



February 26, 2003

**HAND-DELIVERED**

Carole J. Washburn  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, WA 98504-7250

**Re: Docket No. UE-020417**

Dear Ms. Washburn:

Enclosed for filing in the above proceeding are an original and twelve (12) copies of PacifiCorp's rebuttal case, consisting of the rebuttal testimony and exhibit of the following witnesses: Jeffrey K. Larsen and Mark T. Widmer

An electronic copy of the enclosed materials has also been sent to the Commission's Record Center at [records@wutc.wa.gov](mailto:records@wutc.wa.gov).

Please contact Jeff Payne at 503-813-6032 if you have any questions with respect to this filing.

Thank you for your assistance.

Sincerely,

A handwritten signature in black ink that reads "D. Douglas Larson" followed by a slash and the letters "CAO".

D. Douglas Larson  
Vice President, Regulation

Enclosures

cc: Service List

**BEFORE THE WASHINGTON UTILITIES & 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

**PACIFICORP**

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**February, 2003**

Exhibit T-\_\_\_(JKL-R)

**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

**PACIFICORP**

**REBUTTAL TESTIMONY OF JEFF K. LARSEN**

**February, 2003**

1 **Q. Are you the same Jeffrey K. Larsen who testified previously in this**  
2 **proceeding?**

3 A. Yes.

4 **Purpose of Testimony**

5 **Q. Please summarize the key points of your rebuttal testimony.**

6 A. My rebuttal testimony makes the following points:

- 7 • The Company has met the terms of the Stipulation under which the Company  
8 may obtain the limited relief requested in this proceeding.
- 9 • Rather than address the substantive issue of the Company's dismal financial  
10 performance in Washington and the undisputed need for some rate relief, Staff  
11 raises issues regarding cost allocation methodology as a complete barrier to any  
12 consideration of the Company's financial condition. Under any reasonable cost  
13 allocation scenario, however, it cannot be disputed that the Company's financial  
14 results in Washington are poor and deteriorating.
- 15 • Both Staff and ICNU propose to deny any relief based on misplaced procedural  
16 or technical arguments, and fail to mount any serious challenge to the financial  
17 testimony presented in the Company's direct case.

18 **Q. How is your rebuttal testimony organized?**

19 A. I describe how the Company has satisfied the conditions under the Rate Plan that  
20 would permit the Company to obtain the limited relief requested in this proceeding.  
21 I then discuss the cost allocation methodology issue, and explain why that  
22 controversy is immaterial to the merits of the Company's request in this case, and

1           instead is being used to avoid dealing with the merits of the Company's financial  
2           condition. Finally I discuss the procedural and technical "obstacles" raised by Staff  
3           and ICNU, which similarly should not prevent the Commission from considering,  
4           and granting, the limited relief requested in this proceeding.

5   **Q.   Why is the Company seeking an accounting order rather than filing a general**  
6   **rate case?**

7   A.   As discussed in my direct testimony, the Company would prefer to fulfill its  
8           commitment under the Rate Plan and not seek relief through a general rate case if  
9           limited rate relief can be obtained through the Company's proposal in this  
10          proceeding. The Company believes that it has met the requirements of the Rate  
11          Plan Stipulation enabling it to recover the requested excess power costs. At the  
12          same time, however, if the Commission finds that the Company's financial  
13          performance cannot adequately be evaluated without a general rate filing and a  
14          more complete development of the cost allocation issues, the Company would not  
15          oppose having the Rate Plan re-opened for the limited purpose of allowing a general  
16          rate filing in late 2003 to allow a re-examination of rates under a new cost  
17          allocation methodology.

18   **Analysis Of Requirement To Meet The *Pacific Northwest Bell* Standard**

19   **Q.   Witnesses for both Commission Staff and ICNU have argued that the**  
20   **Company has not met the condition prescribed in Section 11 of the Stipulation.**  
21   **Do you agree?**

1 A. No. Section 11 of the Stipulation permits the Company to obtain additional rate  
2 relief during the Rate Plan Period provided that: (1) interim rate relief is warranted  
3 under the six-part standard from *Pacific Northwest Bell (PNB)*; and (2) the  
4 Company is requesting similar rate relief in its two largest U.S. retail jurisdictions.  
5 As I have stated in my direct testimony, the Company has met both criteria.

6 **Q. Please explain.**

7 A. As demonstrated in my direct testimony, the Company has made the necessary  
8 showing to enable the Commission to find that the six-part standard from *PNB* has  
9 been satisfied:

- 10 1. The Company has provided evidence and stands ready to provide further  
11 evidence if required to facilitate an adequate hearing.
- 12 2. My direct testimony has shown the hardship and gross inequity that the  
13 Company has suffered. The Company has borne the entire cost of actual power  
14 costs over and above the level included in rates during a period of  
15 unprecedented turmoil in the Western power market. The result has been to  
16 severely depress the Company's earnings from Washington operations, despite  
17 the implementation of the Rate Plan's scheduled increases.
- 18 3. The deterioration of the Company's results of operation is provided as support  
19 for the Company's request. It is not the basis of the request. As shown in  
20 Exhibit \_\_\_\_ (SRM-2), the anticipated return from Washington operations will  
21 deteriorate even further if additional rate relief is not granted. These returns are

1 significantly less than the 5.6 percent return being realized at the time the  
2 Company filed its last general rate case.

3 4. Both my direct testimony and Mr. McDougal's testimony provided the required  
4 financial information.

5 5. Both my and Mr. McDougal's direct testimony demonstrated that without relief,  
6 the Company's results of operation in the state of Washington would continue  
7 deteriorating, with cash flow increasingly negative for the remainder of the Rate  
8 Plan period.

9 6. The Company is not asking the Commission to grant this request without  
10 consideration of the interest of all parties.

11 The financial analyses underlying this demonstration have, for the most part, gone  
12 unrefuted in the opposing testimony filed by Staff and ICNU. Their efforts have  
13 been directed at avoiding an evaluation of the Company's financial condition, rather  
14 than on what the analyses actually demonstrate, as discussed later in my rebuttal  
15 testimony.

16 **Q. In what way do the Company's current and expected returns negatively**  
17 **impact the Company's financial condition in Washington?**

18 A. The impact of Washington's poor results contributes to the Company's  
19 deteriorating financial ratios, which erode the Company's ability to access capital  
20 necessary to meet future cash needs. As provided in my direct testimony, this  
21 impact includes deteriorating interest coverage and cash flows.

22 **Q. Please elaborate on the impacts to the Company's financial measurements.**

1 A. As shown in Exhibit \_\_\_\_ (JKL-3) and as provided in my direct testimony, the  
2 Company's interest coverage ratio based on Washington operations suggests a  
3 "BB" rating, or below investment grade, based on the benchmarks used by Standard  
4 & Poor's. In addition, Exhibit \_\_\_\_ (JKL-4) shows that the Company's cash flows  
5 from Washington operations are expected to be negative in fiscal year 2003,  
6 deteriorating even further over the Rate Plan Period. Access to capital under these  
7 conditions would be under terms for "junk" bond issuances, if any could be  
8 obtained at all, considering the recent tightening of credit standards for electric  
9 utilities. In this regard, Washington has benefited from the rate relief provided by  
10 other states; if evaluated on a Washington-only basis, the credit standing of the  
11 Company would have been lower, and PacifiCorp's Washington customers would  
12 have borne higher borrowing costs.

13 **Q. Mr. Falkenberg states that the company does not meet the fifth *PNB* standard**  
14 **which states that interim relief may be applied only to "stave off financial**  
15 **disaster," and that "the company has made no contention of impending**  
16 **disaster." Do you agree?**

17 A. No. First, I disagree that "impending disaster" is the proper reference point. My  
18 direct testimony made the necessary showing, directed at the *PNB* standards as we  
19 understand them. As discussed in my direct testimony, the Company has already  
20 borne an extraordinary amount of costs during the period of an unprecedented  
21 Western energy crisis, as well as extremely poor hydro conditions and an extended  
22 outage of the Company's Hunter 1 unit during the same period. Second, Mr.



1 Falkenberg's claim that the Company is under-performing its expectations by only  
2 "a small margin" is wildly inaccurate. The projected results of operation in the near  
3 future show that the Company is and will be operating under very different  
4 circumstances from when the Rate Plan was entered, and that the shortfall in  
5 earnings is substantial and sustained.

6 **Q. Mr. Falkenberg states that the Company has missed the opportunity to recover**  
7 **the costs incurred during the power crisis. Do you agree?**

8 A. I would agree with Mr. Falkenberg that the Company no longer has an opportunity  
9 to recover the costs incurred prior to the proposed Deferral Period, which represent  
10 the bulk of the impacts associated with the Western energy crisis. As indicated in  
11 my direct testimony, the Company incurred \$98 million in higher power costs in  
12 Washington during this period. The fact that the Company's shareholders bore  
13 these expenses rather than obtaining rate recovery represents a benefit that  
14 PacifiCorp's Washington customers have received under the Rate Plan. As  
15 discussed in my direct testimony, however, the poor financial results in Washington  
16 continue beyond the passing of the Western energy crisis. Thus, the Company still  
17 has an opportunity to obtain rate relief to offset the higher costs that remain.

18 **Q. Mr. Elgin provided testimony that the Company's cash needs are not driven**  
19 **by growth in Washington. Do you agree?**

20 A. No. Since the Pacific Power/Utah Power merger, loads (including Washington's)  
21 have not stayed constant. As shown in Staff witness Martin's Exhibit \_\_\_\_ (RCM-  
22 2), the firm retail load the Company needs to serve has increased, and Washington

1 has grown at a rate in excess of the Company's system average for most of the  
2 period since 1989. The Company has made capital investments to serve the  
3 additional load in Washington, including the addition of generation resources,  
4 transmission and distribution plant. In addition, PacifiCorp is continuing to spend  
5 capital to maintain existing assets. However, the Company's base rates in  
6 Washington have not been adequately adjusted to account for these additions.  
7 Future cash needs are of a similar nature. Resources to be added to the system  
8 benefit the entire system, including Washington.

9 **Q. Mr. Elgin states that it "would go a long way to complying with the**  
10 **requirements of Section 11" if the Company presents its total financial profile.**  
11 **Do you agree?**

12 A. No. As Mr. Elgin points out in his testimony, the Company has significant cash  
13 needs outside of Washington and it is unfair to expect Washington customers to  
14 subsidize those needs. In the same sense, it is inappropriate to expect customers in  
15 other states to subsidize Washington's needs. Accordingly, it is necessary to look at  
16 a Washington-only analysis to ensure that Washington rates cover Washington  
17 costs (plus a reasonable return) and to prevent the cross-subsidization by, or of,  
18 other states. In addition, if a total company analysis were used, the situation in one  
19 state could be completely obscured by the results from other states, especially when  
20 that one state represents a small portion of the total company. Finally, a  
21 Washington-only analysis is consistent with what the Company has submitted in  
22 other regulatory filings regarding results of operations.

1 **Q. Why are cash flow needs of other states irrelevant to the Commission’s**  
2 **decision regarding Washington rates?**

3 A. The Company is not requesting rate relief in Washington to pay for cash flow  
4 demands from other jurisdictions. Rather, it is requesting rate relief to ensure that  
5 PacifiCorp’s Washington customers sufficiently fund the needs imposed on the  
6 Company as a result of increasing demand in Washington.

7 **Q. How were the Washington-only results determined?**

8 A. Washington-only results were determined through the use of the Modified Accord  
9 allocation methodology. I will discuss the merits of this methodology later in my  
10 testimony.

11 **Issues Regarding Cost Allocation Methodologies**

12 **Q. Why do you claim that the cost allocation issues raised by Staff have no**  
13 **bearing on whether the Company should obtain any rate relief in this**  
14 **proceeding?**

15 A. Staff is using the absence of an “approved” cost allocation methodology in  
16 Washington as the basis for denying rate relief in this proceeding. Staff goes to  
17 great lengths to malign the Modified Accord methodology used by the Company in  
18 its filing, and to point out that neither the Commission nor Staff has ever  
19 “approved” this methodology. According to Staff, in the absence of a filing that  
20 reflects the use of an “approved” methodology, it is impossible to evaluate the  
21 Company’s financial condition for purposes of acting on this rate request. In fact,  
22 however, the particular cost allocation methodology used *has very little impact on*

1        *the Company's indicated financial results for Washington.* Thus, this cost  
2 allocation issue cannot fairly be used as the basis for refusing to consider the  
3 Company's request. Staff faced the same issue of unresolved allocation  
4 methodologies in the Company's 1999 general rate filing in Washington. Yet Staff  
5 was able to make the determination in that case that the Rate Plan would produce  
6 "just, fair, reasonable and sufficient rates." If Staff was able to work through the  
7 "impossible" circumstances to reach a rate recommendation in that case, it should  
8 be able to do so in this proceeding as well.<sup>1</sup>

9        **Q. Please explain how the particular cost allocation methodology chosen does not**  
10        **have a material effect on the Company's indicated financial results for**  
11        **Washington.**

12        A. As commented on at length in the Staff testimony, the Company's filing in this case  
13 was based upon the Modified Accord methodology. I will discuss below why this  
14 particular method was used by the Company, and why it should be used as the basis  
15 for evaluating the Company's filing. For purposes of this discussion, however, it is  
16 necessary to consider how these results change if alternative approaches are used.  
17 As part of the discovery in this proceeding, the Company provided to Staff an  
18 analysis indicating how the results would change if the PITA Accord method were  
19 used rather than the Modified Accord. That analysis showed that although the  
20 returns on equity are slightly higher under PITA Accord, the Company's earnings

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<sup>1</sup> It should be noted that Staff has declined to describe in this proceeding how it was able to reach that finding with respect to rates under the Rate Plan, claiming that its basis for reaching that finding is "privileged."

1 through the remainder of the Rate Plan Period are still expected to fall *far* short of  
2 the allowed returns.

3 **Q. Were other methodologies considered as well?**

4 A. Yes. According to Staff, the cost allocation method which it “believes to be  
5 potentially acceptable” would allocate costs according to control areas. (RCM-1T,  
6 page 13) This approach, referred to as the “Idaho approach” in the Multi-State  
7 Process, or MSP, would divide the Company according to the eastern and western  
8 load control areas. According to the scenario analysis performed in MSP, applying  
9 this cost allocation approach would result in a slight revenue requirement *increase*  
10 for Washington—about 0.3 percent—as compared to the Modified Accord  
11 methodology. Thus, under the allocation approach which Staff apparently  
12 considers acceptable, the indicated financial performance for the Company in  
13 Washington would be *essentially the same* as that suggested under the Modified  
14 Accord methodology which Staff finds so objectionable in its testimony in this  
15 proceeding.

16 **Q. What do you conclude from this comparison of allocation methodologies?**

17 A. This brief summary of three possible approaches demonstrates that *the financial*  
18 *results do not vary materially depending upon the methodology chosen*. Thus, the  
19 cost allocation issue cannot be fairly used as the basis for refusing to perform any  
20 analysis of the Company’s financial testimony in this proceeding. The  
21 circumstances may not be ideal, but Staff’s claim that it is “impossible” to perform  
22 any meaningful analysis is plainly an exaggeration of the issue.

1 **Q. Are there any other problems with Staff’s approach?**

2 A. Yes. More fundamentally, Staff’s approach denies the Company any ability to  
3 make a claim for rate relief in Washington. According to Staff, “until the cost  
4 allocation problem is solved, the Company should not make any assertions  
5 regarding its financial results in Washington.” (KLE-1T, page 23) On the issue of  
6 cost allocations, Staff’s position is that “there is no allocation methodology that  
7 Staff would support at this time.” (Staff Response to DR 1.30) Thus, even the  
8 limited relief seemingly available under Section 11 of the Rate Plan Stipulation *in*  
9 *reality is not available at all.* In this cost allocation “purgatory,” there appears to  
10 be no scenario under which a request for rate relief from the Company would be  
11 processed by Staff.

12 **Q. Witnesses for Staff state that the Modified Accord allocation method contains**  
13 **inherent flaws and, as a result, the Washington results of operation determined**  
14 **by such a method assigns a disproportionate share of common costs to**  
15 **Washington. Why do you believe it is appropriate to use this method?**

16 A. Although the Modified Accord methodology may not be perfect, it is the best  
17 approach currently available and is appropriate to use in the current proceeding  
18 because of the following:

- 19 • It is the method that the Company uses for regulatory filings in all its  
20 jurisdictions except Utah.

- 1           •       It is also the method used to prepare and submit the periodic results
- 2                   of operations that the Company submits to the Washington
- 3                   commission.
- 4           •       The Modified Accord methodology was the method that the
- 5                   Company used in the last general rate case in Washington.

6           One would presume that, in the past, Staff has evaluated the results of operations

7           provided by the Company using the Modified Accord method to determine, as

8           stated in the Stipulation, that the Company’s rates “are just, fair, reasonable, and

9           sufficient,” because it is the only method used by the Company in its filings.

10   **Q.    What allocation method would PacifiCorp propose in a general rate case**

11           **proceeding?**

12    A.    Until MSP is concluded, the Modified Accord methodology is the approach the

13           Company is currently using for regulatory filings in all its jurisdictions except Utah.

14           We expect this phase of the MSP to end mid-year, followed by filings in each of the

15           jurisdictions to implement a new cost allocation methodology (either a consensus

16           MSP solution or, failing that, the approach determined by the Company to be the

17           most likely acceptable to all the jurisdictions). In the event the Commission

18           determines in this proceeding that the Company’s financial condition could be

19           evaluated only through a general rate filing, the Company would propose to make

20           such a filing in late 2003 to enable the MSP solution to be reflected in that filing.

21    **Q.    Mr. Buckley states that “continued uncertainty regarding the entire inter-**

22           **jurisdictional allocation methodology, and just what costs should be allocated**

1           **to Washington, makes it impossible to determine an acceptable Washington**  
2           **power supply expense level for purposes of calculating a deferral.” Do you**  
3           **agree?**

4    A.    No. As of the date of the Rate Plan Stipulation, there was enough certainty  
5           regarding allocation methodology and the appropriate level of Washington-  
6           allocated costs to assert in the Company’s last general rate case in Washington that  
7           the Rate Plan was fair and reasonable for Washington customers.

8    **Q.    What reasons does Mr. Martin give for rejecting any results of operations for**  
9           **Washington that are calculated using the Modified Accord method?**

10   A.    Mr. Martin suggests that the Modified Accord method “contains inherent flaws”  
11           (RCM-1T, page 3) and that the Washington Commission has never accepted it for  
12           ratemaking purposes.

13   **Q.    Does Mr. Martin identify the inherent flaws?**

14   A.    He identifies three such “flaws.” First, he claims that because of Utah’s  
15           disproportionate load growth, the method over-allocates the cost of new resources  
16           to Washington. Second, he points to the system-wide allocation of the cost and  
17           revenues associated with special contracts as being in violation of cost-causation  
18           principles. Third, he suggests that the system-wide treatment of state income taxes  
19           does not following cost-causation principles.

20   **Q.    Do you agree that Modified Accord method over-allocates costs to**  
21           **Washington?**



1 A. No. Mr. Martin uses his Exhibit \_\_ (RCM-2) and compares loads in 2001 with  
2 loads in 1989 to reach his conclusion that Washington's load growth has been less  
3 than system average and is far less than that of Utah. While it is true that Utah's  
4 load growth far outpaces that in Washington and the other states, it doesn't mean  
5 that Washington's load is not growing.

6 I have prepared Exhibit \_\_\_\_ (JKL-7) using the same data presented in Exhibit \_\_  
7 (RCM-2). Rather than just looking at the change in load between two years,  
8 Exhibit \_\_\_\_ (JKL-7) shows the cumulative percentage change in loads from 1989  
9 for each of the years 1990 through 2001. Page one shows the change in firm retail  
10 MWH and page two shows the changes in state contributions to the 12 coincident  
11 peaks (CPs). As shown on these pages, Washington's cumulative load growth, both  
12 in MWH and in contribution to the 12 CP for all years up through 2000 has been  
13 higher than that of the Company's merged system. The same holds true with  
14 respect to growth in the summer peak. Page three of Exhibit \_\_\_\_ (JKL-7) shows the  
15 cumulative change in state contributions to the July peak. For most years, the  
16 increase in Washington's load during the hour of the July peak has grown faster  
17 than system average.

18 Because Washington's loads have grown faster than the Company's system  
19 average, the Modified Accord allocation methodology does not over-assign the cost  
20 of new resources to Washington.

1 **Q. Do you agree with Mr. Martin's assertion that system-wide allocation of**  
2 **special contracts is a valid reason to reject results allocated based on Modified**  
3 **Accord?**

4 A. No. The Company has made it clear that it intends to move special contract  
5 customers to standard tariff or tariff-equivalent prices and has been generally  
6 successful in that effort. The results presented by Mr. McDougal in his direct  
7 testimony were prepared with the costs and revenues for all special contracts  
8 assigned to their home states. None of the costs or revenues associated with special  
9 contracts in other states have been assigned to Washington, and all allocation  
10 factors have been adjusted accordingly. While system allocation of certain special  
11 contracts has created some tension between states, that is not an issue here since the  
12 results presented have been adjusted to exclude their impact.

13 **Q. Why does the Company believe it is fair to allocate other state income taxes to**  
14 **Washington under the Modified Accord methodology when Washington has**  
15 **no state income tax?**

16 A. The Modified Accord allocation method was the result of negotiations among all of  
17 PacifiCorp's states. In addition, the treatment of state income taxes as well as  
18 Washington's Public Utility Tax was discussed and agreed to during the 1992 PITA  
19 meeting. The allocation of state taxes under the Modified Accord actually produces  
20 a *benefit* for Washington customers, as about \$4 million *less* in taxes is allocated to  
21 Washington than if the taxes were assigned according to a *situs* basis (for fiscal year  
22 2002). While Washington does not have a state income tax, it has a Washington

1 Public Utility Tax which is allocated to all states. For the fiscal year ended March  
2 31, 2002, the Company paid \$6.7 million in Public Utility Tax to Washington (see  
3 Washington Results of Operations, March 2002), which is allocated to all  
4 jurisdictions. The result is that the majority of the \$6.7 million is shared by other  
5 jurisdictions. For the same time period, the state income taxes allocated to  
6 Washington from other states is \$2.1 million (see Washington Results of  
7 Operations, March 2002). The net result of this is that only about \$2.7 (\$2.1 plus  
8 8.22% of \$6.7) million is included in the results of operation for Washington.

9 **Q. You mentioned that the Modified Accord method is being used in all**  
10 **jurisdictions except Utah. How does Utah's use of the "Rolled-In" allocation**  
11 **method impact Washington customers?**

12 A. It doesn't. The Company has used the Modified Accord allocation method in  
13 computing the Washington results, assuming all jurisdictions are on the same  
14 allocation method. The results of operation for Utah are determined in separate  
15 calculations, and the results do not feed back to the Washington calculation. That is,  
16 the use of the "Rolled-In" allocation methodology by Utah has no impact on  
17 Washington results. No costs are shifted to other jurisdictions as a result of Utah  
18 using a different allocation method, as incorrectly stated by Mr. Elgin (KLE-1T,  
19 page 20). Rather, all costs not fully allocated as a result of Utah's decision are  
20 borne by the Company's shareholders.

1 **Other Procedural and Technical Barriers Raised by Staff and ICNU**

2 **Q. Why do you claim that Staff and ICNU are asserting procedural and technical**  
3 **barriers to deny the Company’s request in this proceeding?**

4 A. As in the case of the allocation methodology debate, many of these issues do not go  
5 to the “merits” of the Company’s filing, but rather provide a means by which to  
6 avoid dealing with the merits of the Company’s filing, through procedural and  
7 technical issues. Many of these are based upon restrictive interpretations of the  
8 Rate Plan Stipulation that are unsupported by the language of the Stipulation itself.

9 **Q. Section 11 of the Stipulation requires the Company to request “similar rate**  
10 **relief in its two largest U.S. retail jurisdictions.” Witnesses for both the Staff**  
11 **and ICNU assert that the Company has not done this. Do you agree?**

12 A. No. Mr. Elgin incorrectly asserts that the Stipulation requires contemporaneous  
13 filings to be made in both Utah and Oregon. The Stipulation requires only that the  
14 Company seek “similar rate relief in its two largest U.S. retail jurisdictions.” It  
15 does not require “contemporaneous” filings. In addition, each jurisdiction has its  
16 own policies and procedures for seeking rate relief, and they are different in many  
17 aspects, such as whether a historical or future test period may be used or what type  
18 of *pro forma* adjustments may be made. As a result of the different commission  
19 rules and ratemaking procedures in the three jurisdictions, filing contemporaneous  
20 petitions for rate relief in Utah, Oregon, and Washington using the same test periods  
21 as Mr. Elgin suggests simply is not possible. It does not seem reasonable to  
22 interpret the Stipulation in a manner that is incapable of being implemented.

1 **Q. Mr. Falkenberg states, “If the company was facing a true financial emergency,**  
2 **then it stands to reason it would be filing for emergency relief in other**  
3 **jurisdictions, particularly its two largest, Oregon and Utah.” (RJF-T, page 4)**

4 **Why isn’t the Company filing for relief in either of these jurisdictions?**

5 A. The Company is not filing in these two jurisdictions at this time because it has  
6 already done so and received recovery, as mentioned in my direct testimony. The  
7 Company is also planning to request additional rate recovery in these jurisdictions  
8 in the very near future. If the Company had not received recovery in these two  
9 jurisdictions, the financial difficulty of the Company as a whole would be  
10 augmented significantly.

11 **Q. Is it the Company’s position that it has met the requirements to seek “similar**  
12 **rate relief” in its two largest jurisdictions as required by Section 11?**

13 A. Yes. The Company has sought rate relief in Oregon and Utah, as well as other  
14 states, to recover excess net power costs and has already received rate relief in those  
15 jurisdictions.

16 **Q. Mr. Elgin says it is irrelevant to this Washington filing that other states have**  
17 **already granted rate relief. Do you agree?**

18 A. Absolutely not. The level of relief the Company has received in other states is a  
19 very important consideration in the current proceeding. The fact that other states  
20 have already provided relief is further evidence that the Company’s request in the  
21 current case is justified and necessary. It also provides evidence that the Company  
22 has met the requirements of Section 11 of the Stipulation to seek rate relief in its

1 two largest U.S. retail jurisdictions. It should also be noted that the Company's  
2 Washington customers have benefited from the relief provided in other jurisdictions  
3 to the extent this relief has produced improvement in the Company's overall  
4 financial ratios, which in turn leads to lower borrowing costs. The borrowing costs  
5 associated with Washington-only financial indicators would be higher.

6 **Q. Both Messrs. Elgin and Falkenberg stated that the proposed elimination of the  
7 merger and Centralia credits does not meet the requirements of the  
8 Stipulation. How do you respond?**

9 A. The method of recovery has no impact on the type of rate relief requested. If  
10 recovery via elimination of bill credits is not deemed a reasonable manner of  
11 recovery, the Company is open to additional methods of recovery, including adding  
12 an additional line on customers' billing statements.

13 **Q. Mr. Widmer states in his rebuttal testimony that it was not the Company's  
14 intention to preclude consideration of (1) possible adjustments to deferred  
15 amounts, or (2) a prudence review of these amounts. How could such  
16 proceedings be accommodated under the Company's proposal?**

17 A. Once the Deferral Period has ended on May 31, 2003 and the actual deferred  
18 amounts are known, a reasonable period of time thereafter—sixty to ninety days—  
19 could be provided for auditing these results and proposing adjustments or  
20 disallowances, which could be ruled upon by the Commission after a hearing. If the  
21 amounts ultimately authorized by the Commission for recovery in rates exceed the  
22 available credits, rate recovery could be effected through a surcharge, as I indicated

1 in my direct testimony. Recovery could commence prior to the conclusion of the  
2 review process, subject to adjustment to reflect the outcome of that process.

3 **Q. Mr. Elgin states that the Stipulation, Section 9, limits petitions for accounting**  
4 **orders “exclusively to those items that were treated as regulatory assets in**  
5 **other jurisdictions at the time the Stipulation was entered.” (KLE-1T, page 8)**  
6 **Do you agree?**

7 A. No. Mr. Elgin is drawing a connection between two unrelated sentences in the  
8 Stipulation. The Stipulation requires only that all items then currently treated as  
9 regulatory assets, for which the Company proposes for inclusion in Washington at  
10 the end of the Rate Plan Period, to be supported by necessary accounting  
11 authorizations in Washington. This requirement was responsive to the Staff  
12 concern expressed in the 1999 general rate proceeding that the Company was  
13 tracking deferrals for which Washington approval had not been obtained. The  
14 purpose of the requirement was to encourage the Company to achieve compliance  
15 for these items before its next general rate filing. The requirement has nothing  
16 whatsoever to do with items that were not included as regulatory assets at the time  
17 of entering the Stipulation, such as the then not-yet-incurred excess net power costs.

18 **Q. Do you agree with Mr. Elgin’s assertion that a deferred accounting order for**  
19 **excess net power costs is not permissible under the Stipulation because it was**  
20 **not contemplated at the time the Stipulation agreement was entered into?**

21 A. No. Mr. Elgin suggests that, “If the parties or the Commission had contemplated an  
22 accounting petition to include a deferred mechanism for power supply costs during

1 the operation of the rate plan, it would have been necessary to specify an embedded  
2 cost of power supply for purposes of calculating any deferred amount.” (KLE-1T,  
3 page 9) It is just as easy to argue that if the parties or the Commission had intended  
4 expressly to *exclude* power cost deferrals—as Mr. Elgin interprets the Stipulation—  
5 such a prohibition was required to have been expressly stated in the Stipulation or  
6 in the Order. It wasn’t, so there is nothing in the Rate Plan Stipulation that prevents  
7 the Company’s request.

8 **Conclusion**

9 **Q. Please summarize your testimony.**

10 A. My testimony reiterates the Company’s position that it has met the conditions of the  
11 Stipulation and Rate Plan that permit the Company to obtain the limited rate relief  
12 sought in this proceeding. I have explained why excess net power costs are an  
13 allowable exception under the Stipulation to seek a deferred accounting order. In  
14 addition, I have also addressed why the issues surrounding the inter-jurisdictional  
15 cost allocation methodology are immaterial to the compelling financial basis for  
16 granting the relief requested by the Company in this proceeding. If the Commission  
17 nonetheless determines, however, that a general rate filing is necessary in order to  
18 evaluate the Company’s current financial condition, the Company would be  
19 agreeable to a modification of the Rate Plan for that purpose. The Company would  
20 propose to make such a filing in late 2003 to enable the MSP solution to be



1 reflected in that filing.

2 **Q. Does this conclude your rebuttal testimony?**

3 A. Yes.

Exhibit - \_\_\_\_ (JKL-7)

**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

**PACIFICORP**

**Exhibit of Jeff K. Larsen**

**State Load Growth Rates 1989-2001**

**February, 2003**

PacifiCorp  
Firm Retail MWh

Firm MWh

	PPL- WA	PPL- OR	PPL- CA	PPL- WY	UPL- ID	UPL- WY	UPL- UT	MERGED TOTAL
1989	3,577,269	13,242,115	840,743	7,136,304	1,662,046	2,110,259	11,528,381	40,097,117
1990	3,693,530	13,487,702	870,566	7,287,806	1,887,003	2,203,394	12,202,068	41,632,069
1991	3,791,468	13,756,526	860,837	7,398,505	1,844,618	2,058,164	12,496,587	42,206,705
1992	3,991,967	13,825,755	856,548	7,340,427	1,957,905	2,076,419	13,179,295	43,228,316
1993	4,132,028	14,565,783	888,538	7,379,903	1,818,451	2,103,325	13,432,303	44,320,331
1994	4,176,157	15,230,291	907,743	7,376,211	2,098,631	2,019,287	14,293,401	46,101,721
1995	4,135,085	14,523,343	887,651	7,364,749	1,865,162	1,334,068	14,336,090	44,446,148
1996	4,324,988	14,922,353	915,420	7,600,773	2,066,703	1,208,497	15,024,174	46,062,908
1997	4,049,966	14,815,983	949,111	6,558,862	1,990,939	938,725	15,172,512	44,476,098
1998	4,457,422	15,456,783	979,789	6,653,377	1,974,986	1,220,854	15,787,933	46,531,144
1999	4,607,919	15,224,119	1,155,845	6,190,299	2,006,373	1,188,251	16,452,454	46,825,260
2000	4,540,498	15,603,612	925,786	6,345,974	2,152,758	1,223,106	17,741,173	48,532,907
2001	4,413,518	15,025,360	865,652	7,083,751	2,145,575	1,366,799	18,139,061	49,039,716

% Change From 1989

	PPL- WA	PPL- OR	PPL- CA	PPL- WY	UPL- ID	UPL- WY	UPL- UT	MERGED TOTAL
1990	3.2%	1.9%	3.5%	2.1%	13.5%	4.4%	5.8%	3.8%
1991	6.0%	3.9%	2.4%	3.7%	11.0%	-2.5%	8.4%	5.3%
1992	11.6%	4.4%	1.9%	2.9%	17.8%	-1.6%	14.3%	7.8%
1993	15.5%	10.0%	5.7%	3.4%	9.4%	-0.3%	16.5%	10.5%
1994	16.7%	15.0%	8.0%	3.4%	26.3%	-4.3%	24.0%	15.0%
1995	15.6%	9.7%	5.6%	3.2%	12.2%	-36.8%	24.4%	10.8%
1996	20.9%	12.7%	8.9%	6.5%	24.3%	-42.7%	30.3%	14.9%
1997	13.2%	11.9%	12.9%	-8.1%	19.8%	-55.5%	31.6%	10.9%
1998	24.6%	16.7%	16.5%	-6.8%	18.8%	-42.1%	36.9%	16.0%
1999	28.8%	15.0%	37.5%	-13.3%	20.7%	-43.7%	42.7%	16.8%
2000	26.9%	17.8%	10.1%	-11.1%	29.5%	-42.0%	53.9%	21.0%
2001	23.4%	13.5%	3.0%	-0.7%	29.1%	-35.2%	57.3%	22.3%

**PacifiCorp  
Firm Retail CP MW**

**Firm MW - Sum of 12 CP's**

	PPL- WA	PPL- OR	PPL- CA	PPL- WY	UPL- ID	UPL- WY	UPL- UT	MERGED TOTAL
1989	6,606	24,545	1,608	10,614	2,827	2,982	20,287	69,470
1990	6,976	25,512	1,716	11,020	3,059	3,158	21,189	72,630
1991	7,083	25,622	1,660	11,095	2,926	2,864	21,393	72,643
1992	7,275	25,472	1,586	10,996	3,039	2,906	22,433	73,708
1993	7,382	26,357	1,635	11,062	3,174	2,923	22,963	75,495
1994	7,654	27,109	1,719	11,010	3,324	2,812	24,160	77,789
1995	7,801	26,733	1,659	11,068	3,153	1,876	24,512	76,801
1996	8,222	27,104	1,716	11,596	3,412	1,745	26,124	79,921
1997	7,504	26,572	1,743	10,005	3,334	1,369	26,697	77,224
1998	8,099	27,733	1,815	9,977	3,319	1,791	28,145	80,879
1999	8,295	26,903	2,029	9,118	3,393	1,748	28,637	80,124
2000	8,135	27,679	1,719	9,567	3,403	1,756	31,305	83,565
2001	7,778	26,754	1,539	10,551	3,377	1,978	32,527	84,504

**% Increase from 1989**

	PPL- WA	PPL- OR	PPL- CA	PPL- WY	UPL- ID	UPL- WY	UPL- UT	MERGED TOTAL
1990	5.6%	3.9%	6.7%	3.8%	8.2%	5.9%	4.4%	4.5%
1991	7.2%	4.4%	3.2%	4.5%	3.5%	-3.9%	5.4%	4.6%
1992	10.1%	3.8%	-1.4%	3.6%	7.5%	-2.5%	10.6%	6.1%
1993	11.7%	7.4%	1.7%	4.2%	12.3%	-2.0%	13.2%	8.7%
1994	15.9%	10.4%	6.9%	3.7%	17.6%	-5.7%	19.1%	12.0%
1995	18.1%	8.9%	3.2%	4.3%	11.5%	-37.1%	20.8%	10.6%
1996	24.5%	10.4%	6.7%	9.3%	20.7%	-41.5%	28.8%	15.0%
1997	13.6%	8.3%	8.4%	-5.7%	17.9%	-54.1%	31.6%	11.2%
1998	22.6%	13.0%	12.9%	-6.0%	17.4%	-39.9%	38.7%	16.4%
1999	25.6%	9.6%	26.2%	-14.1%	20.0%	-41.4%	41.2%	15.3%
2000	23.1%	12.8%	6.9%	-9.9%	20.4%	-41.1%	54.3%	20.3%
2001	17.7%	9.0%	-4.3%	-0.6%	19.4%	-33.7%	60.3%	21.6%

**PacifiCorp  
Firm Retail CP MW**

**July Firm Peak**

Year	Month	Date	Hour	PPL- WA	PPL- OR	PPL- CA	PPL- WY	PPL- ID	PPL- WY	UPL- WY	UPL- WY	UPL- UT	UPL- UT	MERGED TOTAL
1989	Jul	19	1400	518.7	1,733.5	141.0	880.2	417.4	228.0	1,944.2	5,863.0			
1990	Jul	12	1400	592.3	1,911.9	142.5	886.5	459.3	223.7	2,071.4	6,287.6			
1991	Jul	30	1400	535.6	1,960.0	123.9	895.9	373.4	242.9	2,148.2	6,280.0			
1992	Jul	30	1400	612.0	2,022.9	128.3	922.8	322.2	249.0	2,068.3	6,325.5			
1993	Jul	20	1300	474.3	1,804.5	133.4	883.2	471.0	199.8	2,130.1	6,096.3			
1994	Jul	21	1400	674.8	2,256.3	141.7	911.9	430.2	243.8	2,358.6	7,017.3			
1995	Jul	17	1500	637.2	2,186.3	140.9	886.6	427.4	129.4	2,344.3	6,752.1			
1996	Jul	25	1500	679.5	2,262.6	145.1	949.5	453.5	150.2	2,518.1	7,158.5			
1997	Jul	21	1400	645.9	2,083.9	142.6	818.4	449.8	113.2	2,609.5	6,863.3			
1998	Jul	16	1600	710.2	2,305.9	168.1	845.2	496.8	150.7	2,907.6	7,584.5			
1999	Jul	12	1500	790.6	2,208.2	214.0	748.8	530.2	143.2	2,935.3	7,570.4			
2000	Jul	31	1600	755.6	2,347.5	154.0	825.3	386.0	153.7	3,433.7	8,055.7			
2001	Jul	3	1500	656.5	1,986.9	129.0	891.8	564.4	161.3	3,463.8	7,853.6			

**% Increase from 1989**

Year	PPL- WA	PPL- OR	PPL- CA	PPL- WY	PPL- ID	PPL- WY	UPL- WY	UPL- WY	UPL- UT	UPL- UT	MERGED TOTAL
1990	14.2%	10.3%	1.1%	0.7%	10.0%	-1.9%	6.5%	6.5%	6.5%	7.2%	
1991	3.3%	13.1%	-12.2%	1.8%	-10.6%	6.5%	10.5%	10.5%	10.5%	7.1%	
1992	18.0%	16.7%	-9.0%	4.8%	-22.8%	9.2%	6.4%	9.2%	6.4%	7.9%	
1993	-8.6%	4.1%	-5.4%	0.3%	12.8%	-12.4%	9.6%	-12.4%	9.6%	4.0%	
1994	30.1%	30.2%	0.5%	3.6%	3.1%	6.9%	21.3%	6.9%	21.3%	19.7%	
1995	22.8%	26.1%	-0.1%	0.7%	2.4%	-43.2%	20.6%	-43.2%	20.6%	15.2%	
1996	31.0%	30.5%	2.9%	7.9%	8.6%	-34.1%	29.5%	-34.1%	29.5%	22.1%	
1997	24.5%	20.2%	1.1%	-7.0%	7.8%	-50.4%	34.2%	-50.4%	34.2%	17.1%	
1998	36.9%	33.0%	19.2%	-4.0%	19.0%	-33.9%	49.6%	-33.9%	49.6%	29.4%	
1999	52.4%	27.4%	51.7%	-14.9%	27.0%	-37.2%	51.0%	-37.2%	51.0%	29.1%	
2000	45.7%	35.4%	9.2%	-6.2%	-7.5%	-32.6%	76.6%	-32.6%	76.6%	37.4%	
2001	26.6%	14.6%	-8.5%	1.3%	35.2%	-29.2%	78.2%	-29.2%	78.2%	34.0%	

**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

**PACIFICORP**

**REBUTTAL TESTIMONY OF MARK T. WIDMER**

**February, 2003**

1 **Q. Are you the same Mark T. Widmer who previously testified in these**  
2 **proceedings?**

3 A. Yes.

4 **Introduction**

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. I will address issues related to the testimony of Commission Staff witness Mr.  
7 Buckley and the testimony of Industrial Customers Northwest Utilities (ICNU)  
8 witness Mr. Falkenberg.

9 **Q. Please summarize the key points of your rebuttal testimony.**

10 A. My testimony makes the following points:

- 11 • Mr. Buckley raises technical “barriers” to the Company’s request rather than  
12 provide any merit-based opposition to the Company’s proposal. Neither of the  
13 barriers he raises—that deferrals cannot be approved except in general rate  
14 cases, and cost allocation issues prevent the consideration of power supply  
15 expenses—provide a legitimate means for refusing to consider the Company’s  
16 request.
- 17 • Mr. Falkenberg raises a series of individual adjustments to cast doubt upon the  
18 Company’s power cost data, but he simply cannot refute the fact that the  
19 Company’s level of annual net power costs, as approved in other jurisdictions,  
20 is approximately 20-25 percent higher than the \$486 million baseline figure  
21 proposed by the Company in this case. Quite simply, power costs have settled

1 in at a substantially higher level than is currently “in rates” in Washington, and  
2 drive the need for some additional rate relief during the Rate Plan Period.

3 **Q. Do you have any proposal for handling the issues raised in the opposing**  
4 **testimony?**

5 A. Yes. Mr. Buckley and Mr. Falkenberg raise a number of “issues” as the basis for  
6 flatly rejecting the Company’s request when, in fact, these issues could be better  
7 addressed in a subsequent review of the deferred amounts. Once the Deferral  
8 Period has ended on May 31, 2003 and the actual deferred amounts are known, a  
9 reasonable period of time thereafter—sixty to ninety days—could be provided for  
10 auditing these results and proposing adjustments or disallowances, which could be  
11 ruled upon by the Commission after a hearing. Until the nature and amount of the  
12 deferrals are actually known, however, it is premature to address many of the  
13 “issues.” These “issues” certainly should not be used as the basis for denying  
14 relief entirely.

15 **Response to Buckley Testimony**

16 **Q. Do have any general comments regarding Mr. Buckley’s testimony?**

17 A. Yes. As noted above, there are two major themes addressed throughout his  
18 testimony. First, he states that it is inappropriate to consider any deferral  
19 mechanism outside the context of a general rate case. Second, he states that it is  
20 inappropriate to consider a deferral mechanism prior to resolution of inter-  
21 jurisdictional allocation issues, because it is “impossible” to determine an  
22 acceptable Washington power supply expense level for the purpose of calculating



1 a deferral. Neither of these grounds warrants rejection of the Company's request.

2 At most, they suggest that a general rate filing may be necessary to enable these  
3 issues to be evaluated completely.

4 **Q. Do allocation issues affect the Company's analysis of Total Company net  
5 power costs?**

6 A. No. Allocation issues have no impact on Total Company net power costs.

7 **Q. Do you agree with Staff's conclusion that allocation issues make it impossible  
8 to determine an acceptable Washington allocation of net power costs?**

9 A. No. As explained by Mr. Larsen, these same "unresolved" allocation issues  
10 existed in the Company's last general rate proceeding in Washington, Docket  
11 No. UE-991832. Yet Staff in that case was able to make a determination that the  
12 Rate Plan currently in effect was in the public interest. If it was possible to make  
13 such a determination in that case, Staff should be able to determine a Washington  
14 allocation in this case. Nonetheless, if the Commission accepts Staff's position  
15 that allocation issues prevent a re-examination of power costs, the solution may be  
16 to re-open the Rate Plan for the limited purpose of allowing a general rate filing to  
17 enable such an examination to occur.

18 **Q. Please explain.**

19 A. As explained by Mr. Larsen, under the terms of the Rate Plan, the Company is  
20 permitted to seek interim price increases to compensate for poor earnings. If it is  
21 determined that the Company cannot in fact seek an interim price increase due to  
22 the cost allocation issues raised by Staff, then remedies available to the Company

1 under the Rate Plan are in fact not available to the Company. Under this situation,  
2 it would be appropriate for the Commission to re-open the Rate Plan for the  
3 limited purpose of allowing the Company to file a general rate case. This would  
4 allow the Company to address the significant earnings deficiencies of its  
5 Washington jurisdiction discussed by Mr. Larsen and allow the Commission to  
6 clear up issues that, at least in Staff's view, prevent proper regulation of the  
7 Company. The remainder of my rebuttal of Mr. Buckley's testimony will focus  
8 on more specific issues.

9 **Q. Do you agree with Mr. Buckley's assertion that the Company's proposal to**  
10 **use net power cost levels proposed in its 1999 rate case filing is flawed**  
11 **because there was no agreement of the parties, nor a finding by the**  
12 **Commission, of a specific level of net power costs reflected in base rates?**

13 A. No. The base net power cost proposed by the Company more than compensates  
14 for the fact that there was not a finding on the overall level of net power costs  
15 adopted in the rate plan. The base proposed by the Company is very conservative,  
16 because it assumes the Company recovered 100 percent of the costs requested,  
17 despite the fact that the rate plan stipulation adopted by the Commission allowed  
18 the Company to recover approximately 50 percent of the original request. Further,  
19 taking into account the staggered recovery of rate relief and the time value of  
20 money suggests an even smaller percentage recovery. Therefore, Mr. Buckley's  
21 suggestion is simply incorrect.

1 **Q. Will the Company's proposed baseline result in a conservative net power cost**  
2 **deferral?**

3 A. Yes. Deferred net power costs are developed by multiplying Washington retail  
4 load by the difference in actual and "in rates" net power costs on a \$/MWh basis.  
5 The use of a higher "in rates" net power cost would result in a lower deferred net  
6 power cost. Conversely, the use of a lower "in rates" net power cost would result  
7 in a higher deferred net power cost. Since the Company used the amount  
8 requested in its 1999 filing as the "in rates" net power cost, the Company's  
9 deferred net power cost request in this case is conservative.

10 **Q. Is the Company's proposed baseline inappropriate because of power supply**  
11 **issues from the Company's 1999 filing?**

12 A. No. Even if all outstanding power supply issues had been settled in favor of the  
13 Company, in a fully litigated case, the most the Company would have recovered is  
14 the amount that the Company requested in its filing and is using as its baseline in  
15 this case. Therefore, his assertion that the Company's baseline is somehow  
16 inappropriate because of outstanding issues is without merit, as is his assertion  
17 that there is no basis for concluding that power supply costs included in rates are  
18 below or above the Company's filed net power cost from the 1999 rate case.

19 **Q. Is there any merit to Mr. Buckley's and Mr. Falkenberg's criticism of the**  
20 **Company's deferral application being too broad?**

21 A. No. These criticisms miss the point of the Company's filing. The Company is  
22 not proposing a permanent power cost recovery mechanism based on this

1 calculation. As applied to a permanent recovery mechanism, the Company's  
2 approach in this case *may* indeed be too broad. The purpose of the Company's  
3 filing, however, is to seek additional cost recovery under the terms of the Rate  
4 Plan to ameliorate the Company's poor Washington jurisdictional earnings. Net  
5 power costs above the level included in rates, is one of the causes of poor  
6 Washington earnings. The net power cost deferral in this case is simply a  
7 mechanism to quantify and support recovery of additional costs to help soften the  
8 impact of poor Washington earnings.

9 **Q. Is Mr. Buckley's suggestion that recovery of costs related to the Gadsby and**  
10 **West Valley CT projects are questionable at best, because the projects have**  
11 **not undergone a prudence review and were primarily acquired to serve the**  
12 **Company's eastern control area a reasonable conclusion?**

13 A. No. First, while the CTs were acquired primarily to address summer load  
14 requirements in the Company's eastern control area, they also provide benefits to  
15 the Western control area, which includes Washington. Second, while I understand  
16 that Commission policy is to conduct prudence reviews only in the context of  
17 general rate cases, that policy does not appear to preclude the inclusion of new  
18 resource costs in a deferral prior to the prudence review occurring. It is my  
19 understanding that in the early 1990s, Puget Sound Power & Light Company was  
20 allowed to include the cost of new resources in its Periodic Rate Adjustment  
21 Mechanism, or PRAM, filings, subject to a later prudence review that would  
22 occur in a general rate case. The same practice could be followed here with

1 respect to Gadsby and West Valley—the inclusion of costs in the deferral is not  
2 intended to preclude a later prudence review.

3 **Q. Please explain your earlier comment that both Gadsby and West Valley**  
4 **provide benefits to Washington customers.**

5 A. Gadsby and West Valley are flexible resources that provide the following benefits,  
6 which lower net power costs on an ongoing basis:

- 7 • operating reserve and load following capabilities that allow the  
8 Company to avoid carrying some of those requirements on other lower  
9 variable cost thermal units, which can then be dispatched at high levels  
10 to meet retail load requirements,
- 11 • a hedge against potentially higher priced market purchases,
- 12 • the avoidance of approximately \$19.8 million of wheeling expenses  
13 related to a 440 MW firm wheeling contract that allowed the Company  
14 to transfer energy from SP-15 to Mona, and
- 15 • the ability to make off-system wholesale sales which are a revenue  
16 credit to retail revenue requirements. For example, due to their  
17 economics, both projects continue to operate at high levels even during  
18 winter months, despite being acquired principally to meet summer  
19 peak requirements. Since their inception, the Gadsby and West Valley  
20 projects have run at approximately 37 percent and 38 percent, average  
21 capacity factors, respectively.

1 **Q. Has the prudence of Gadsby and West Valley been addressed in other**  
2 **Company jurisdictions?**

3 A. Yes. The Wyoming Commission recently ruled that the Company's acquisition of  
4 Gadsby and West Valley CTs was prudent. The final order in that case is  
5 expected by March 6, 2003. The Utah Commission, for its part, authorized the  
6 construction of the Gadsby CTs in the certificate of necessity case. Finally, the  
7 Oregon PUC's proceeding concerning West Valley, Docket UE 134, is ongoing.  
8 However, it should be noted that Oregon Commission Staff witness Mr. Bill  
9 Wordley has filed testimony supporting the Company's acquisition of West  
10 Valley. While decisions in other states are not binding on the Washington  
11 Commission, they are indicative of the prudence and recoverability of these costs.

12 **Q. Have other witnesses in this case previously addressed the prudence of the**  
13 **Gadsby and West Valley CTs?**

14 A. Yes. ICNU witness Mr. Falkenberg has filed quite a bit of testimony on both the  
15 Gadsby and West Valley CTs. He filed testimony in the Utah certificate of  
16 necessity hearing supporting construction of the Gadsby CTs. In the current  
17 OPUC proceeding for West Valley, Docket UE 134, Mr. Falkenberg filed  
18 testimony that questioned the prudence of the acquisition of West Valley but not  
19 Gadsby. In that case, he apparently believes the Gadsby CTs are prudent. In the  
20 Company's recently completed Wyoming case, although Mr. Falkenberg filed  
21 testimony suggesting that the Company did not model Gadsby and West Valley  
22 correctly, he did not take the position that their acquisition was imprudent. In any

1 event, the Wyoming Commission ultimately rejected Mr. Falkenberg's  
2 recommended adjustments for the Gadsby and West Valley CTs.

3 **Q. Is it premature to base deferral of power supply costs on the assumption that**  
4 **Gadsby and West Valley should be allocated to Washington customers?**

5 A. No. As I discussed above, these resources provide benefits to Washington  
6 customers and therefore would be recoverable from Washington customers under  
7 the Modified Accord methodology. Staff's arguments regarding cost allocation  
8 methodologies should not be used to preclude the Company from recovering these  
9 costs.

10 **Q. Do you agree with Mr. Buckley that specific short-term power expenses such**  
11 **as the 2002 summer forward purchases are not normally captured in the**  
12 **normalized power supply methodology used by the Commission?**

13 A. That may very well be the case for general rate cases. However, treatment in  
14 general rate cases should not impact the recoverability of these costs through a  
15 power cost deferral. The costs were prudently incurred and should be recoverable.  
16 It should also be noted that the Company was granted recovery of these costs in  
17 Oregon.

18 **Q. Do you agree with Mr. Buckley's conclusion that the Company's explanation**  
19 **of the effects of load growth ignores the revenue side of the equation?**

20 A. I agree in part. While I agree that the costs of serving the additional load should  
21 be taken into consideration, I do not agree that it is correct to consider all revenue  
22 associated with load growth to be a net power cost offset. A portion of the

1 revenue related to load growth is intended to cover changes in costs other than net  
2 power costs. Because of this, I believe a better way of addressing the issue would  
3 be to remove the power costs related to serving the incremental load.

4 **Q. Mr. Buckley suggests that unless California ratepayers are paying less than**  
5 **\$38 per MWh on average for the portion of their power portion of retail**  
6 **load, the Company should be better off. Is that the case?**

7 A. No. But that is not the real issue. The problem is that the net power cost portion  
8 of Washington customers' rates are too low, because the Company's general rate  
9 case filing in 1999 assumed that the California distribution system would be sold,  
10 and that the low cost resources that had been serving California would be  
11 available to serve the Company's Washington customers. This had the effect of  
12 reducing the overall level of net power costs included in the Company's 1999  
13 Washington filing. Unfortunately, the sale was not approved—due in part to the  
14 power crisis—and California customers continue to use their share of the  
15 Company's low cost resources and those resources are not available to  
16 Washington customers. In other words, Washington customers are benefiting  
17 from the sale of the California service territory that was forecast in the Company's  
18 1999 filing, even though the sale did not happen.

19 **Response to Falkenberg Testimony**

20 **Q. Do you agree with Mr. Falkenberg that the level of cost recovery allowed in**  
21 **other states is consistent with the authorized level in Washington?**



1 A. Not at all. In Oregon, the Company was authorized to recover \$589 million in  
2 base rates and another \$56 million in costs related to the summer 2002 forward  
3 purchase contracts or a total of \$645 million. The \$645 million recovery level is  
4 \$159 higher than the conservative baseline used in the Company proposed  
5 deferral. Further, if we use Mr. Falkenberg's Exhibit RJF 3b and remove  
6 adjustments that are clearly inappropriate as I discuss in my following testimony,  
7 the results would still show an adjusted net power cost level of approximately  
8 \$592 million. As for Utah, the comparison is not valid and should be ignored.

9 **Q. Please explain.**

10 A. As part of the \$147 million cost recovery stipulation in the Company's Utah  
11 excess net power cost Docket Nos. 01-035-23, 01-035-29 and 01-035-36, the  
12 Company agreed to a price cap through January 1, 2004. Without that stipulation,  
13 the Company would have filed another general rate case and would have sought a  
14 higher net power cost recovery level from Utah. Therefore, a comparison of the  
15 last Utah authorized net power cost amount of \$589 million as adjusted for load to  
16 the baseline proposed by the Company in this case is not a valid comparison.  
17 Therefore, Mr. Falkenberg's conclusion that the proposed net power cost baseline  
18 is quite similar to the level authorized in Oregon and Utah is erroneous.

19 **Q. Do you agree with Mr. Falkenberg's assertion that the Company's filing**  
20 **raises a number of issues that cannot be addressed through the Company's**  
21 **deferral application?**

1 A. No. I believe all net power cost issues that arise as a result of the Company  
2 proposal could be addressed through the deferral application.

3 **Q. Is Mr. Falkenberg correct that the Company expects to move directly from**  
4 **the deferral of costs to their ultimate recovery, without any review process?**

5 A. No. The Company expects deferred net power costs would be subject to a review  
6 process, consistent with any tariff filing that proposes to increase rates.

7 **Q. Do you agree that the Commission should base its review on a normalized**  
8 **test year?**

9 A. Not completely. Normalized ratemaking is usually reserved for general rate case  
10 applications to determine ongoing prospective costs. On the other hand, one time  
11 deferred accounting applications, such as the Company filed in this case, are used  
12 to capture variances from cost levels included in rates. I do agree that the review  
13 and recoverability of excess net power costs should be based on actual deferrals  
14 rather than projections. However, as I discuss below, some of the normalizing  
15 adjustments discussed by Mr. Falkenberg are conceptually appropriate and some  
16 are not.

17 **Q. Should Mr. Falkenberg's analysis, which is summarized on Exhibit RJF-3a**  
18 **have any bearing on the Company's deferral request?**

19 A. No. Exhibit RJF-3a uses a 12 months ended October 2002 test period and is not  
20 directly comparable to the proposed deferral period, which is based on the twelve  
21 months ended May 2003. Thus, the analysis is only illustrative and should not be  
22 used by the Commission to make decisions related to the Company's deferral

1 request. The ultimate level of cost recovery should be based on a review of *actual*  
2 deferred costs. Until the costs are deferred, it is not practical to speculate about  
3 the recoverability of deferred net power costs because we do not know what the  
4 final result will be.

5 **Q. Do you believe Exhibit RJF-3b is a reasonable representation of an**  
6 **appropriately adjusted net power cost for the purpose of estimating an**  
7 **expected level of deferred net power costs?**

8 A. No. As my following testimony will describe, many of the adjustments proposed  
9 by Mr. Falkenberg are not reasonable or are speculative at best. Therefore,  
10 Exhibit RJF-3b does not provide a reasonable basis for rejecting the Company's  
11 net power cost deferral.

12 **Q. Do you agree with Mr. Falkenberg's conclusion that the Company's ultimate**  
13 **recovery of deferred net power costs should include an adjustment to balance**  
14 **costs and revenues related to load growth?**

15 A. Yes. As I discussed above, the proper way to account for this is to remove the  
16 costs associated with the load growth from deferred net power costs, after the  
17 deferrals are known. Further, the necessity of this type of adjustment is not a  
18 reason to deny the Company's deferral request.

19 **Q. Are Mr. Falkenberg's Sacramento Municipal Utility District (SMUD)**  
20 **contract adjustment and WAPA wheeling revenue adjustment conceptually**  
21 **reasonable?**

1 A. Not in the Company's proposed power cost deferral in this case. The \$486  
2 million baseline proposed by the Company does not include an adjustment for  
3 SMUD or even include wheeling revenues. Wheeling revenues are booked to  
4 FERC account 456 Other Revenues and are not part of variable net power costs.  
5 Therefore, neither of these adjustments is appropriate for the Company's net  
6 power cost deferral.

7 **Q. Are the hydro normalization and wheeling expense adjustments proposed by**  
8 **Mr. Falkenberg conceptually reasonable?**

9 A. They may be appropriate in this case, but it would ultimately depend on the causes  
10 of the variances and whether there were other related factors that could be  
11 offsetting. Since we don't know what the variances are at this time, there is no  
12 reason to speculate. Once the deferrals become known, the other parties will have  
13 an opportunity to review the deferred net power costs and propose adjustments.

14 **Q. Is Mr. Falkenberg's proposed adjustment to remove the above market costs**  
15 **related to the Summer 2002 forward purchase contracts a reasonable**  
16 **adjustment?**

17 A. No. The adjustment is not consistent with prior positions taken by Mr.  
18 Falkenberg. In the Company's recent Oregon proceeding, Docket UE 134, the  
19 Oregon Commission approved recovery of those costs. In fact, in that proceeding,  
20 Mr. Falkenberg and ICNU supported recovery of those costs. Further, Mr.  
21 Falkenberg also proposed recovery of those costs in the Company's recently  
22 completed Wyoming general rate case. So, Mr. Falkenberg's portrayal of the

1 adjustment as being unreasonable is disingenuous and contrary to his prior  
2 position.

3 **Q. Is the Gadsby CT operating reserve adjustment proposed by Mr. Falkenberg**  
4 **reasonable?**

5 A. No. As I discussed above, the Company has repeatedly demonstrated the benefit  
6 of adding the Gadsby CTs. It should also be noted that Mr. Falkenberg proposed  
7 this same type of adjustment in the Company's recently completed Wyoming  
8 general rate case and the Wyoming Commission rejected it.

9 **Q. Is the outage adjustment proposed by Mr. Falkenberg, conceptually**  
10 **reasonable?**

11 A. It would depend on the forced outages identified in the adjustment. If the  
12 adjustment were related to a new methodology or recommendation that was not  
13 consistent with the forced outage methodology used in the development of the  
14 \$486 million baseline, it would not be reasonable.

15 **Q. Are Mr. Falkenberg's adjustments for the Gadsby peakers and expiring**  
16 **wholesale sales contracts reasonable adjustments for a deferred accounting**  
17 **mechanism?**

18 A. No. Deferred net power costs should be based on actual costs incurred, with  
19 appropriate adjustments, and should not include annualization of costs over  
20 periods that the items were not even in effect.

21 **Q. Is the Little Mountain contract detrimental to customers as suggested by Mr.**  
22 **Falkenberg?**

1 A. No. The contract provides a net benefit to customers. It should be noted that the  
2 Wyoming PSC recently made such a finding in rejecting Mr. Falkenberg's  
3 proposed adjustment in that case.

4 **Q. Do you agree that it is appropriate to remove one time costs?**

5 A. No. As I discussed above, the purpose of deferred accounting mechanisms is to  
6 capture deviations from the level of costs that are included in rates or to capture  
7 the costs associated with single events. For example, deferred accounting has  
8 typically been used to capture costs related to one-time events such as storm  
9 damage, plant additions, changes in tax codes etc.

10 **Q. Do you agree that the relevant test of whether the deferred costs should be**  
11 **recoverable is whether or not the deferred costs are related to the power**  
12 **crisis?**

13 A. No. While the power crisis was one of the causes of increased net power costs, it  
14 should not define whether costs are recoverable or not. All costs that contribute to  
15 the Company's poor Washington earnings should be recoverable. As explained  
16 above, the deferral in this case is merely a simple way of quantifying some of  
17 those costs for recovery.

18 **Q. Do you agree that the only costs related to the Western power crisis that are**  
19 **included in the Company's estimated net power cost deferral are the above**  
20 **market portion of the summer 2002 forward purchase contracts?**

21 A. No. The effects of the power crisis and subsequent comments from regulators  
22 suggesting that the Company should do more to reduce exposure to the volatility

1 in the wholesale market, has lead the Company to do more hedging. For example,  
2 the Company now has a hedge contract to cover some of the variations in hydro  
3 generation that may occur, and two 100 MW summer capacity contracts which  
4 hedge against market price volatility. Also, as I discussed above, the failure of the  
5 sale of the Company's California service territory (which was due in part to the  
6 power crisis) resulted in net power costs being lower for Washington than they  
7 should be.

8 **Q. How do you respond to Mr. Falkenberg's suggestion that the Company has**  
9 **had a number of problems in other states because the Company's deferral**  
10 **request is extremely broad and non-specific?**

11 A. There certainly have not been a number of issues in all of the Company's other  
12 states, with the exception of Wyoming. Beyond Wyoming, as evidenced by the  
13 authorized recovery of excess net power costs, there have not been any material  
14 issues with the broadness or specificity of the Company's deferral  
15 recommendations in Oregon, Idaho or Utah.

16 **Q. Is Mr. Falkenberg's recommendation to deny the Company's request based**  
17 **on alleged flaws with the Company's proposal reasonable?**

18 A. No. If simplicity were a requirement for ratemaking many requests would never  
19 be granted. Further, as I discussed above, many of Mr. Falkenberg's reasons for  
20 his recommendation are not valid or are based on misperceptions of the  
21 Company's case. If Exhibit RJF 3b is adjusted only to remove adjustments that  
22 are clearly not reasonable, while including adjustments that may or may not be

1 reasonable, the exhibit would still show an adjusted value of approximately \$594  
2 million. Therefore, Exhibit RJF-3b does not provide a reasonable basis for  
3 rejecting the Company's deferral request in this case.

4 **Q. Does this conclude your rebuttal testimony?**

5 A. Yes.