates
11 during a five year period and provide the Company an opportunity to solve not
12 only the allocation issue, but other issues too.

13
14 **Q. How would the Company comply with the requirements of Section 11 and yet**
15 **have its allocation issues remain unresolved?**

16 A. The Company would need to present its total financial profile. This presentation
17 would show that the entire company is facing a financial emergency, that
18 interim relief is sought in Oregon and Utah, and that some amount of relief
19 should be apportioned to Washington. Even though there is not an accepted

1 allocation methodology, this would go a long way to complying with the
2 requirements of Section 11 despite the current controversy over allocations.

3
4 **Q. One final question regarding emergency rate relief. Has the Company made a**
5 **sufficient showing for interim rate relief under the six factor test of PNB?**

6 A. No. The Company's presentation is incomplete and insufficient.

7
8 **Q. Please describe briefly the interim rate criteria used by the Commission in**
9 **determining whether a company is entitled to emergency relief?**

10 A. The Commission relies upon a six factor test for evaluating a request for either
11 interim or emergency rate relief. These six factors are that:

12 1) the Commission may grant emergency rate relief under very narrow
13 defined conditions only after adequate hearing;

14 2) interim relief is an extraordinary remedy designed to avoid gross
15 inequity;

16 3) the failure of the utility to earn its previously authorized rate of return,
17 by itself, is insufficient to award relief;

18 4) a complete evaluation of all financial indices is required together with
19 the immediate short-term demands for new capital and the extent to

1 which interim relief will adversely effect the ability of a company to
2 obtain capital;

3 5) the current climate of a company and whether immediate action by the
4 Commission is necessary to avoid jeopardy to shareholders and
5 ratepayers; and

6 6) applying sound and reasoned judgment of these factors to regulate in
7 the public interest.

8
9 **Q. Please continue with your discussion of the Company's interim presentation**
10 **and whether it has made a sufficient showing to meet the PNB interim**
11 **standards?**

12 A. First, I do not see anything in the Company's presentation that shows any
13 emergency or gross inequity warranting Commission action. For example, the
14 analysis does not demonstrate that all of the Company's future cash needs are
15 necessary and essential. For example, Mr. McDougal shows in Ex.____ (SRM-5),
16 page 2 that capital expenditures for Information Technology through 2006
17 amount to over \$300 million. I would expect a very detailed explanation of why
18 some of this amount should not be delayed.

1 Next, Mr. Larsen fails to show the connection between the request for
2 interim relief and the Company's immediate external cash requirements. The
3 Company has not shown how its interim request in Washington is necessary to
4 meet minimum financial ratios necessary to provide it access to immediate
5 capital needs on reasonable terms. Nor has it shown the amounts Utah and
6 Oregon must contribute to solve any financial emergency. Indeed, this is
7 precisely why Section 11 of the Stipulation requires a contemporaneous interim
8 relief request in both Utah and Oregon. Since the Company must access external
9 sources of capital for its entire utility operations across all of the jurisdictions
10 where it operates, contemporaneous interim relief requests in Oregon and Utah
11 are necessary to determine the immediate essential cash needs of the Company.
12 Its ability to attract capital on reasonable terms and connect its request for rate
13 relief to its essential external financing needs is the critical analysis that the
14 Company has failed to present.

15 In conclusion, the Company has not shown that: 1) the increase is
16 necessary to avoid a gross hardship; 2) there is a connection between the increase
17 requested and its impact on the improving financial indices necessary for the
18 Company to obtain necessary financing; 3) the relief request will stave off
19 impending disaster and avoid a clear jeopardy to both shareholders and

1 ratepayers; and 4) that failure to grant the petition in this docket will
2 substantially affect the public interest.

3
4 **Q. What additional analysis have you done regarding the projected cash needs for**
5 **the Company, its Washington operations and its operations in other**
6 **jurisdictions?**

7 A. Mr. McDougal's Ex.__(SRM-5) shows that the cash requirements for new
8 distribution facilities are modest in Washington. Ex.__(SRM-6) shows that the
9 primary need for cash to fund new distribution facilities is in Utah. Through
10 fiscal 2006, the Company will need over \$700 million for new distribution
11 facilities. Approximately half of that amount is for its Utah operations.
12 Furthermore, the documents show that the Company has significant cash needs
13 for new generation and transmission. Through fiscal 2006, the Company's cash
14 needs for new generation resources are approximately \$575 million. For new
15 transmission facilities, this amount is almost \$650 million. Mr. Martin and Mr.
16 Buckley provide an analysis of the disparate rates of growth for the Company's
17 operations. Their analysis shows that these cash needs are not driven by the
18 growth in Washington. These future costs and cash requirements should be
19 supported by the cash flows of non-Washington customers that place these

1 demands upon the Company. As I previously stated, the flawed cost allocation
2 system and financial models underlying the Company's presentation
3 disproportionately assigns these costs and cash requirements to Washington.
4

5 **Q. Mr. Larsen references increases the Company received in Utah and Oregon,**
6 **“...suggest[ing] the Washington has not borne its share of the ongoing impact**
7 **of the western power crisis on the Company's system.” (Ex.____(JKL-T), page**
8 **17, lines 12-14) Is it relevant to the request for interim relief in Washington**
9 **for this Commission to consider the specific rate relief other jurisdictions**
10 **previously granted the Company?**

11 A. No. First, as I have already stated, the relief PacifiCorp obtained in other
12 jurisdictions are for prior test periods, all of which relied upon different test
13 periods for measuring revenues, costs and rate base. It is also important to
14 recognize that other jurisdictions did not have a rate plan mechanism similar to
15 the one that exists in Washington. Equally important is the fact that the
16 determination of the Company's revenue requirements and rate levels in other
17 jurisdictions are not necessarily consistent with the rate making policies of this
18 Commission. In this case, it is incorrect to assert that relief in other jurisdictions

1 and the lack of relief in Washington is indicative of an under recovery of costs in
2 this jurisdiction.

3 It is important to emphasize, once again, that there is an avenue for
4 evaluating the Company's request for new rates outside of those specified in the
5 Rate Plan. The Company must meet the criteria for interim relief in Washington
6 and that the Company seeks contemporaneous relief in Utah and Oregon. Each
7 jurisdiction will evaluate the interim request independently under its own
8 statutory scheme and ratemaking principles to solve any financial crisis facing
9 PacifiCorp.

10
11 **Q. Do you agree with the conclusion Mr. Larsen reaches that Washington might**
12 **not be paying its fair share of costs?**

13 A. No. I think the relevant question for the Company is its need to ensure that rates
14 in other jurisdictions, particularly those with high growth rates, pay their cost of
15 service and do not unfairly burden those jurisdictions, like Washington, with
16 more modest growth. Furthermore, the Company should ensure that those
17 jurisdictions which grant special contracts and rate concessions for service to
18 large loads accept the consequences of these rate concessions within their
19 respective jurisdictions. A reasonable cost allocation scheme would directly

1 assign both the cost of the resources and the impact of these rate concessions to
2 the jurisdiction responsible for the rate decisions. The Company's presentation
3 in this case does not do so.

4
5 **Q. What consideration should the Commission give to the Company's**
6 **presentation portraying its financial results in Washington?**

7 A. The analysis should be rejected as any indication of Washington's financial
8 results. It is based upon an unaccepted and unacceptable allocation scheme.
9 Mr. Martin provides additional testimony surrounding inter-jurisdictional cost
10 allocation issues and the flaws in the Company's presentation. It is expected
11 that, at the end of the Rate Plan, the Company and Staff will have some
12 acceptable agreement for purposes of determining a fair allocation of costs to
13 Washington so that it can be determined whether the Company should adjust
14 rates in this jurisdiction.

15
16 **Q. Do you have any specific comments with respect to the testimony offered by**
17 **Mr. Larsen (Ex.____(JKL-T) page 7, line 23) regarding the Company's requests**
18 **for interim relief in both Utah and Oregon?**

1 A. Yes, I do. The testimony asserts that the Company received \$70 million in
2 interim relief in Utah in 2001. However, Mr. Larsen fails to provide adequate
3 historical context to that rate decision in Utah. First, he fails to explain that the
4 Company sought interim relief after the Utah Commission decided in 1998 to
5 calculate the Company's revenue requirement on the basis of a "rolled-in" inter-
6 jurisdictional cost allocation methodology. (Utah Docket No. 97-035-04.)
7

8 **Q. Would you please explain what you mean by the phrase "rolled-in" cost**
9 **allocation methodology and its effect on rates for the Company?**

10 A. In 1987 PacifiCorp ("Pacific") determined to acquire the assets of Utah Power &
11 Light Company ("Utah").¹ Pacific, at that time, with its low cost hydro
12 generation, was a lower cost utility than Utah, with its higher cost thermal
13 generation. A significant issue for Staff and this Commission during the
14 evaluation of Pacific's acquisition of Utah was the future rate making treatment
15 of these two disparate systems with significantly different cost structures. The
16 effect of the unilateral decision by the Utah Commission to adopt the rolled-in
17 methodology was exactly what Commission Staff and others analyzing the
18 proposed merger in 1987 feared might happen in the future: Utah capturing the

¹ I refer accurately to this transaction as an acquisition. This same transaction, however, is commonly referred to as a "merger" by other parties and other Staff witnesses in this case.

1 benefits of the low cost Pacific system for Utah customers and shifting a
2 significant amount of Utah's high cost thermal resources to Washington. In other
3 words, as Utah's load growth continues, Utah captures ever increasing amounts
4 of the low cost Pacific system for those customers.

5 In addition, the Utah decision shifts proportionately increasing amounts
6 of higher cost resources to other jurisdictions, such as Washington, that have
7 more modest load growth. If other jurisdiction do not raise rates, the "regulatory
8 gap" increases and the Company is unable to recover its cost of service across all
9 its operations.

10 In sum, the Utah decision to adopt the rolled-in allocation methodology
11 created a jurisdictional "black-hole" for the Company, and the regulatory gap
12 continues to grow over time. This is why the current process on cost allocations
13 is so important to the Company.

14
15 **Q. What were the specifics of the Utah "rolled-in" rate order for the Company?**

16 A. In March 1999, the Utah Commission implemented the "rolled-in" allocation
17 methodology and reduced rates by \$85.3 million. The Company was further
18 ordered to provide an additional \$40.2 million in refunds to Utah customers to
19 account for the delay in the implementation of the rate reduction. It is true that

1 the entire amount of that decrease cannot be attributed solely to the “rolled-in”
2 decision of the Utah Commission. The relevant point, however, is that
3 permanent rates were reduced by \$85 million and that is the starting point for
4 evaluating any subsequent rate relief the Company obtained in Utah.

5
6 **Q. Please continue your discussion of Mr. Larsen’s testimony with respect to**
7 **increases the Company received in other jurisdictions.**

8 A. Mr. Larsen also does not say that the \$70 million the Company received in Utah
9 as interim relief in 2001 was subject to refund pending the outcome of the overall
10 general rate case. At the end of the rate case, the Company received only \$40
11 million, and it was ordered to refund the difference. The net effect for Utah
12 customers, after that rate case was resolved, only partially restored the *status quo*.
13 The decision by the Utah Commission to capture the benefits of the low cost
14 Pacific system and adopt a “rolled-in” allocation methodology had a significant
15 impact on the overall financial performance of the Company, which continues
16 today. The testimony of Mr. Larsen regarding the interim relief it obtained from
17 Utah at that time, therefore, is not compelling nor is it relevant under the terms
18 of the Stipulation.

1 **Q. Please describe the testimony of Mr. Larsen regarding the Company’s request**
2 **for interim relief in Oregon during the 2001 time period?**

3 A. Again, this testimony gives a false impression. Mr. Larsen states, “...[The
4 Company] requested similar relief in Oregon-a proposed \$42.7 million increase
5 in Docket UE-122-but that request was denied by the Oregon PUC in Order No.
6 01-423 issued May 2001.” (Exhibit ___(JKL-T), page 8, lines 1-3.) My review of
7 the Oregon testimony provided in response to Staff Data Request No. 24 shows
8 that the Company’s request for a rate increase in Oregon did discuss the
9 “emergency associated with high power costs”. However, the filing did not
10 resemble the interim requirements under the *PNB* standards. Its request in
11 Oregon advocated the creation of a power cost adjustment and a deferred
12 accounting mechanism for power costs.

13 The order provided by the Company in response to Staff Data Request
14 No. 23 shows that the Oregon PUC rejected the Company’s request for relief.
15 The Oregon Commission quoted Oregon Staff conclusions that the Company’s,
16 “...filing lacked completeness, clarity, and substance.” Oregon Staff also
17 indicated that the filing, “...failed to supply adequate information demonstrating
18 why its financial need for this rate increase was urgent.”

19

1 **Q. Please summarize your conclusion of Mr. Larsen's testimony regarding the**
2 **increases the Company obtained in other jurisdictions?**

3 A. The testimony is an effort to fulfill the requirement of Section 11 of the
4 Stipulation, which requires similar interim requests in Utah and Oregon in order
5 to reopen the Rate Plan. The testimony is not compelling and does not fulfill the
6 requirements of the Stipulation.

7
8 **Q. Do you have any comments regarding Mr. Larsen's testimony (Ex. T-___(JKL-**
9 **T), page, 10, lines 14-16) that Washington customers should not be cross-**
10 **subsidized?**

11 A. Yes. Staff agrees with this principle. However, until the cost allocation problem
12 is solved, the Company should not make any assertions regarding its financial
13 results in Washington, nor is there any basis to conclude that rates in
14 Washington are subsidized by other jurisdictions. The Company is responsible
15 for resolving the issues regarding cost allocations, and it is currently attempting
16 to resolve them in the Multi-State Process. It cannot now argue, in the context of
17 a petition to defer power costs, that customers in Washington are paying unfair
18 rates when it had previously agreed to a Rate Plan that it determined would
19 satisfy the statutory requirements for just, fair, reasonable and sufficient rates.

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Q. Do you have any final comments regarding the Company’s position that the Stipulation and Rate Plan provide authority to seek to defer and recover its power costs?

A. Yes. The Rate Plan is designed to provide the Company with the ability to manage its costs within a defined price structure. The Rate Plan provided the Company with an opportunity to achieve acceptable financial results by managing its costs, including power costs. Simply deferring power costs in light of changed circumstances is unfair to ratepayers and tips the equities drastically in favor of the Company. Indeed, power costs and the Company’s ability to operate its thermal plants prudently and cost effectively is the objective of the Rate Plan. If the circumstances were reversed enabling the Company to reap the benefits of high wholesale prices, Staff could not, and would not, suggest that the Company defer power supply revenues due to the unanticipated volatility and unprecedented prices in wholesale power markets. In conclusion, equity requires the Company to live up to its agreements. The Rate Plan is fair to all parties, and it provides downside protection for the Company in the advent of unforeseen circumstances. The Stipulation provides the remedy in these

1 circumstances. The Company's presentation in this Docket does not meet the
2 requirements of the Stipulation.

3
4 **Q. In evaluating this petition and proposal in the context of the Commission's**
5 **obligation to regulate in the public interest, do you believe that the**
6 **Commission should reconsider the Rate Plan and make any changes to**
7 **accommodate the Company's request for relief to defer and recover excess net**
8 **power costs?**

9 A. No. The Company's petition and supporting testimony and exhibits provide
10 insufficient justification for the Commission to either grant interim rate relief or
11 amend the Rate Plan. There is no financial emergency requiring immediate
12 Commission action. The Company's efforts should be on resolving its cost
13 allocation problem, and ensuring that rates reflect costs in all of the states it
14 serves. This was a commitment the Company made to this Commission in order
15 to obtain approval of PacifiCorp's acquisition of Utah Power & Light Company
16 in 1987. The Rate Plan provides the proper incentives to the Company to
17 manage its costs within a reasonable price structure for the service it currently
18 offers to customers in Washington. The Rate Plan continues to be in the public
19 interest. It should not be amended at this time.

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Q. Please summarize your recommendation regarding the Company's proposal?

A. The parties in Docket No. UE-991832 agreed, and the Commission in that case found, that the Stipulation and Rate Plan were in the public interest and met the statutory standard requiring rates to be fair, just, reasonable and sufficient. The Company's petition and rate proposal is a request by the Company to abandon its commitments. They should be rejected. Furthermore, there is insufficient justification for the Commission to amend the Rate Plan.

Q. Does this complete your direct testimony?

A. Yes.