

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT COMPANY,

Respondent.

In the Matter of the Petition of

PACIFIC POWER & LIGHT
COMPANY,

For an Order Approving Deferral of
Costs Related to Colstrip Outage.

In the Matter of the Petition of

PACIFIC POWER & LIGHT
COMPANY,

For an Order Approving Deferral of
Costs Related to Declining Hydro Generation.

DOCKETS UE-140762 and UE-140617
(consolidated)

**PACIFIC POWER'S OBJECTION TO
THE REVISED TESTIMONY OF
PUBLIC COUNSEL WITNESS
STEPHEN G. HILL**

DOCKET UE-131384
(consolidated)

DOCKET UE-140094
(consolidated)

I. INTRODUCTION

1 In accordance with WAC 480-07-490, Pacific Power & Light Company (Pacific Power or Company), a division of PacifiCorp, respectfully submits this objection to the Revised Direct Testimony of Public Counsel Witness Stephen G. Hill filed on December 1, 2014. Pacific Power requests that the Washington Utilities and Transportation Commission (Commission) allow the Company a reasonable opportunity to supplement the record to respond to the revised testimony.

II. BACKGROUND

2 On October 10, 2014, Public Counsel filed the direct testimony of Stephen G. Hill, which
responds to the Company's proposed rate of return, cost of debt, and capital structure. In his
direct testimony, Mr. Hill recommended an overall rate of return for Pacific Power of 7.32
percent, based, in part, on a debt cost of 5.80 percent and a hypothetical equity ratio of 49.1
percent.¹

3 Mr. Hill's recommended 5.80 percent debt cost is the Company's proposed alternative
debt cost under a hypothetical capital structure, as Mr. Hill describes in his testimony.² Although
Mr. Hill was critical of the Company's debt cost calculations, his overall rate of return
recommendation of 7.32 percent reflected his acceptance of the alternative 5.80 percent cost.
Mr. Hill's Exhibit No. SGH-15 explicitly shows Mr. Hill's 5.80 percent recommendation for
long-term debt in his overall cost of capital.³ Mr. Hill also included his recommended 5.80
percent debt costs and 7.32 percent overall rate of return in the financial metric calculations he
used to demonstrate the reasonableness of his recommended rate of return.⁴

4 On October 17, 2014, Public Counsel confirmed Mr. Hill's recommended 5.80 percent
long-term debt cost and 7.32 percent overall rate of return in the Issues List, which was filed
with the Commission on October 21, 2014.⁵ The first page of the Issues List lists the cost of
capital components recommended by each party. In contrast to Public Counsel's
recommendation, both Staff and Boise White Paper LLC listed their long-term debt costs at 5.19
percent.

¹ Hill, Exh. No. SGH-1CT 5:12-15.

² Hill, Exh. No. SGH-1CT 3 n. 2.

³ Hill, Exh. No. SGH-15.

⁴ Hill, Exh. No. SGH-1CT 58:10-19.

⁵ Issues List at Page 1 (Oct. 17, 2014).

5 On October 17, 2014, Public Counsel moved to amend the testimony of Donna Ramas.
PacifiCorp did not oppose this motion.

6 On November 14, 2014, Pacific Power filed the rebuttal testimonies of Bruce N.
Williams and Kurt G. Strunk, which responded to the issues raised in Mr. Hill's direct testimony.
Because of Mr. Hill's acceptance of the Company's proposed alternative 5.80 percent debt cost
under a hypothetical capital structure, Mr. Williams' testimony acknowledged agreement with
Mr. Hill's recommendation and did not respond to Mr. Hill's criticism of the Company's debt
costs:

Q. Please summarize Mr. Hill's proposed capital structure and costs of capital.

A. Mr. Hill proposes a hypothetical capital structure and costs of capital consistent
with the Company's alternative overall cost of capital, but with an 8.90 percent
return on equity. Mr. Strunk responds to that aspect of Mr. Hill's testimony.

Q. Are there specific costs of capital on which you and Mr. Hill agree?

A. Yes. Mr. Hill and I are in agreement that if the Commission adopts a capital
structure containing less common equity than the Company's actual capital
structure, a corresponding increase in the costs of long-term and short-term debt is
necessary. Mr. Hill accepts my recommended cost of long-term debt and short-
term debt of 5.80 percent and 2.11 percent, respectively, if a hypothetical capital is
utilized. Mr. Hill and I also agree on the cost of preferred stock of 6.75 percent.⁶

7 The Company's testimony did rebut the financial metric calculations included in
Mr. Hill's testimony, which were based on his original 5.80 percent debt costs and 7.32 percent
rate of return recommendations.⁷

8 In November 2014, Public Counsel served three sets of data requests on Pacific Power.
One set focused on the testimony of Messrs. Strunk and Williams and included a data request PC

⁶ Williams, Exh. No. BNW-16T, 6:3-13.

⁷ Strunk, Exh. No. KGS-17T, 41:1 – 42:2 (responding to Mr. Hill's pre-tax coverage ratio based on his original
recommendations).

161 that specifically asked for additional information regarding Pacific Power's hypothetical debt costs.

9 On December 1, 2014, Public Counsel filed the Revised Testimony of Mr. Hill, including a revised version of Exhibit No. SGH-15. Unlike the earlier revision of Ms. Ramas's testimony, Public Counsel did not confer with Pacific Power before this filing or file a motion for leave to revise the testimony. Public Counsel provided little explanation for the changes to Mr. Hill's testimony beyond a general reference to the "discovery of factual errors."⁸ Public Counsel made the filing on the same day as the discovery deadline in this case.

10 In his revised testimony, Mr. Hill changed his recommended long-term debt cost to reflect the Company's actual debt cost of 5.19 percent. In addition, Mr. Hill changed his overall rate of return recommendation to reflect his new, lower debt cost. Mr. Hill now recommends an overall rate of return of 7.01 percent, a reduction of 31 basis points from the recommendation made in his direct testimony. Mr. Hill also revised his financial metric calculations to reflect his new, lower recommendations.

11 Pacific Power immediately communicated with Public Counsel regarding its objection to the revised testimony. Over the course of the next week, Pacific Power attempted to negotiate a fair procedural response to Mr. Hill's revised testimony to mitigate the prejudice to Pacific Power and address the associated problems in the record. To date, Pacific Power and Public Counsel have been unable to reach an agreement.

II. OBJECTION

12 Pacific Power objects to Mr. Hill's revised testimony and requests the opportunity to respond. The revised testimony presents a material change in Public Counsel's cost of capital recommendation, presented after the Company filed its rebuttal testimony and at the close of

⁸ Cover Letter of Public Counsel accompanying the Revised Testimony.

discovery. As made clear in the Company's rebuttal testimony, given Mr. Hill's original acceptance of the Company's alternative debt cost, the Company did not directly reply to his debt cost testimony. The Company did address Mr. Hill's financial metric calculations, which he has now materially changed based on his new recommendations. In the interests of a fully developed and accurate record, the Commission should allow Pacific Power a reasonable opportunity to respond to the change in Public Counsel's position in the case.⁹

13 If the Company is not allowed to respond to Mr. Hill's new recommendations, the record will be incomplete and inaccurate. The Company proposes the following: (1) admit both Mr. Hill's direct and revised testimonies into the record and allow cross-examination on the revisions; (2) allow Mr. Williams to provide limited supplemental rebuttal testimony at the hearing, responding to the portions of Mr. Hill's testimony that have changed (cost of debt, actual and alternative; revised rate of return; and revised pre-tax interest ratio).¹⁰

14 Public Counsel may claim that the revisions are just a math error, but this understates the impact of Mr. Hill's changes. Public Counsel's overall rate of return recommendation in this case went from the highest in the case to the lowest. Moreover, far from being simple scrivener's error, Mr. Hill used the 5.80 percent debt cost to calculate his overall rate of return and to conduct his financial metric calculations. The revision is a material change, and the Company should be given the opportunity to respond.

⁹ See *WUTC v. PacifiCorp*, Docket UE-100749 Order 06 ¶ 91 (Mar. 25, 2011) (“... we welcome a robust and diverse record of evidence based on a variety of analytics and cost of capital methodologies.”); *WUTC v. Puget Sound Energy, Inc.*, Docket UE-060266, Order 06 ¶ 6 (Aug. 30, 2006) (supporting a “full and accurate record on which to base a decision”). For example, based on Mr. Hill's original Direct Testimony, Mr. Williams' rebuttal testimony states that there are specific costs of capital for which the Company is in agreement with Public Counsel. Williams, Exh. No. BNW-16T, 6:7-12. Mr. Williams' statement is no longer accurate when considered with Mr. Hill's Revised Testimony.

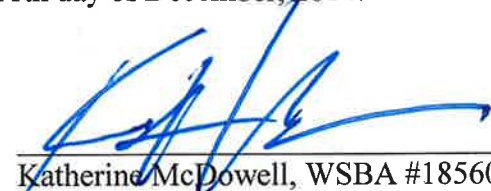
¹⁰ The Company requests the opportunity to respond to the changes reflected on pages 26-28 and 32-33 and page 58 of Mr. Hill's revised testimony, as well as Exhibit No. SGH-15r.

15 Public Counsel failed to explain why its error remained uncorrected for 52 days—nearly
two months. Public Counsel had at least three earlier opportunities to discover and correct its
error: (1) when setting forth its position in the Issues List; (2) when reviewing Pacific Power’s
rebuttal testimony; (3) when preparing and serving discovery on Pacific Power’s cost of capital
testimony. Public Counsel waited until December 1—the discovery deadline in this case—to file
its revised testimony, without any explanation for its delay.

III. CONCLUSION

16 Pacific Power requests a reasonable opportunity to supplement the record to respond to
Public Counsel’s revised testimony as outlined above.

17 Respectfully submitted this 11th day of December, 2014.

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