Exhibit T-___ (Joint-1T)
Docket UE-061546
Witnesses:
Andrea L. Kelly
Paul M. Wrigley
Mark T. Widmer
Thomas E. Schooley
Alan P. Buckley
Charles Eberdt

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, vs. PACIFICORP dba Pacific Power & Light Company, Respondent.	**DOCKET UE-061546**

JOINT TESTIMONY OF ANDREA L. KELLY, PAUL M. WRIGLEY, MARK T. WIDMER, THOMAS E. SCHOOLEY, ALAN P. BUCKLEY AND CHARLES EBERDT IN SUPPORT OF STIPULATION

January 19, 2007

Qualifications of Andrea Kelly

Q. Please state your name, employer and business address.

A. My name is Andrea L. Kelly. I am employed by PacifiCorp dba Pacific Power & Light Company ("PacifiCorp" or "the Company") as Vice President of Regulation. My business address is 825 NE Multnomah Street, Suite 2000, Portland, OR 97232.

Q. Have you provided testimony in this proceeding?

A. Yes. My qualifications are included in my direct testimony in this proceeding, Exhibit T-___ (ALK-1T).

Qualifications of Paul Wrigley

Q. Please state your name, employer and business address.

A. My name is Paul M. Wrigley. I am employed by PacifiCorp as Director of Regulatory Strategy. My business address is 825 NE Multnomah Street, Suite 2000, Portland, OR 97232.

Q. Have you provided testimony in this proceeding?

A. Yes. My qualifications are included in my direct testimony in this proceeding, Exhibit T-___ (PMW-1T).

Qualifications of Mark Widmer

Q. Please state your name, employer and business address.

A. My name is Mark T. Widmer. I am employed by PacifiCorp as Director of Net Power Costs. My business address is 825 NE Multnomah Street, Suite 600, Portland, OR 97232.

Q. Have you provided testimony in this proceeding?

A. Yes. My qualifications are included in my direct testimony in this proceeding, Exhibit T-___ (MTW-1T).

Qualifications of Thomas Schooley

Q. Would you state your name, employer, and business address?

A. My name is Thomas E. Schooley. My business address is 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504, and my e-email address is tschoole@wutc.wa.gov.

Q. What are your professional qualifications?

A. I am employed by the Washington Utilities and Transportation Commission ("the Commission") since 1991 as a Regulatory Analyst. I received a Bachelor of Science degree from Central Washington University in 1986. I met the requirements for a double major in Accounting and Business Administration-Finance. Additionally, I have a Bachelor of Science degree in geology from the University of Michigan. I passed the Certified Public Accountant exam in May 1989. Since joining the

Commission, I have attended several regulatory accounting courses, including the summer session of the Institute of Public Utilities.

I testified in Docket UE-960195 involving the merger between Washington Natural Gas Company and Puget Sound Power & Light Company. I was the lead Staff analyst in several applications for accounting treatment, including Puget Sound Energy, Inc. Dockets UE-971619 and UE-991918. I testified in the Avista general rate case, Docket UE-991606, and Avista's energy recovery mechanism, Dockets UE-000972, UE-010395, UE-011595, and UE-030751. I also assisted in the development of Staff testimony in PRAM 2, Docket UE-920630, concerning Puget, and I presented the Staff recommendation on environmental remediation in Docket UE-911476 concerning Puget. I analyzed PacifiCorp's proposed accounting treatment of Clean Air Act allowances in Docket UE-940947, and participated in meetings of PacifiCorp's inter-jurisdictional task force on allocations. Most recently I testified in Puget's power cost only rate case, Docket UE-031725, and in PacifiCorp's general rate cases, Dockets UE-032065 and UE-050684 et al.

I have prepared detailed statistical studies for use by Commissioners and other Commission employees, and have interpreted utility company reports to determine compliance with Commission regulations.

Q. Did you participate in PacifiCorp's last general rate case?

A. Yes. I was the lead accounting witness for the Commission Staff in PacifiCorp's last general rate case, Docket UE-050684, et al. I refer to that case as the "2005 Rate Case." That case was resolved in July 2006. Consequently, in the current case, Staff was already quite familiar with the Company's books of account and many of the ratemaking issues presented in this case.

Qualifications of Alan Buckley

Q. Would you state your name, employer, and business address?

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

Q. What are your professional qualifications?

A. I am employed by the Commission as a Senior Policy Strategist. Among other duties, I am responsible for analyzing rate and power supply issues as they pertain to the investor-owned utilities under the jurisdiction of the Commission. 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 Bonneville Power Administration and the Western Area Power Administration.

I came to the Commission in December 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 Commission. I also have been a witness in proceedings at the Bonneville Power Administration and at the Federal Energy Regulatory Commission.

I supply additional qualifications in my separate testimony in support of the Stipulation.

Qualifications of Charles Eberdt

Q. Would you state your name, employer, and business address?

A. My name is Charles Eberdt. I am employed at the Opportunity Council, 1701 Ellis St. Bellingham, WA 98225.

Q. What are your professional qualifications?

A. Since March 1993 I have been the Director of The Energy Project, a joint effort between the Department of Community Trade and Economic Development and the state's community action agencies to maintain access to affordable energy services for Washington's low-income households. Prior to that I worked for the State Energy Office where I developed programs to educate builders, code officials, and homeowners about energy efficiency in housing. All told I have more than twenty-five years experience in the area of residential energy efficiency.

I have a B.S. in Education from the University of Wisconsin and a Masters of Arts in Teaching from Harvard University.

Introduction

Q. What is the purpose of this joint testimony?

A. The purpose it to describe and support the Stipulation entered into among Staff, the Company, and The Energy Project. A copy of the Stipulation is included as Exhibit ___ (Joint - 2).

Q. What topics will the Parties address in this joint testimony?

A. This testimony discusses the procedural background and events leading up to the settlement, and describes the provisions of the Stipulation. The elements of the Stipulation include: (1) bifurcated proceeding, (2) cost allocation methodology, (3) revenue requirement, (4) revenue allocation and rate design, (5) power cost adjustment mechanism ("PCAM"), (6) system reliability, (7) stay out period, (8) low income issues, (9) request for findings, and (10) general provisions.

Staff witness Mr. Buckley provides additional Staff perspectives on the WCA methodology in separate testimony supporting the Stipulation.

Procedural Background and Process

Q. Please describe the processing of PacifiCorp's general rate case since it was filed.

A. On October 3, 2006, PacifiCorp filed revised tariff schedules to effect a $23.2 million (10.2%) increase in its base prices to Washington electric customers. The filing was based on normalized results of operations for Washington for the test period ending March 31, 2006. The filing was suspended by the Commission in an order dated October 9, 2006.

At the prehearing conference on October 17, 2006, the Public Counsel Section of the Office of Attorney General ("Public Counsel") entered its appearance, and Industrial Customers of Northwest Utilities ("ICNU") and The Energy Project were granted intervention in the proceeding.

Discovery has been issued and received by Staff and ICNU on the Company's direct testimony.

Q. Please describe the events leading up to the Stipulation.

A. In the prehearing conference order (Order 03 issued by presiding Administrative Law Judge Dennis J. Moss), the Commission scheduled technical workshops for November 1 and November 16, 2006. Topics discussed during the workshops included an overview of the Company's revenue requirement increase, the proposed West Control Area cost allocation methodology ("WCA Methodology"), and the

Company's proposed PCAM. The workshops and conference were open to all parties, and the parties convened in Olympia and/or via teleconference for each of these meetings.

Also in accordance with that prehearing conference order, the parties convened a settlement conference in Olympia on December 14, 2006. Staff circulated a settlement proposal prior to the meeting, and responded to questions from the Company and other parties during the conference. During the meeting, the Company prepared and circulated a counter-proposal which included proposed modifications to Staff's original proposal and incorporated other comments from parties during the meeting.

The parties convened a second settlement conference in Olympia on January 12, 2007. Parties presented counter proposals and engaged in negotiations that resulted in the Stipulation among the three signatory parties. The Stipulation was filed with the Commission on January 17, 2007.

Q. Have other parties been invited to join the Stipulation?

A. Yes. Following the settlement conference, a draft of the Stipulation was circulated to parties for review and comment. Other parties to this proceeding – Public Counsel and ICNU – indicated that they could not support the terms of the settlement as set forth in the Stipulation. Staff, the Company, and The Energy Project (the "Settling Parties") elected to proceed with the Stipulation as the basis for resolving various contested issues among themselves, and to file it with the Commission as a multi-party settlement.

Q. Please describe the terms of the Stipulation.

A. The sections of our testimony that follow describe the various provisions of the Stipulation.

Q. Do all of the Settling Parties join in the resolution of every issue addressed in the Stipulation?

A. The Energy Project did not participate in the resolution of various issues in the Stipulation, and does not take a position with respect to the resolution reached by Staff and the Company on those issues. For issues where The Energy Project did not join in the recommended resolution, the Stipulation refers to agreement as being between the remaining Settling Parties (*i.e.*, Staff and the Company).

Terms of the Stipulation

Bifurcated Proceeding

Q. Please explain the recommendation of the Settling Parties to bifurcate the proceeding.

A. The Settling Parties recommend that the proceeding be bifurcated into a revenue requirement phase and a power cost phase. The Stipulation addresses cost allocation methodology and revenue requirement issues. Under Part III.A (¶ 11) of the Stipulation, the Commission is requested to consider the Stipulation on an expeditious schedule, and grant the Company rate relief by April 1, 2007. (Part III.C.1, ¶ 16.)

Staff and the Company recommend the remainder of the rate case schedule – through September 1, 2007 - be reserved for resolving issues related to the PCAM, including (1) setting the base level of power supply expense; (2) determining the methodology for a PCAM and the means for calculating deferred power costs under the PCAM; (3) considering the inclusion as part of the PCAM a mechanism that would allow PacifiCorp to adjust rates to reflect (i) investment in Company-owned renewable resource, and/or (ii) related transmission investment or expense, and (4) addressing the potential impacts, if any, of such PCAM on PacifiCorp's cost of capital consistent with Commission precedent. This would be the Power Cost Phase of the proceeding.

Cost Allocation Methodology

Q. What does the Stipulation provide with respect to adopting a cost allocation methodology?

A. In Section III.B of the Stipulation (¶¶ 12-15), Staff and the Company agree that the Commission should accept the WCA Methodology proposed by the Company with a five-year evaluation period, with one modification. The WCA Methodology will be modified to allocate fixed production costs using a Control Area West Generation factor of 75 percent demand and 25 percent energy. Variable production costs will be allocated using a Control Energy West factor, consistent with what was originally filed by the Company.

Attached to the Stipulation is Appendix A; a listing of the resources that will be originally included in the WCA Methodology.

Q. Is there a potential that the WCA Methodology could be amended in the future?

A. Yes. In order to provide a means for ensuring that the WCA Methodology continues to meet Commission requirements and continues to produce reasonable results, Staff and the Company are proposing in Part III.B.2 (¶ 14) of the Stipulation that a committee be established to monitor the WCA Methodology during the evaluation period. This committee will recommend appropriate amendments, if any, during the course of the evaluation period. The committee will consist of Company employees and representatives from Staff, Public Counsel, and other interested parties.

Q. Would participation on the Monitoring Committee limit a party's right to make alternative allocation proposals to the Commission?

A. No. Irrespective of their participation on the Monitoring Committee, parties would retain the right to make proposals or arguments directly to the Commission with respect to continuation of, or amendments to, the WCA Methodology. In the absence of Commission action to change the WCA Methodology, Part III.B.2 (¶ 15) of the Stipulation provides that the Methodology will continue in use at least through the final PCAM rate change during the evaluation period, which would be the summer of 2012. Nothing in the Stipulation limits the Commission's ability to require the use of a different cost allocation method in the future, consistent with its obligation to set rates for PacifiCorp that are fair, just, reasonable, and sufficient.

Q. Please explain why the Stipulation provides for an evaluation period for the WCA Methodology.

A. The Company in its direct case proposed to implement the new allocation method for a five-year evaluation period. During this period, PacifiCorp will use the WCA Methodology to file rate cases, report its results of operations, file PCAM adjustments, and make routine regulatory filings. Providing an evaluation period and the Monitoring Committee is intended to accommodate necessary amendments during the first five years that the Methodology is in place.

By providing this process to evaluate the Methodology, however, Staff and the Company do not intend to suggest that the WCA Methodology is an "interim" cost allocation methodology, or that the five-year period is some sort of rate plan period during which the Commission's or parties' actions with respect to the Methodology or the Company's rates are limited. It is merely an acknowledgment that amendments to the Methodology may be necessary and appropriate, and to provide a process – the Monitoring Committee – to facilitate their review. The Company and the Staff anticipate the WCA Methodology will continue to be used beyond the evaluation period with appropriate amendments, if any, as ordered by the Commission.

Q. From the Company's perspective, how can the Commission be sure that the WCA Methodology as presently designed serves the interests of Washington customers?

A. As described in the Company's direct testimony in this proceeding,[1] the WCA Methodology was developed in response to the guidance provided by the Commission in its final order in the 2005 Rate Case with respect to inter-jurisdictional cost allocation methodology and the standards for inclusion of resources in rates for the Company's Washington customers.

The Company believes that the WCA Methodology complies with the requirements from the Commission's order in the 2005 Rate Case, which are

[1] Exhibit ___ (ALK-1T) at 3:19 through 9:5.

intended to ensure that the Company's Washington customers do not bear costs associated with resources that do not provide tangible and quantifiable benefits to them. The resources allocated to the Company's Washington customers provide benefits to these customers; the resources are all either located within the Company's west control area or delivered to PacifiCorp's west system for subsequent delivery to the west control area.

The WCA Methodology also eliminates all resources and loads in the east control area, thereby eliminating the significant source of controversy among the parties from the 2005 Rate Case. The production cost dispatch model used for calculating net power costs has been re-designed to simulate the optimization of the west control area in isolation from the east control area.

Finally, the WCA Methodology captures the full value of hydroelectric resources in the west control area, as prescribed by the Commission's order in the 2005 Rate Case.

Q. Why does Staff believe that WCA Methodology as modified by this Stipulation serves the interests of Washington customers?

A. Staff witness Buckley presents his analysis of the WCA Methodology in separate testimony.

Revenue Requirement Increase

Q. What does the Stipulation provide with respect to the Company's revenue requirement in this proceeding?

A. Part III.C.1 (¶ 16) of the Stipulation provides that PacifiCorp shall be authorized to increase base prices for its Washington customers by $10 million (or 4.4 percent) to be implemented by tariff changes effective April 1, 2007. The revenue requirement increase is a negotiated settlement figure, which Staff and the Company agree will have no implications for resolving issues with respect to the Power Cost Phase of this proceeding.

Q. Will there be an additional change in base rates resulting from the Power Cost Phase of the proceeding?

A. No. Staff and the Company have agreed that there will be no change in base rates as a result of establishing a base level of supply expense for implementation of the PCAM during the Power Cost Phase of this proceeding.

Q. Are there any adjustments to cost of capital contained in the Stipulation?

A. Yes, the Stipulation reflects some downward adjustments to the Company's allowed cost of capital. The cost of equity and capital ratios are the same as the Commission approved in the Company's 2005 Rate Case. Staff and the Company agree in Part III.C.2 (¶ 17) of the Stipulation that the cost of long-term debt and preferred stock will be updated, which reduces the overall rate of return to 8.06%, calculated as follows:

Component	Ratio (%)	Cost (%)	Wtd. Cost (%)
Equity	46	10.20	4.6920
Long-term Debt	50	6.335	3.168
Preferred	1	6.455	.065
Short-term Debt	3	4.50	.1350
TOTAL	100		8.06

Subject to Part III.D.1 (¶ 20) of the Stipulation, Staff and the Company agree that the return on equity ("ROE") and capital structure authorized by the Commission in the 2005 Rate Case will remain unchanged. As part of the Power Cost Phase of this proceeding, Staff and the Company will address the potential impacts, if any, of adoption of a PCAM for PacifiCorp consistent with Commission precedent, as discussed later in this testimony.

Q. Please describe Staff's analysis of the Company's revenue requirement calculations.

A. Staff reviewed PacifiCorp's per books results and the restating and normalizing adjustments through discovery, site visits, and document reviews. Staff revised certain adjustments and developed alternative adjustments of its own. PacifiCorp witness Mr. Wrigley testified in his direct testimony[2] that PacifiCorp filed its restated results of operations with a minimum of pro forma adjustments. Staff agrees with that statement. However, Staff included its own pro forma adjustments for known

[2] Exhibit ___ (PMW-1T) at 2.

and measurable changes in non-executive wages and in federal income tax deductions. Staff also notes that MEHC acquisition commitments reduce Washington's revenue requirement by almost $600,000, thereby mitigating rate increases.

Staff's revenue requirements analysis is summarized in Exhibit ___ (Joint - 3). That analysis shows that PacifiCorp could justify an increase in revenues of just under $14 million annually, or 6.2%. This confirms that a $10 million revenue increase in the Stipulation is reasonable.

Q. Please describe the analysis presented in Exhibit __ (Joint - 3).

A. Exhibit ___ (Joint - 3) compares the summary of Staff's restated results of operations to the Company's results. Column E contains the revenue requirement impact of each of the Staff's adjustments. Column F contains the revenue requirement impact as derived from each of the Company's adjustments in Exhibit ___ (PMW-4) (first page of each Tab 3-8).

The revenue requirement impact of each Company adjustment is not directly found in the Company's direct testimony, but the sum total in Column F, line 64, is equivalent to the Company's request found in Company witness Wrigley's Exhibit ___ (PMW-4), Tab 1.

Column A of Exhibit ___ (Joint – 3) is an itemized list of the adjustments using the same numbering system and names as the Company uses in Exhibit ___

(PMW-4), plus additional numerals and names for Staff's additional proposed adjustments.

The small differences between Columns E and F are because PacifiCorp inadvertently left the Commission regulatory fee out of the conversion factor calculation. This error affects both per books results and every Company adjustment. The correct conversion factor increases the revenue requirement by $30,000.

Pages 3 and 4 of Exhibit ___ (Joint - 3) identify each substantive Staff adjustment, and provide a brief description of each adjustment. The 8.06% rate of return is shown on page 2, line 75.

It should be noted that the analysis presented in Exhibit ___ (Joint – 3) is illustrative of the adjustments Staff would present in a litigated case. Staff assumes PacifiCorp would contest several of these adjustments if these issues were litigated. The exhibit is presented to support the reasonableness of the $10 million settlement of revenue requirements issues.

Q. **What conclusions did Staff draw from this analysis?**

A. As shown on page 2, Column E, line 64 of Exhibit ___ (Joint - 3), Staff's revenue requirement analysis shows that PacifiCorp could justify an increase in revenues of just under $14 million annually, or 6.2%, as shown on line 66. As shown on page 2, Column D, lines 78 and 79, at the $10 million level, the Company would earn a return on equity of 9.2%, well below the level of 10.2% approved in the last general rate case; and it would earn a return on rate base of 7.6%, below the level of 8.06%, which is based on the capital structure of the last general rate case with updated debt costs. This confirms that a $10 million revenue increase is reasonable.

Q. What conclusions did the Company draw from this analysis?

A. The Company concluded that the analysis was a reasonable representation of a set of potential adjustments that more than supported a $10 million revenue requirement increase for its Washington service territory. As mentioned above, the Company's initial filing provided detailed support for a revenue requirement increase of $23.2 million. However, the Company offered to voluntarily reduce the requested increase to $10 million if the Commission adopted a schedule to resolve the case by April 1, 2007. In making this offer, the Company did not prepare nor consider a specific analysis of additional adjustments to its filed case.

Instead, the Company was willing to limit its request in recognition of the value of having a base rate increase become effective sooner that the maximum period allowed by Washington law. PacifiCorp also recognizes that the development of an acceptable allocation methodology is a necessary pre-requisite for implementation of a PCAM. Staff's agreement to support implementation of a PCAM for PacifiCorp was certainly an important consideration for the Company in agreeing to enter into the overall Stipulation.

While the Company does not necessarily support all of the adjustments contained in the analysis, the Company concluded that the analysis provides the Commission with further support that the $10 million revenue requirement increase is reasonable in consideration of all of the elements contained in the Stipulation.

Revenue Allocation and Rate Design

Q. What does the Stipulation provide with respect to revenue allocation and rate design?

A. Part III.C.4 (¶ 19) of the Stipulation provides that Staff and the Company agree to adopt the recommendations regarding revenue allocation and rate design set forth in Mr. Griffith's direct testimony. The revenue allocation and rate design are identical to the revenue allocation method proposed by Staff, Public Counsel, ICNU and the Company in the 2005 Rate Case.

Q. Is there an exhibit that illustrates the implementation of these revenue allocation and rate design recommendations, as applied to the recommended $10 million revenue requirement increase?

A. Yes. Exhibits ___(WRG-10), ___(WRG-11), and ___(WRG-12) from Mr. Griffith's direct testimony illustrate the implementation of these revenue allocation and rate design recommendations. They were also attached as Appendix B to the Stipulation.

Power Cost Adjustment Mechanism

Q. What are Staff and the Company proposing with regards to the PCAM?

A. Staff and the Company agree to support implementation of a PCAM no later than September 1, 2007. During the Power Cost Phase of this proceeding, Staff and the Company agree to negotiate in good faith to establish (1) the base level power supply expense, and (2) the means for calculating deferred power costs for use in the PCAM.

Q. Will these discussions be open to non-settling parties?

A. Yes. These negotiations will be open to participation from all interested parties of record. Staff and the Company further agree that any stipulation reached on these issues shall be submitted to the Commission with sufficient time for a Commission decision by the end of the suspension period on September 1, 2007.

Q. How does the PCAM get implemented in the event an agreement cannot be reached on these issues?

A. If an agreement on these issues cannot be reached by April 15, 2007, Staff and the Company agree to request that a prehearing conference be promptly convened for purposes of scheduling testimony and hearings to allow for a Commission decision by September 1, 2007.

Q. How will the base level of power costs be determined?

A. The Company agrees to provide Parties with an updated estimate of its power costs by February 28, 2007. This update will include, among other things, the following items: (i) market Prices; (ii) actual short-term firm transactions; and (iii) known and measurable changes since the initial filing. In addition, the determination of the base level will include: (i) removal of east control area wheeling expense associated with the dynamic overlay and the Mead-Phoenix and Sierra wheeling expenses; (ii) modeling corrections associated with regulating margins; and (iii) other adjustments as agreed by the parties or determined by the Commission.

Q. Are there other specific topics that will be discussed in the Power Cost Phase of this proceeding?

A. Yes. Staff and the Company have agreed to: (i) consider the inclusion as part of the PCAM a mechanism that would allow PacifiCorp to adjust rates to reflect investment in Company-owned renewable resources and /or related transmission investment or expense, and (ii) address the potential impacts, if any, of the PCAM on PacifiCorp's costs of capital, consistent with Commission precedent.

System Reliability

Q. What does the Stipulation provide with respect to System Reliability?

A. In Part III.E (¶ 22) of the Stipulation, the Company agrees to maintain its current service restoration customer guarantee at no lower than its current level through March 31, 2011.

Q. Please describe the Company's current guarantee.

A. The Company's current guarantee is set forth in Rule 25 of the Company's Washington tariff. Under this Rule, the Company commits to restore electric service as soon as possible following a reported outage. If service is not restored within 24 hours of the date of the report, barring major events or other unforeseen circumstances, any eligible PacifiCorp customer who lost power due to an outage may claim $50, plus $25 for each additional 12-hour delay in restoring service.[3] Customers must claim their credits by contacting PacifiCorp within 30 days of the outage.

Q. Why was this element included in the Stipulation?

A. In light of recent storm events, there is a heightened sensitivity to system reliability and service restoration. Although the Company did not experience widespread outages in its Washington service territory during the December 14, 2006 storm, it

[3] Rule 25 applies to residential customers and customers served under Schedules 24 and 40.

was important to reaffirm the Company's commitment to system reliability. This provides an additional three years of certainty and commitment to these customers above and beyond existing commitments resulting from the MEHC acquisition transaction, Docket UE-051090.

<u>Stay Out Period</u>

Q. Does the Stipulation include a mandatory rate case stay-out period for PacifiCorp?

A. Yes. Under Part III.F (¶ 23) of the Stipulation, PacifiCorp agrees that it will refrain from filing its next general rate case in Washington until no sooner than July 1, 2008. In the event the Company for any reason is not authorized by the Commission to implement a PCAM in this docket, however, the stay-out period is shortened to permit the Company to file its next general rate proceeding in Washington on or after January 1, 2008. "General rate proceeding" is used in the same sense as in WAC 480-07-505.

<u>Low Income Issues</u>

Q. What are the Settling Parties proposing with regards to low income customers?

A. Part III.G (¶ 24) of the Stipulation indicates that, subject to Commission approval, the Company will increase the low-income collection rate which funds the Company's Low Income Bill Assistance ("LIBA") Program (Schedule 91) by a percentage amount equal to the total percentage of all residential price increases from general rate cases – including any price increase resulting from this case – since the program was implemented. As a result of the increase to Schedule 91, a portion of the increase to collections will be applied to increase the credit available through LIBA Program Schedule 17. This proposal was presented by the Company in Mr. Griffith's direct testimony in this case and is consistent with the proposal pertaining to low income issues in the 2005 Rate Case.

Q. Please explain why this element was included in the Stipulation.

A. It has been six years since the LIBA program was initiated. Since its inception, there have not been any increases to the funding level through Schedule 91. With this agreement, the LIBA program funding would increase commensurate in proportion to previous increases to the Company's Washington residential rates in general rate proceedings since 2001, plus the percentage increase from this case. This allows the funding for low income assistance to grow in proportion to increases in the Company's rates to customers.

Request for Findings

Q. Does the Stipulation ask the Commission to address other issues?

A. In Part III.H (¶¶ 25-27) of the Stipulation, Staff and the Company request that the Commission include, as part of an approval order accepting this Stipulation, several findings.

Q. What is the first finding that Staff and the Company are asking the Commission to make?

A. Staff and the Company agree that the Company has demonstrated that the power purchase agreement ("PPA") with Eurus Oregon Wind Power Development LLC ("Eurus"), the purchase of the Leaning Juniper 1 wind resource from Leaning Juniper Wind Power, LLC, ("Leaning Juniper 1"), and the contracts that replace PacifiCorp's PPAs with Grant County Public Utility District ("Grant") associated with the Priest Rapids and Wanapum dams located on the Mid-Columbia (the "New Grant Contracts") are prudently incurred supply-side resources and are used and useful for Washington customers.

Q. What evidence in the record supports this finding with respect to the Eurus PPA?

A. The Eurus PPA is for up to 41 MW of wind generation capability and has a term that expires 20 years following the project's commercial operation date, or December 22,

2023. Under the PPA, PacifiCorp purchases the energy generated by the project and the Energy Trust of Oregon ("Energy Trust") purchases the renewable resource attributes or "green tags." Above market costs are funded by the Energy Trust by virtue of their green tag purchase.

As explained in the direct testimony of Mr. Tallman (Exhibit ___ (MRT-1T)), this project benefits Washington customers because it provides power at a cost equal to the expected long-term market. PacifiCorp is able to purchase energy at market and have it delivered directly to that portion of PacifiCorp's transmission system that also serves end-use load in and around Walla Walla, Washington. In addition, the energy associated with the Eurus PPA constitutes a renewable resource. As such, the resource does not create emissions when generating energy and provides PacifiCorp with valuable operational experience in preparation for satisfaction of any applicable renewable portfolio standards that may be enacted including, for example, Initiative I-937 recently enacted in Washington.

Based on this testimony, Staff and the Company request that the Commission include, as part of an approval order accepting this Stipulation, a finding that the Eurus resource is a prudently incurred supply-side resource, used and useful for Washington customers.

Q. How does the Leaning Juniper 1 resource benefit Washington customers?

A. Leaning Juniper 1 is a wind resource located about three miles southwest of Arlington, Oregon. PacifiCorp owns the assets, all output and all interconnection rights (up to the project's 100.5 megawatts capability). As explained in the direct testimony of Mr. Tallman, this resource benefits Washington customers because it is cost effective. Exhibit ___ (MRT-3C), which accompanied Mr. Tallman's direct testimony, illustrates how the project is expected to lower both net power costs and revenue requirement over its design life. In addition, as with the Eurus resource, this project provides benefits to Washington customers because it is a renewable resource which does not create emissions when generating energy and provides PacifiCorp with valuable operational experience in preparation for satisfaction of any applicable renewable portfolio standards that may be enacted including, for example, Initiative I-937 recently enacted in Washington.

Based on this testimony, Staff and the Company request that the Commission include, as part of an approval order accepting this Stipulation, a finding that the Leaning Juniper 1 resource is a prudently incurred supply-side resource, used and useful for Washington customers.

Q. How do the New Grant Contracts resources benefit Washington customers?

A. The New Grant Contracts are contracts that replace PacifiCorp's PPAs with Grant and are associated with the Priest Rapids and Wanapum dams located on the Mid-Columbia. The New Grant Contracts were offered to the Company as a result of renewal of Grant's Federal Energy Regulatory Commission license.

As explained in the direct testimony of Mr. Tallman, these resources will benefit Washington customers because they are cost effective. Exhibit ___(MRT-

4C), which accompanied Mr. Tallman's direct testimony, illustrates how the New Grant Contracts are estimated to have a beneficial net present. Based on this testimony, Staff and the Company request that the Commission include, as part of an approval order accepting this Stipulation, a finding that the New Grant Contracts are prudently incurred and used and useful for Washington customers.

Q. What are the other findings that Staff and the Company are asking the Commission to make?

A. PacifiCorp and MEHC made various commitments in connection with MEHC's acquisition of PacifiCorp, which was approved by the Commission in Docket UE-051090. Staff and the Company agree that the Company's filing demonstrates compliance with these commitments.

Q. Please describe how the Company has complied with commitments made in the MEHC Transaction.

A. **Affiliate Management Fee.** As explained in the direct testimony of Mr. Wrigley, the Company committed to hold customers harmless from changes in costs that were previously assigned to affiliates relating to management fees ("Commitment Wa4"). Accordingly, an adjustment was made to O&M expenses to adjust the historic actual amount to the $1.5 million Total Company amount agreed to in Commitment Wa4.[4] Staff and the Company agree that this adjustment satisfies Commitment Wa4 and

[4] Exhibit ___ (PMW-4) at Tab 4, page 4.6.

request that the Commission make a finding that the Company has complied with this commitment.

Affiliate Cross Charges. As explained in the direct testimony of Mr. Wrigley, the Company committed to hold customers harmless for corporate costs that were directly billed to PPM Energy and other prior PacifiCorp affiliates. ("Commitment Wa6") Accordingly, an adjustment was made to O&M expenses to adjust the historic actual amount to the $7.9 million Total Company amount agreed to in Commitment Wa6.[5] Staff and the Company agree that this adjustment satisfies Commitment Wa6 and request that the Commission make a finding that the Company has complied with this commitment.

A&G Cost Reduction. As explained in the direct testimony of Mr. Wrigley, an adjustment was made to O&M expenses to reduce Total Company A&G expense to the $222.8 million Total Company level agreed to in Commitment Wa7.[6] Staff and the Company agree that this adjustment satisfies Commitment Wa7 and request that the Commission make a finding that the Company has complied with this commitment.

Long-term Debt Yield Reduction. As explained in the direct testimony of Mr. Williams, MEHC and PacifiCorp made a formal commitment ("General Commitment 37") that over the next five years, they would demonstrate that PacifiCorp's incremental long-term debt issuances would be at a spread ten basis points below its similarly rated peers. Exhibits ___(BNW-4C) and ___(BNW-5C),

[5] Exhibit ___ (PMW-4) at Tab 4, page 4.8.
[6] Exhibit ___ (PMW-4) at Tab 4, page 4.9.

which accompanied Mr. Williams' direct testimony, demonstrate that PacifiCorp's August 7, 2006 issuance of $350 million of long-term debt not only met, but exceeded, the promised level of savings. Staff and the Company agree that the Company has satisfied Commitment 37 and request that the Commission make a finding that the Company has complied with this commitment.

General Provisions

Q. Are there any items included in the General Provisions that should be brought to the Commission's attention?

A. No. The General Provisions set forth in Part III.I (¶¶ 28-36) of the Stipulation are standard practice for settlements before this Commission.

Q. Does this conclude your joint testimony?

A. Yes.