

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT
COMPANY, d/b/a PACIFICORP,

Respondent.

DOCKET UE-140762 and UE-140617
(*consolidated*)

In the Matter of the Petition of

PACIFIC POWER & LIGHT
COMPANY,

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

DOCKET UE-131384 (*consolidated*)

In the Matter of the Petition of

PACIFIC POWER & LIGHT
COMPANY,

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

Docket UE-140094 (*consolidated*)

PUBLIC COUNSEL RESPONSE TO
PACIFIC POWER OBJECTION TO
HILL REVISION

I. INTRODUCTION

1. Public Counsel files this response to the Pacific Power objection filed Thursday,

December 11, 2014, to the Revised Testimony of Stephen G. Hill. Public Counsel respectfully

PUBLIC COUNSEL RESPONSE TO PACIFIC
POWER OBJECTION TO HILL REVISION
DOCKETS UE-140762 and
UE-140617 (*consolidated*);
DOCKETS UE-131384 and
UE-130094 (*consolidated*)

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requests that the objection be denied. However, in order to allow Pacific Power a reasonable opportunity to respond to Mr. Hill's revised testimony, Public Counsel restates the following proposed resolution, already made to the Company prior to the filing of the objection:¹

2. Public Counsel has no objection to Mr. Hill's original unrevised testimony being admitted to the record.
3. Public Counsel has no objection to Mr. Hill being examined regarding the error in the testimony that necessitated the revision.
4. Public Counsel does not object to oral supplemental rebuttal by Pacific Power witness Williams, so long as it is narrowly tailored to address the hypothetical debt cost issue. Specifically, the testimony would address Mr. Hill's testimony at Exhibit No. SGH-1CT, pp. 26-28 and 32-33.
5. As discussed below, Public Counsel has not been willing to agree to Pacific Power's request that Mr. Williams be allowed to address broader cost of capital issues in his supplemental testimony. Commission Staff and Boise White Paper have also advised Pacific Power that they share Public Counsel's concerns about unduly broad supplemental rebuttal.

II. DISCUSSION

6. Public Counsel's cost of capital witness Stephen Hill inadvertently incorporated in his Direct Testimony Pacific Power's recommended hypothetical debt cost of 5.8 percent, rather than the Company's actual debt cost of 5.19 percent.² The error was not discovered until a

¹ This resolution was proposed to Pacific Power counsel prior to the filing of the objection as a result of several telephone and email communications.

² The incorrect number was inadvertently inserted in the joint issues list, which simply reported the information contained in the filed testimony.

period of time after Pacific Power's rebuttal was filed, when Mr. Hill reviewed the Company testimony and saw the comments regarding Public Counsel's supposed adoption of 5.8 percent. Mr. Hill's testimony was revised as soon as practicable thereafter. The only changes made to the testimony were to the few numbers comprising the debt cost, and related mathematical changes required by use of the actual debt cost (rate of return, financial metrics). None of Mr. Hill's narrative testimony was changed.

7. Pacific Power's objections to the revision are not well-taken and should be denied. The Company's claims of unfairness and prejudice are overstated. Although Mr. Hill inadvertently used 5.8 percent rather than 5.19 percent in his statement of debt cost, it was apparent on the face of his testimony that Public Counsel did not intend to recommend a 5.8 percent debt cost and that an error had been made. Mr. Hill's discusses the debt issue at pp. 32-33 of Exhibit SGH-1CT.

He states:

*With regard to the Company's requested embedded cost rate of long-term debt, 5.19 percent, I believe that is also reasonable for ratemaking purposes. However, I believe that it is important for the Commission to understand that in the current market environment of low interest rates, that cost rate is likely to overstate the Company's long term debt costs, going forward, and, therefore, if included in rates, should be viewed as a conservative ratemaking adjustment.*³

8. Earlier, Mr. Hill expressly states that "Mr. Williams' overstatement of a debt cost increase, should be ignored."⁴

9. In addition, both Commission Staff and Boise in this case supported the use of 5.19 percent as the correct debt cost in their direct cost of capital testimony. Pacific Power responded to this testimony in rebuttal. Mr. Hill's revision did not raise a new issue not previously known

³ Direct Testimony of Stephen G. Hill, Exhibit No. SGH-1CT, pp. 32-33, ll. 19-22, 1-2. (Emphasis added.)

⁴ *Id.* at p. 31, ll. 2-3.

to the Company. The only impact of Public Counsel's revision was to add a third recommendation to the two already in the record prior to rebuttal recommending use of the actual debt cost. Mr. Hill's revised testimony, therefore, had no material impact on Pacific Power's ability to address the issue in this case. Public Counsel's rate of return recommendation and financial metrics changed simply by operation of the mathematical calculations resulting from use of the corrected debt cost (5.19 percent). None of Mr. Hill's narrative testimony changed.

10. Nevertheless, Public Counsel has made a good faith effort to respond to the Company's concern. After several consultations between counsel, Public Counsel agreed at PacifiCorp's request to allow Mr. Hill's original testimony to be placed in the record and for PacifiCorp to examine Mr. Hill about the change. In addition, Public Counsel agreed to allow PacifiCorp supplemental rebuttal testimony to address Mr. Hill's testimony on hypothetical debt, specifically regarding pages designated by PacifiCorp. Although Public Counsel requested that this be provided in writing, PacifiCorp declined to do so due to asserted time constraints, stating a preference for oral testimony. Public Counsel also agreed to this.

11. The only point on which agreement was not reached was Pacific Power's further request for an opportunity to have broader supplemental rebuttal, not just on the topic of the error (hypothetical debt), but also on the overall rate of return and financial metric issues. Public Counsel did not and does not agree to the broader scope of supplemental rebuttal requested by the Company. The remedy in this case should be tailored to the limited practical impact that the error had on the Company. Pacific Power should not be allowed to use this inadvertent error as

an opportunity to have a “second bite at the apple” on issues which it has already addressed in testimony.

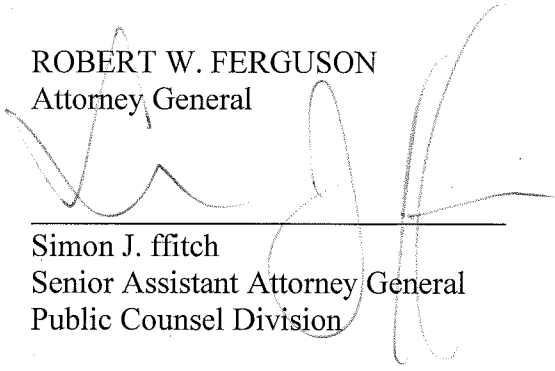
12. This dispute affects Commission Staff and Boise White Paper, since they are potentially prejudiced if Pacific Power is allowed broad liberty to provide oral supplemental rebuttal encompassing cost of capital issues which were also addressed by those parties. Counsel for Staff and Boise were included in the latter part of the email exchange between Public Counsel and Company counsel and were advised of Public Counsel’s recommended resolution. They have stated that they share the concern about an unduly broad scope of live supplemental rebuttal.

III. CONCLUSION

13. For the foregoing reasons, Public Counsel respectfully requests that the Pacific Power objection to Mr. Hill’s revised testimony be denied, and that the revised testimony be admitted into the record. Public Counsel has no objection to Pacific Power being allowed the opportunity for narrow oral supplemental rebuttal, limited to addressing the portions of Mr. Hill’s testimony listed above.

14. DATED this 15th day of December, 2014.

ROBERT W. FERGUSON
Attorney General



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